ASSET MANAGEMENT IN ITALY

PRESENTATION OF THE PAPER

JEME Bocconi Studenti is pleased to present this comprehensive report on Italy's asset management industry, developed in collaboration with Deloitte Italy. JEME is a Junior Enterprise operated by selected students of Bocconi University that has been offering consulting services to start-ups, SMEs, and multinationals since 1988. This paper provides an **in-depth analysis of the current landscape in the Italian asset management sector**, with a special emphasis on the **influences of ESG factors and inflation**. The research combines extensive secondary data with insights from esteemed Bocconi professors Andrea Beltratti, Davide Maspero, and Giuseppe Leo Corvino from the Finance Department, whose expertise enriched our analysis of the macroeconomic factors affecting the industry. To clearly illustrate recent dynamics in the Italian asset management industry, the paper includes informative graphs and visual representations.

The asset management industry in Italy is currently experiencing **a period of new growth**, emerging from the market volatility of recent years, marked by the COVID-19 pandemic and recent geopolitical tensions. Key trends, such as the **increased presence of AI**, the importance of **ESG integration** in investment portfolios, and the **impact of inflation** on investment strategies, are reshaping the asset management landscape. Ultimately, the newly restored confidence among both retail and institutional investors indicates a promising outlook for the Italian asset management industry.

The study provides an analysis of the Italian asset management industry, structured around **three key areas**: a detailed industry overview and the impact of ESG (Environmental, Social, and Governance) factors and inflation on the sector.

- **Industry overview**: This section offers an in-depth look at the current state of the Italian asset management industry, recent growth drivers, and key trends shaping its future.
- **Impact of ESG factors**: This section explores the growing importance of ESG in asset management, detailing how asset managers integrate ESG factors into their strategies to comply with evolving regulations and meet rising investor demand for sustainable products.
- **Impact of inflation**: Combining research with insights from Bocconi professors, this section analyses the effects of recent high inflation on the asset management industry. It examines how inflation has influenced product reallocation within portfolios, shifts in investors’ behaviour, and expectations for future impacts. Beyond direct effects, the study also considers indirect consequences, such as the industry's response to rising interest rates.

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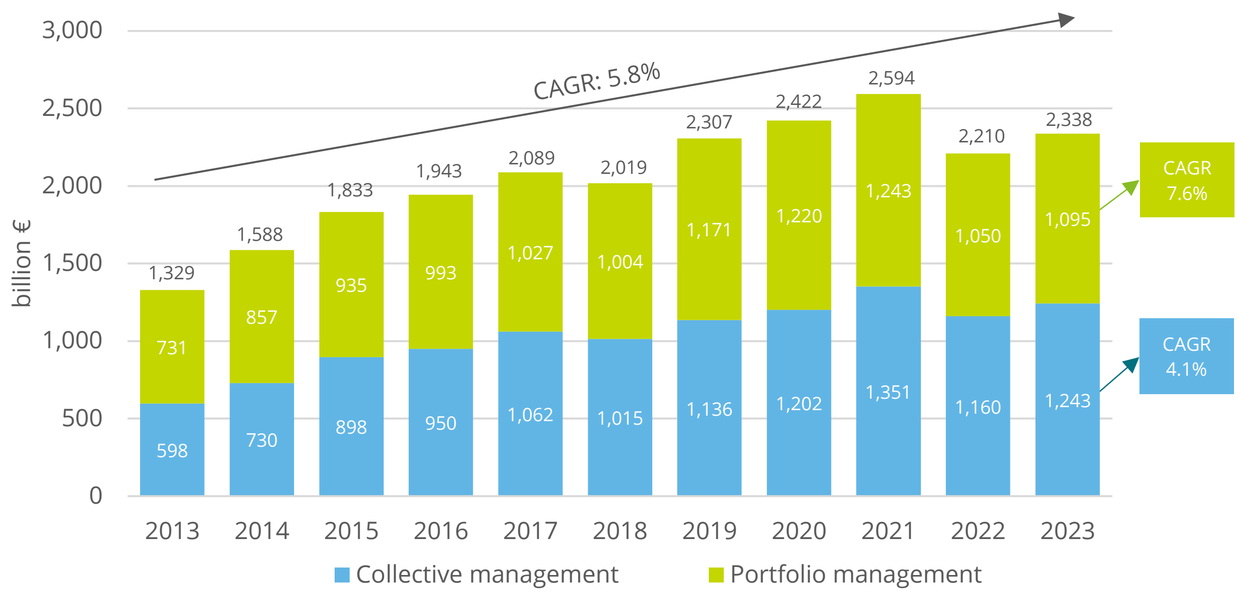
INDUSTRY OVERVIEW

INTRODUCTION

The Italian asset management industry has undergone a significant transformation over the past decade. Starting with assets of **€1,329.3 billion**[1] at the end of **2013**, the total Assets Under Management[2] reached **€2,337.7B** by the end of **2023**[3], reflecting a **5.8% CAGR**. In a European context, Italy ranks fifth for AUM, behind the United Kingdom, France, Germany, and Switzerland. Similarly to Italy, the total **European** AUM grew at a **5.9% CAGR** over the same period, indicating that the Italian market has followed a similar trend and has kept pace with the broader European growth.

There are many reasons for this consistent growth in the sector. A key factor has certainly been the **favourable performance of financial markets** in the first part of the last decade, with interest rates at their lowest (0% from 2016 to 2022), prompting many savers to seek better returns through investments in funds, portfolio management, and insurance products.

Exhibit 1: Italian Assets Under Management



Source: Assogestioni

[1] Hereinafter "Billion" will be abbreviated as "B"
[2] Hereinafter "Assets under Management" will be abbreviated as "AUM"
[3] Assogestioni

2018: A TEMPORARY SLOWDOWN

In 2018, there was a reversal of this growth trend, with a **slight decrease in AUM**, also due to the decrease in net inflows. The main cause, however, was the **increased volatility** in financial markets due to concerns regarding the **U.S.-China trade war**. Fears of a global economic slowdown led to a sharp rise in market volatility with a contraction in investments[4].

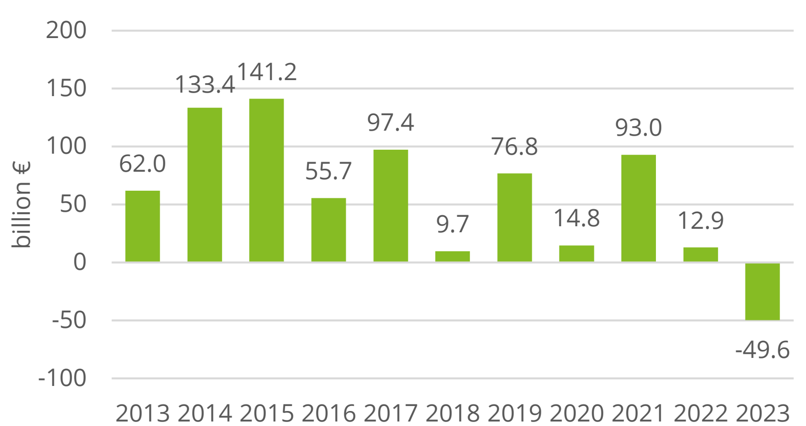
The analysis of the FTSE MIB index, a proxy for the performance of Italian stock market, reveals a decline of 15.8% in 2018[5]. In addition, 2018 was a year of **great political instability** for Italy, as the general elections of March 4th did not allow for an indication of who should govern the country. The period of instability persisted until June, when a coalition government between the main centre and right-wing parties finally took office. This coalition government, enduring just over a year, was particularly troubled because of continuing internal clashes within the alliance that supported it.

As a result of these factors, AUM saw a 3.4% decrease at the end of 2018 compared to the previous year. In contrast, **2019** was a **strong year** for Italian AUM, with a **growth** of **14.3%** from 2018. This growth can be attributed, in part, to an increase in net inflows, driven by a return of investor confidence following the significant rise in major global stock exchanges. The improved investment climate was also characterized by lower geopolitical tensions compared to previous years.

2020: COVID-19

The **drastic drop** in **net inflows** in **2020** can certainly be attributed to the global instability caused by the **COVID-19 pandemic**, which, originating in China, hit Western countries early that year[6].

Exhibit 2: Net inflows in Italy



Source: Assogestioni

Italy was the first major Western country to undertake quarantine measures to counter its spread, through a lockdown that saw the temporary closure of many businesses starting from March 2020. In that month, the market suffered a sharp sell-off with negative repercussions on all types of

[4] Banca d'Italia
[5] Borsa Italiana
[6] NCBI

assets. By the end of 2020 Italy's GDP and the FTSE MIB had fallen by approximately 9% and 6.7%, respectively[7].

The effect on Italian AUM was a dramatic reduction in net inflows, which almost returned to 2018 low levels. Despite that, the overall performance of AUM was positive, being mainly driven by collective management schemes. The growth was led by investments in open-ended funds, where equity funds had the upper hand in terms of net inflows, especially in the last quarter of the year, which saw the FTSE MIB leap to +23% over the previous quarter. This **tailspin in the markets at the end of 2020** can be attributed to Pfizer and BioNTech's announcement of the development of the first COVID-19 vaccine, and the prospect of the start of vaccination campaigns later that year[8].

2021: THE SLIGHT RECOVERY

The gradual reopening of business activities put in place in 2021, following vaccinations and reduced infections, seemed to signal a rapid recovery, driven by a willingness to return to consumption after months of restrictions.

At the beginning of 2021, inflation in the eurozone was around 0.3%, but precisely because of the recovery in global demand, it rose sharply to 2.6% in the eurozone, and just under 2% in Italy.

Compared to the previous year, Italy's **GDP increased by 6.6% in 2021**[9], nearly one and a half percentage points above the eurozone average of 5.3%[10]. This sensational recovery was also felt by the asset management[11] industry, which recorded almost a **528% growth in net inflows in 2021** over the previous year, and total AUM reaching an all-time high of nearly €2,600B.

2022: THE WAR IN UKRAINE AND THE SUPPLY CHAIN CRISIS

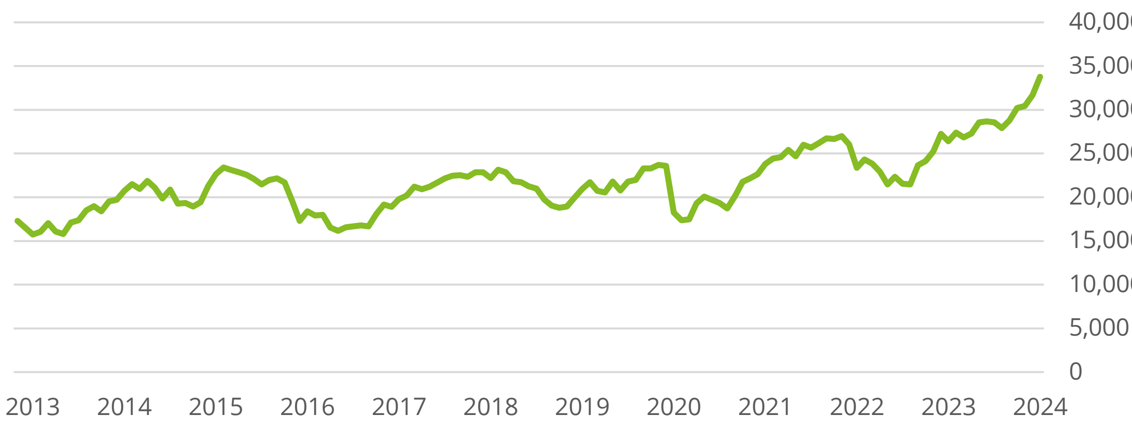
In February 2022, the **Russian invasion of Ukraine** prevented inflation from decreasing and contributed to higher transportation costs for goods due to rising fuel prices[12]. In 2022, Italy recorded its **highest annual inflation** since the 1980s, at **8.7%**.

[7] Borsa Italiana
[8] Reuters
[9] Il Sole 24 Ore
[10] ECB
[11] Hereinafter "Asset Management" will also be abbreviated as "AM"
[12] Banca d'Italia

The general increase in prices was also influenced by the **supply chain crisis**[13], which in late 2022 and early 2023 increased the prices of many commodities, and especially microchips, due to the high demand following the end of the pandemic.

The price increases driven by these two main factors led the European Central Bank (ECB) to adopt **tighter monetary policies**, with the first-rate hike of 50 basis points in July 2022[14], after more than six years of zero rates. This led to mixed expectations among investors that resulted in a contraction of investments, as evidenced by the reduction in net inflows and total AUM in 2022. Another significant factor was the negative market effect, which reduced the value of invested assets in 2022. That year was considered "a year to forget" for Italian stock markets, having recorded the worst performance since 2018. This is further reflected in the movement of the FTSE MIB in 2022, as the index fell by 12%.

Exhibit 3: FTSE MIB over the years



Source: Borsa Italiana

2023: THE RESTRICTIVE MONETARY POLICIES

The 2023 AUM growth was exclusively guaranteed by a **significant market effect**, which succeeded in counteracting the effects of a slump in net inflows, the first negative figure in more than ten years.

Italian markets only began to rise in the last quarter of 2023, which saw an increase in the FTSE MIB of 8.5%[15], allowing the index to close the year in **positive** by almost 30% on the closing data of 2022[16].

[13] Il Sole 24 Ore
[14] Euribor-rates
[15] Borsa Italiana
[16] Milano Finanza

The reasons for this growth, according to Banca Generali[17], lie in expectations about the **outlook for monetary policies** of the world's major central banks and in estimates of their **potential effects** on economic growth and inflation trends.

2023 was a particularly difficult year for all major asset classes, which nonetheless posted positive returns amid economic uncertainty characterised by restrictive ECB policies to bring inflation back to acceptable levels. In fact, average eurozone inflation in 2022 was around 8.3%, and so 2023 started with a rate hike in February of 0.5%, and subsequently five more hikes in the year brought rates above 2008 levels, to 4.5%. These **restrictive policies succeeded in containing inflation**, which was, in the euro area, around 5.5% in 2023[18].

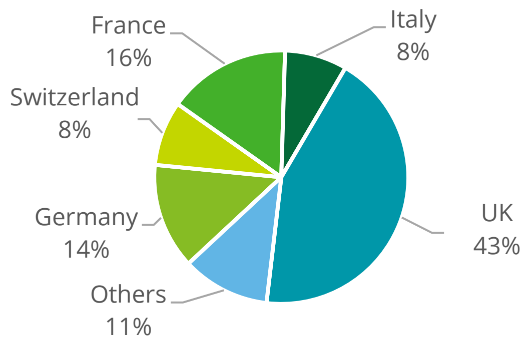
However, in Italy, this figure was more alarming. Despite falling compared to 2022, inflation in 2023 was still high, hitting 5.7%[19]. The main reason for this was Italy's deep energy dependence, compared to other eurozone countries, on imports, particularly Russian natural gas. In January 2022, just before the invasion of Ukraine, **Russia was Italy's second largest gas supplier**, just behind Algeria[20]. The sharp rise in fuel prices has had a knock-on impact on other commodities and prices in general[21].

Uncertainties surrounding the ECB's restrictive policies, persistent market volatility in the first half of the year, and the negative consequences of the Ukraine crisis led to a significant contraction of investments in 2023, prompting investors to prefer liquid assets.

EUROPEAN COMPARISON

From a European perspective, the value of AUM stood at **€27.8 trillion**[22] in 2022, with a growth of over 100% from 2012 to 2021. This sustained growth was followed by a €3.8T reduction in AUM in 2022, a trend mirrored by the Italian AM industry as well, which exhibited similar growth until 2021 and then experienced a decrease in AUM during 2022[23]. This symmetrical trend can be attributed to the impact on the

Exhibit 4: Distribution of European AUM in 2022



Sources: BVI, Am-Switzerland, Afgasso, Assogestioni, Theia

[17] Banca Generali
[18] Euribor-rates
[19] Ansa
[20] Arera
[21] Assolombarda
[22] Hereinafter "Trillion" will be abbreviated as "T"
[23] EFAMA

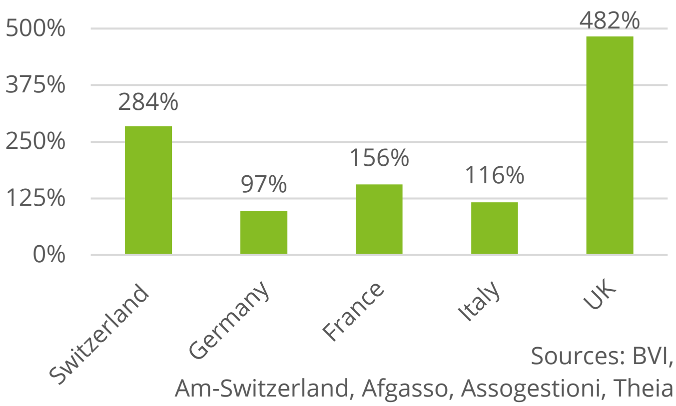
European markets of **high inflation** and uncertainty caused by the **Russian invasion** of Ukraine.

The European market is **highly concentrated**, with about 85% of European AUM being allocated in only 5 countries: the United Kingdom[24], France[25], Germany[26], Switzerland[27], and Italy[28]. The value of AUM of €2,210B in 2022 puts Italy in the fifth spot on the European scale, right behind Switzerland. Higher market shares comprise German and French assets, with the total market being dominated by the United Kingdom. This dominance demonstrates the importance of the British financial hubs and the presence of large pension funds with over €2T AUM.

Regarding the AUM/GDP ratio, Italy is comparable to Germany and France at around 120%. In contrast, the ratio is around twice as high in Switzerland and four times higher in the UK[29].

The situation in Switzerland is caused by a rather small domestic market with a strongly developed banking sector and a great focus on alternative investment. On the other hand, the UK has a greater GDP, but the ratio is larger because of large foreign investments.

Exhibit 5: AUM/GDP in 2022



Sources: BVI, Am-Switzerland, Afgasso, Assogestioni, Theia

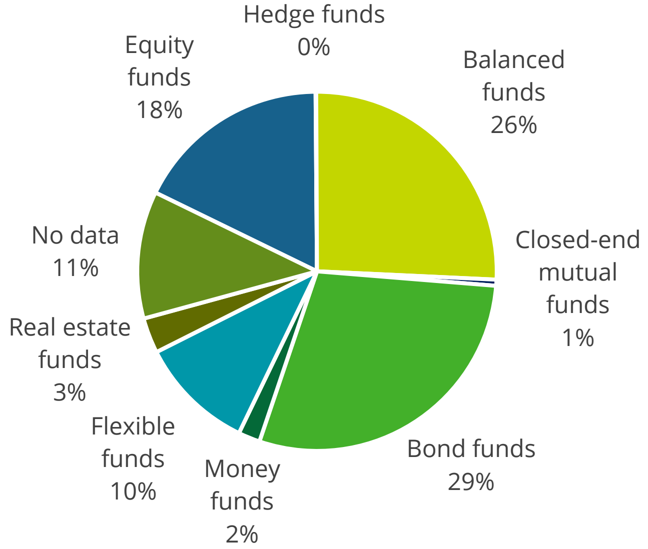
ASSET CLASSES

Generally, the way in which assets are allocated heavily depends on the investors' preferences. Factors such as **expected returns**, **risk tolerance**, and **sustainability** are key drivers in choosing investment strategies and making asset allocation decisions. Overall, financial assets can be grouped into categories, including bonds, equities, and cash. It is also important to consider the investment horizon, whether short-term, medium-term, or long-term.

24 The Investment Association
25 AFG
26 BVI
27 Asset Management Association
28 Assogestioni
29 Statista

Over the years, it has become evident that in **Italy** there is a prevailing trend towards adopting a **risk-averse approach** to investing, with a preference for safer and less volatile investment strategies. This explains the overall preferences of Italian investors and how the €2,337.7B in AUM is allocated. Specifically, **28.9%** of total assets are invested purely in **bonds**, reflecting Italian preferences for low-risk investments. Another **25.8%** is allocated in **balanced funds**, which combine investments in both equity and bond market. These funds are attractive investment vehicles as they offer significant customization in the allocation between the two asset classes, providing a tailored customer experience. Nevertheless, the share of total AUM invested in more volatile vehicles has been growing in recent years.

Exhibit 6: Italian asset allocation in 2023



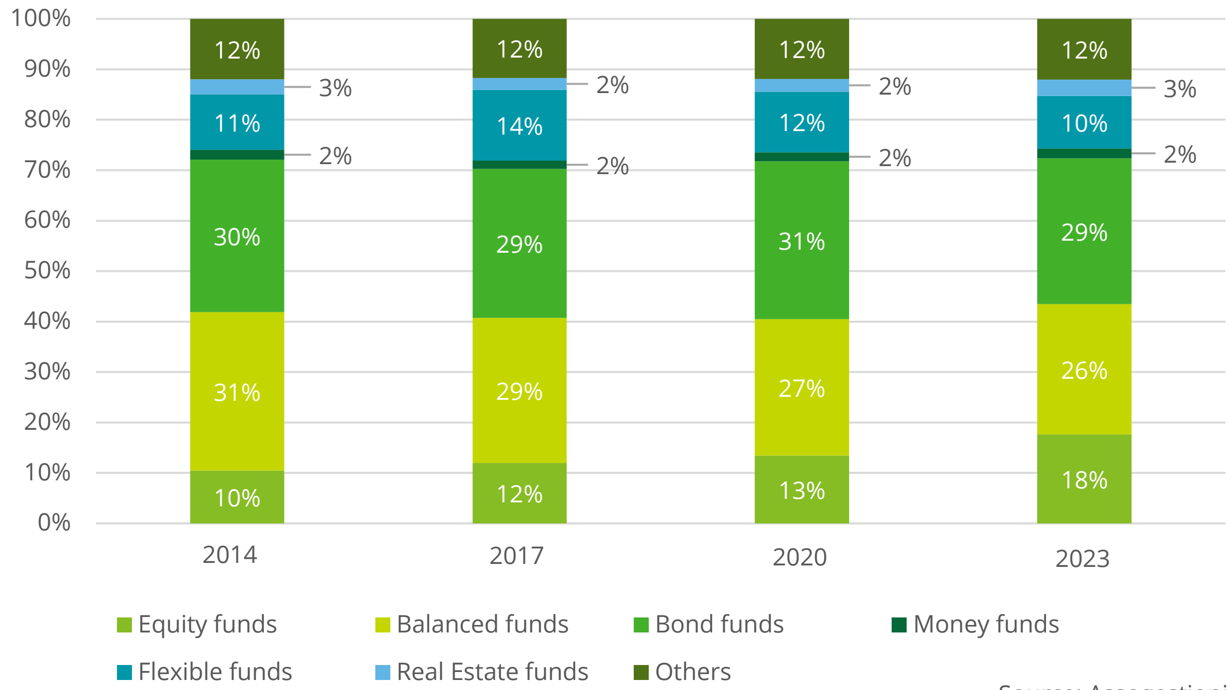
Source: Assogestioni

Indeed, assets allocated in **equity funds have tripled** over the past 10 years, now accounting for **17.7%** of the current market. This growth is partially driven by Italy's overall economic expansion, as reflected in the performance of the FTSE MIB, the Italian stock market proxy. Another **10%** is allocated to **flexible funds**, which have no restrictions on asset allocation. These investment vehicles are attractive because they can diversify and spread risk by adapting to current market conditions. This flexibility allows investors to capitalise on trends and mitigate the risk of being stuck in a declining asset class.

Moreover, **3.2%** of the total assets are allocated in **real estate funds**, which are focused on retain long-term value. This share represents such a small fraction of the Italian real estate market because many Italians are heavily invested in real estate by directly owning properties. In fact, the **Italian homeownership rate is very high** for a Western EU country, sitting at around **74%** in 2022, compared to around 45% in both Germany and Switzerland[30]. In contrast to the long-time horizon of these investments, the 1.9% located in money funds utilizes short-term investment instruments like debt obligations[31]. The last asset class is represented by hedge funds, which are considered risky and are often hardly available to retail clients due to their illiquid structures and high minimum investment requirements[32].

[30] Statista
[31] Investopedia
[32] Assogestioni

Exhibit 7: Italian asset allocation over the years



Source: Assogestioni

RELEVANT TRENDS

The development of both **European** and **Italian AUM** over time reflects the influence of broader **trends**, such as macroeconomic shifts, technological advancements, and evolving regulatory frameworks. Analysing these trends can offer valuable insights into the potential evolution of the asset management industry in the coming years. This section explores several key trends shaping the future of the industry, focusing on the changing **regulatory landscape** across Europe, the growing importance of **retail clients**, and the increasing **use of AI**.

CHANGING EUROPEAN REGULATIONS

Several key advancements within the European AM industry **are contingent upon European regulations**. Therefore, it is useful to examine recent changes in regulatory measures to get a perspective relative to possible future changes.

Starting on February 20th, 2024, the European Council adopted changes to regulations and directives concerning market data **transparency**. The reform aims to increase transparency in the market and eliminate barriers for investors, making information more easily accessible. The measures adopted address both the MiFIR (Markets in Financial Instruments

Regulation) and the MiFID 2 (Markets in Financial Instruments Directive). The first key point of the new rules is the creation of a **single platform** where investors can find **up to date and reliable information** on financial markets. Up to this point, finding such information was much more complex as it was spread out across many different platforms. This allows for easier reliable information gathering and for more informed decision making. This can lead to greater confidence amongst retail investors and subsequently increase participation and therefore, lead to a net inflow of AUM in the future[33].

Similarly, on February 26th, 2024, the EU Council adopted new rules to **improve** European capital markets and **strengthen investor protection** in the EU. The directive also modernises the legal framework for **UCITS**, such as unit trusts and investment companies, which allow investors to pool their money to invest in a diversified portfolio of securities. Additionally, the availability of **liquidity management tools** will be improved, with new requirements for managers to provide for the activation of these instruments. This was done to ensure that fund managers are well equipped to deal with significant outflows in times of financial turbulence. The new directive also introduces enhanced rules for **delegation by investment managers to third parties**, meaning that managers will be able to better use the best resources from market specialists. Lastly, the reform includes improvements regarding the spread of data amongst authorities and standardised and more transparent terminologies[34].

To further support this initiative, on June 12th, 2024, the European Council published additional regulations. These new rules focus on intensifying **protections** for **retail investors**, ensuring clearer information and greater transparency about investment products. The EU's primary goal is to give EU citizens the tools to invest their savings wisely in innovative European companies, including SMEs. The effort to protect retail investors is additionally highlighted by the newly introduced concept of "**Value for Money**", which ensures that investment products are offered to retail clients only if they provide good value for money. To ensure a high level of compliance, the ESMA and EIOPA will develop Union **supervisory benchmarks** that will help national competent authorities to detect investments products that fail to offer value for money.

In the same directive, the Council **reversed** its proposal of banning inducements on execution-only sales from February 20th, 2024. Instead, it introduced stronger **safeguards**, including an inducement test, enhanced transparency, and a duty for advisors to act in clients' best interests. While some member states can maintain or introduce stricter rules on inducements, the Council established overarching principles to prevent conflicts of interest and agreed to review the provisions after five years[35].

Additionally, it is insightful to mention that the European Commission is constantly revising frameworks regarding different topics. One of the most relevant reworks expected soon

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[33] Consilium Europa
[34] Consilium Europa
[35] Consilium Europa

regards the Sustainable Finance Disclosures Regulation to further increase the supply and transparency of ESG investments[36].

These measures demonstrate the EU's mission to **level the playing field** for all kinds of investors and make all market areas more accessible. In this way, fair competition and no abuse of power can be secured, which are important points on the European Union's agenda.

INCREASING IMPORTANCE OF RETAIL CLIENTS

The share of **retail investors** has **grown** substantially in recent years. This is evident in the allocation of Assets Under Management by client type in Europe: the share of AUM managed on behalf of retail clients increased from **26.1%** in **2020** to 27.5% in 2021, and further to **29.5%** in **2022**[37]. The situation in Italy demonstrates a **similar trend**, with retail AUM share growing from 34% in 2020[38] to 37% in 2021 and remaining stable in 2022[39].

Several factors have contributed to the significant increase of retail investors in recent years. A key aspect to consider is the **generational shift** approaching in Italy. Currently, Italy has an increasingly ageing population, which is driving the demand for retirement planning solutions, estate management and wealth transfer services, specifically related to generational transition. In fact, around **70% of Italian wealth** is currently owned by individuals **over the age of 60**, much of which is expected to change hands and be inherited by the next generation in the coming years[40].

Moreover, another important factor guiding this development is the rapid change in **technology**, which allows retail clients to access higher level information about stock markets more easily. Furthermore, the overall **attitude towards investing** has changed. During the COVID-19 pandemic, the importance of savings and investments became apparent, and additionally, social problems like the struggling retirement system stimulated investment interest. The growing interest in investing, along with the generational shift, will lead to a more **significant increase** in the AUM of retail clients over the next few years.

The growing customer base and demand from the retail side reflect an opportunity to grow AUM of investment firms. To take the most advantage of this trend, it is crucial to be as attractive to retail clients as possible. This is moving managers towards exploring **alternative investment vehicles**, which were only sparsely accessible to retail clients in the past. Such products include venture capital and private equity funds, which are aimed at institutional clients because of their illiquid and risky aspects, as well as a very high required investment amount. These undiscovered markets are appealing to retail consumers, especially high-net-worth individuals, due to the potential returns that exceed the public market. Although

[36] FSUG
[37] EFAMA
[38] EFAMA
[39] EFAMA
[40] The Banker

making this segment of the market accessible to retail consumers might seem straightforward, it presents many challenges. For instance, managers may need to conduct thorough research on the risks associated with new investment vehicles and perform due diligence on service providers. Both tasks incur upfront costs, requiring investments without guaranteed payoffs. This represents an important possible use case for AI. The technology allows to **drastically accelerate** the **due diligence process** by gathering information and summarizing notes automatically, therefore reducing costs[41].

Another possible way to appeal to the growing client base is the development of a **tailored client experience**, part of which is a detailed analysis of the preferences and goals of the customer and the subsequent development of a customised investment strategy. This presents another opportunity for the use of AI, as it allows for the automation of customer analysis and the subsequent provision of tailored engagements. The necessity to attract clients by offering private market products and a personalised customer experience highlights the limitations of this trend. The growth of the retail customer base and the associated AUM significantly depends on advancements in technology and changes in regulations, which can make new product categories more accessible.

Specifically, the asset managers who have benefited the most are those with **integrated distribution networks**, able to better capitalise on the trend of offering digital advisory services, lower fees, and tailored investment solutions. In particular, considering the rapid evolution of the market and the factors impacting on retail investors' preferences, traditional asset managers must invest in technology, develop new strategies, and lower their fees to remain competitive in this evolving market.

THE USE OF AI

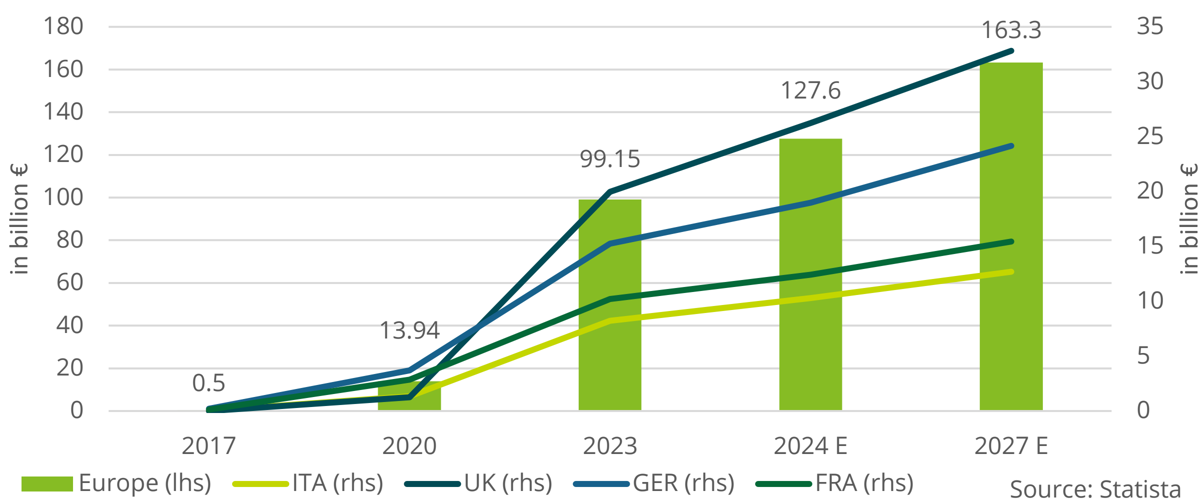
Technology, particularly Artificial Intelligence, has become a **crucial driver of innovation in asset management**. Recent industry trends highlight AI's growing influence on the operational and strategic decisions of asset managers. In fact, a significant number of firms now acknowledge that AI will play a pivotal role in shaping the future of the industry. With this recognition, many asset managers are already taking proactive steps to integrate AI solutions into their workflows, allocating substantial resources and capital toward its adoption.

In addition to AI's core benefits, the integration of **generative AI** is proving **disruptive** across the **asset management value chain**. Enhanced data architecture and governance powered by generative AI can further streamline operational processes, leading to reduced fixed costs and boosting performance. This type of innovation is a catalyst for operational efficiency, adding incremental value to asset managers' services[42].

41 Kiplinger
42 Deloitte

A way to observe how much the Italian AM industry has been integrating AI is by looking at the assets under the management of robo-advisors. **Robo-advisors** are **digital** and **automated financial advisors** that provide asset and wealth management based on algorithms, without any human intervention.

Exhibit 8: Robo-advisors - Assets Under Management over the years



Source: Statista

When analyzing the AUM of robo-advisors across Europe's top countries, the rapid growth that began around 2018 is expected to continue until 2025, after which it is likely to decelerate. However, Italy has experienced steady but slower growth compared to other European nations. Despite initially following a similar trend, the **divergence** from countries such as the United Kingdom and Germany has **widened** year after year since 2018. This is likely due to Italian banks focusing more on high-net-worth individuals (HNWIs), who are less inclined to use robo-advisors.

The **target audience** of robo-advisors in Italy and globally are **young retail investors**. This group of investors is more drawn towards technology and, therefore, compelled to use digital products. Moreover, fees are one of the key points for retail investors when deciding between different investment allocations. With the generally high cost of discretionary management, retail consumers are more drawn towards investing in collective management. The use of robo-advisors could become a middle ground with many advantages. It allows the construction of portfolios tailored to individual needs and uses current market trends at **annual fees lower than 0.5%**, compared to those of human financial advisors, which can be over 2%[43].

As these trends evolve, AI and digital tools are critical in **enhancing operational workflows**. In **monitoring, reporting, and evaluating key performance indicators**, these technologies empower organisations to make data-driven decisions, optimising asset management processes and improving steering and controlling. In the realm of **risk**

[43] City Wire

containment, AI-driven mechanisms bolster security, streamline authentication, and mitigate fraud risks, ensuring compliance and operational stability. This dual benefit of reducing risks and improving efficiency translates into **cost savings** - estimated at 20-40%, allowing firms to allocate resources to higher-value activities. Moreover, digital tools are **revolutionising people management** by improving internal communication and resource allocation, facilitating employee training, and enhancing team growth. Finally, asset managers leverage AI for client-facing activities to **deliver personalised products and services** tailored to individual client needs. Such customisation strengthens their high-value offerings, boosts client acceptance rates, and drives revenue growth, with potential 5-10% increases[44].

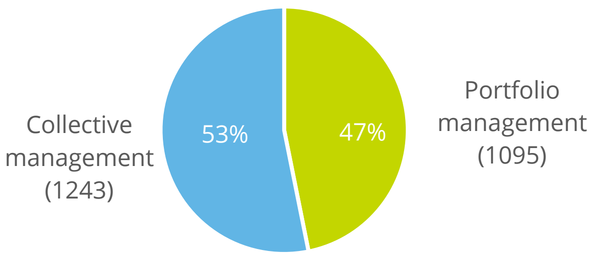
[44] Deloitte

OFFER ANALYSIS

CHARACTERISTICS OF THE INDUSTRY

The Italian market is almost **equally divided** into collective management (investment funds) and portfolio management (discretionary mandates). To be precise, the market is slightly more driven towards collective management with a market share of 53%[45].

Exhibit 9: Italian division between collective and portfolio management in 2023 (billion €)



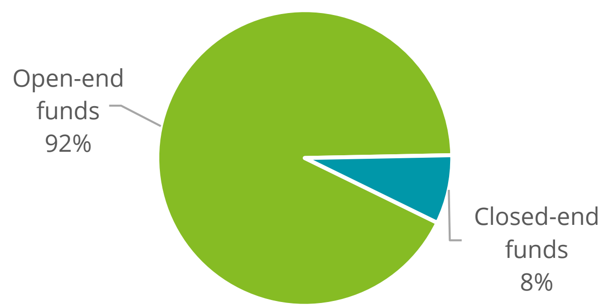
Source: Assogestioni

Collective management is specifically attractive for retail investors, as it is mostly made up of open-end funds characterised by easy accessibility and therefore low commitment to investing. In contrast, due to higher costs and minimum investment amounts, the residual half is mostly dominated by institutional investors like pension funds, or high-net-worth individuals making use of services like family offices. On a **European level** the structural division of the industry is similar[46]. The two asset management types split the market almost in half in most leading countries, apart from Germany, where collective management dominates, due to the attractive country specific investment funds "Spezialfonds" with AUM of around €2T[47].

COLLECTIVE MANAGEMENT

As mentioned, nearly **half of Italian AUM are invested in funds** (approximately €1,243B at the end of 2023)[48]. Funds can be categorized by their accessibility, distinguishing them as either closed-end or open-end. Closed-end funds allow only a select few to invest at a specific event, akin to a company's IPO, while open-end funds are available to any type of investor at any time.

Exhibit 10: Italian fund asset distribution in 2023



Source: Assogestioni

Considering the development of AUM, collective management appears to have recovered faster than portfolio management during the post-2020 crisis, demonstrating the resilience of Italian funds. In fact, nearly 55% of assets allocated in funds are in open-end

[45] Assogestioni
[46] EFAMA
[47] IPE
[48] Assogestioni

bond or balanced funds, where the bond component is predominant. Therefore, they have not been particularly affected by the equity shocks resulting from the ECB's interest rate increase starting in July 2022. By the end of 2023, AUM in collective management had increased by 3.4% compared to the end of 2020, while portfolio management was 10% below the values recorded at the end of 2020). Among closed-end funds, nearly 80% are allocated to **real estate funds**, which are characterized by a tendency to maintain stable values over time. This stability is possible due to the nature of closed-end funds, which do not allow changes in invested capital; instead, fund shares can be traded on the secondary market.

At the end of 2023, **open-ended mutual funds** make up a remarkable share of the Italian AM market with around €1,150B in AUM. The market-dominating player is Intesa Sanpaolo Group, with a market share over 20%. This is primarily because Intesa Sanpaolo Group holds a subsidiary, Eurizon Capital, which focuses on UCITs and therefore captures a large percentage of the market for Intesa Sanpaolo Group. More generally, the **largest ten** asset managers in the open-end funds segment manage around **75%** of assets[49].

When looking at the AUM in the market of **closed-end mutual funds**, the supply looks a bit different from the open-end funds. The total €93.5B AUM allocated in closed-end mutual funds at the end of 2023 is managed for 30% by Generali Group, with the largest ten players making up around 85% of the market. Generali's dominating market share is grounded upon their strong position regarding the Italian real estate market, with assets collected of €22.5B[50].

ACTIVE AND PASSIVE MANAGEMENT

Funds are divided into active and passive funds. The difference between the two relates to how they are managed: **active funds attempt to outperform a benchmark** they impose on themselves, actively working towards the goal, while passive funds simply replicate a market index or portfolio. The advantage of **passive funds** lies in their **very low management costs** in contrast to active funds.

In Italy, the SPIVA Europe Scorecard finds that in 2023, **96% of equity funds and 92% of actively managed Italian bond funds underperformed the S&P Italy BMI index**[51]. Extending the time horizon to 10 years, this percentage is around 90% for all fund categories. This means almost all ETFs and passive funds have generally done better than active funds in recent years. The main reasons lie precisely in the fees, analysed later, and in the transaction costs required to react quickly to market changes. For this reason, it is reasonable to expect increasing development of passive funds in the Italian market in the future, which guarantee higher returns and performance.

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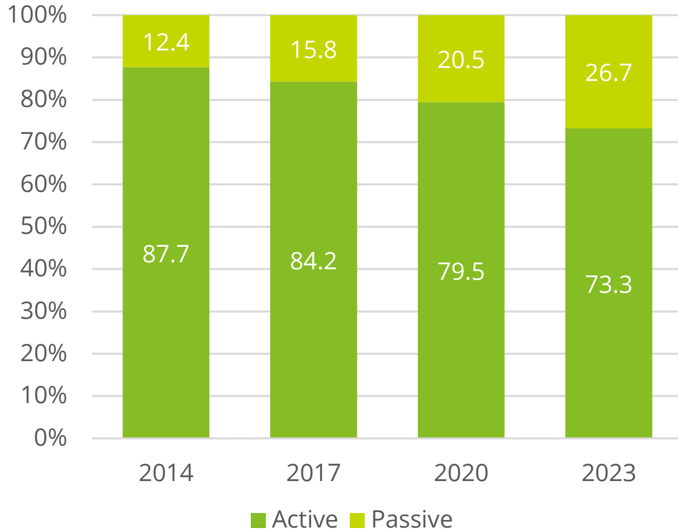
[49] Assogestioni
[50] Assogestioni
[51] Advisoronline

Exhibit 11: AUM Active and Passive Market Share (%EU)



Source: Morningstar

Morningstar analysed the European situation of active and passive funds, noting how the probability of survival is linked to performance: many funds are liquidated or merged into others because they have disappointing returns, and that **passive** strategies are **more likely to continue their activity** over time **compared to the active ones**. In the EU, the success rate of active funds in beating the benchmark is around 8.8%[52]. Over the years, these conditions have allowed passive funds to acquire more and more market shares, to the detriment of active funds.

EXCHANGE-TRADED FUNDS

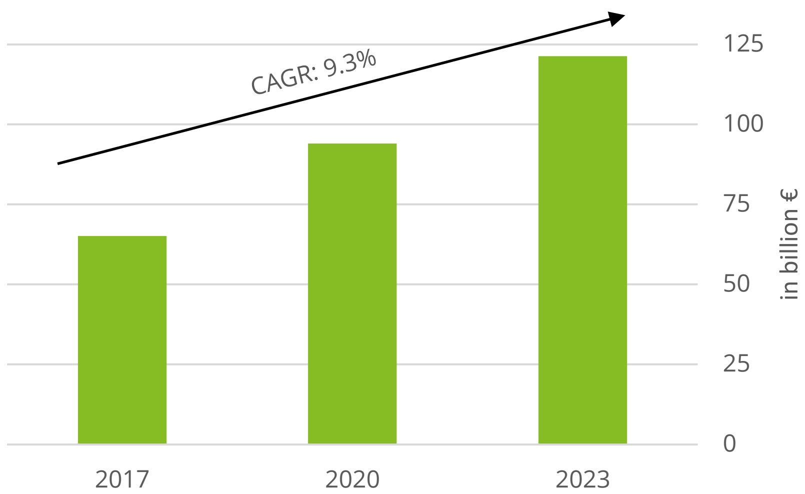
The main objective of ETFs is to **replicate the benchmark without deviation**. They are open-end funds that partially behave like closed-end ones: once issued, their shares are subsequently traded on secondary markets to institutional and retail investors, but no further subscriptions are possible. The fact that they can be traded like stocks on secondary markets makes them highly liquid and flexible instruments[53].

ETFs are often bought and sold in the retail environment through online platforms, reducing even more the transaction costs associated with them. In Italy, **ETFplus** is the electronic regulated market of the Italian Stock Exchange (Borsa Italiana), dedicated to the trading of ETFs.

52 Morningstar
53 Borsa Italiana

ETFs are also used to quickly obtain portfolios of securities for diversification. In addition, Italian banks use ETFs to manage excess liquidity through highly liquid remunerative instruments. Thus, more and more growth of ETFs can be expected in the coming years, especially due to the **proliferation of online retail platforms**, which are very popular especially among the younger audience.

Exhibit 12: Development of AUM in ETFs



Source: ETFplus

ALTERNATIVE INVESTMENT FUNDS

Alternative Investment Funds include hedge funds, real estate funds, private equity funds, and venture capital funds. These funds offer investors the **opportunity** to diversify their portfolios and invest in non-traditional assets while adopting non-traditional strategies. They may earn **higher returns** than other funds but are generally **riskier** because they invest in illiquid assets. The higher returns typically compensate investors for the illiquidity of the instrument. This additional yield, known as the **illiquidity premium**, is the extra return that an investor demands as compensation for holding assets that cannot be easily sold or converted to cash without a significant price discount. Additionally, **management costs** can be **particularly high** due to the need for more careful analysis and management, as less information is available compared to traditional asset classes.

The reason why **more due diligence** is needed is that Alternative Investment Funds are subject to **little regulation**. In fact, these funds are aimed at a smaller audience of investors than mutual funds, and therefore distribution costs are also higher, as there are no economies of scale.

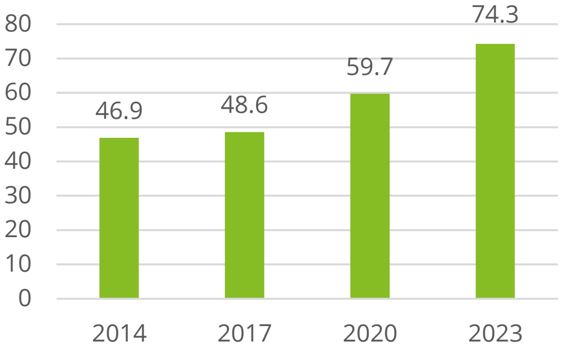
The outlook for Alternative Investment Funds is **closely tied** to ongoing **developments in macroeconomic dynamics**. With central banks maintaining higher interest rates in many regions to curb inflation, traditional fixed-income investments have offered more attractive yields in recent years, yet alternative funds are expected to maintain and possibly grow in relevance. In fact, some of these AIFs are positively impacted by higher interest rates, while others suffer during inflationary periods. For example, in recent years, real estate funds have benefited from an increase in AUM due to the inflation trend; contrarily, funds like private equity have been negatively affected by rising interest rates aimed at combating inflation, as these have increased the cost of capital for investments, generating uncertainty for firms. However, with **expectations** of **interest rate reductions**, a recovery is anticipated in funds strongly impacted by these rates, resulting in a need for asset managers to prepare for a shift in investor preferences.

In Italy, Alternative Investment Funds have been growing rapidly, partly due to the popularity of **Individual Savings Plans (PIRs)**, which offer certain tax benefits to individuals who invest in these funds. To date, alternative PIRs in Italy are worth more than €1.6B, but in the past 2 years they have felt the effects of high market volatility through substantial outflows[54]. According to Equita alternative PIRs will reach €10B to €15B of AUM within 5 years.

Recently, **Real Estate Investment Trusts (REITs)**, which are companies that finance real estate for rental purposes, have also become popular among AIFs[55]. Listed on major stock exchanges, REITs provide investors with exposure to the real estate market's profits without the need to directly purchase or finance property. Instead, investors can gain access by buying their shares directly, or through investment funds or ETFs.

REAL ESTATE FUNDS

Exhibit 13: Real estate funds AUM over the years



Source: Assogestioni

Real estate funds allocate **79.5%** of the total assets of **closed-end funds**. The total assets of Italian real estate funds increased from €41B to over €74B, representing a **growth** of nearly **80%** in 10 years[56].

Among the factors that have contributed to such growth, it is certainly worth mentioning the recovery of the real estate market following the 2008 crisis, which has characterised a long growth phase over the past 10 years. Examining the data, the real estate fund market has not been affected by the crisis of the past four years. On the contrary, in 2021 it recorded an increase of more than 10% in Assets Under Management. Moreover, despite the challenges in the markets, this upward trend has persisted in recent years, thanks to the stability of the sector's returns. Real estate funds have consistently offered **stable returns**, providing a reliable alternative amid the uncertainty of the crisis.

The real estate fund market is set to expand in Italy, partly due to the expansion of the product range, such as the introduction of listed real estate investment trusts (REITs) and Alternative Investment Funds, which increase diversification opportunities.

[54] FundsPeople
[55] FundsPeople
[56] Assogestioni

HEDGE FUNDS

Hedge funds were introduced in Italy following the TUF, in 1999. These **benchmark-independent**, closed-end funds aim to maximise profits and are considered **highly risky** instruments, reserved for institutional or qualified private investors. They typically entail very high fees[57].

In the Italian AM market, hedge funds allocate **only €1.2B**, and it is likely that they will remain a niche product in the future due to their high costs and riskiness, which align poorly with the risk-averse nature of Italian investors[58].

PRIVATE EQUITY FUNDS

Private equity funds are investment funds that acquire **equity stakes in target companies**, which are generally not publicly traded. The selection of these companies focuses on identifying potential for value growth. Private equity funds act with a medium- to long-term perspective (typically around 10 years) and actively work to enhance the value of the company during the investment period, making it attractive to buyers or for an eventual public offering. These funds also serve as important sources of financing for small and medium-sized enterprises, providing not only capital but also expertise and managerial resources[59].

In 2023, investments in Italy amounted to **€2.6B**, marking a **decrease** of **19%** compared to the previous year[60]. This negative trend, following two years of growth (investment in 2022 had grown by 43% over the previous year), was caused by the continued rise in interest rates, and uncertainty about their future trajectory. However, with rates likely to stabilize in 2023, investments in private equity funds are expected to increase again. As a result, future growth prospects remain solid[61].

VENTURE CAPITAL FUNDS

Venture capital is a **form of financing to startups** and expansion stage companies. Investors, known venture capitalists, seek investment opportunities by offering **capital in exchange for an equity stake** in the company. This financing is aimed at innovative companies with high growth potential. Investors are willing to take **greater risks** than

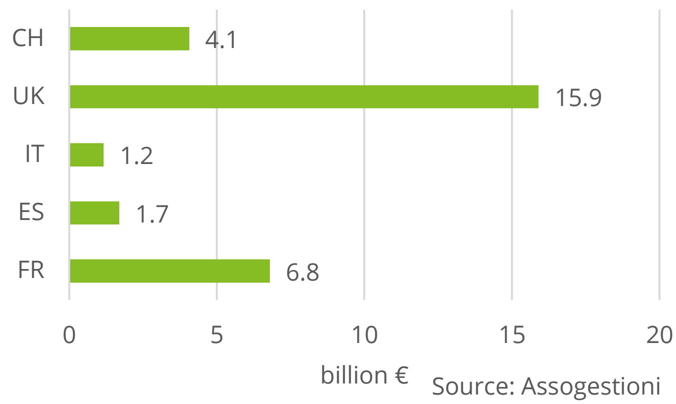
57 Ubp
58 Assogestioni
59 AIFI
60 Focus Risparmio
61 Focus Risparmio

traditional lending institutions, as they aim to achieve **significant returns** over the long term[62].

In Italy, the venture capital market is even smaller than the private equity market. In 2023, only 330 venture capital deals were recorded in Italy, totalling **€1.17B** of AUM[63]. A very low figure compared to other European countries, which see the unchallenged dominance of the United Kingdom in venture capital investment.

Nevertheless, the Italian venture capital market is growing and is expected to expand further soon. This growth can be attributed, in part, to PNRR funds for digitization and ecological transition, which will allocate capital to innovative startups. One example is CdP Venture Capital, a fund owned by the Italian government that directly invests in startups. Additional examples for PNRR funds include digital and green transition funds[64], which are also promoted by CdP. This will certainly increase deal flow stimulating the creation of new startups and new investment and diversification opportunities for venture capitalists.

Exhibit 14: AUM of Venture Capital funds by country



Source: Assogestioni

PORTFOLIO MANAGEMENT

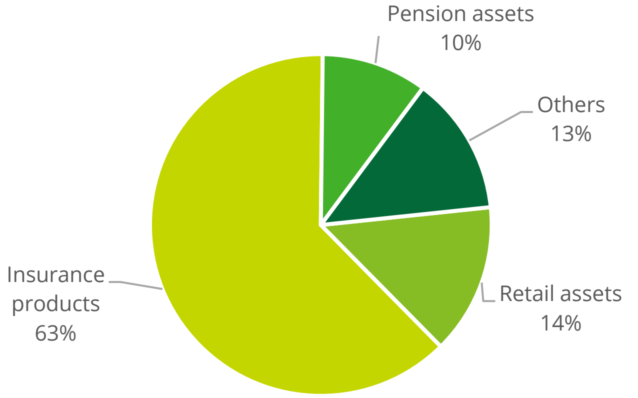
The second half of Italian AUM is managed by portfolio managers, who offer a more customised experience. Managers directly interact with the client, incorporating their preferences into the investment strategy. Total assets under portfolio management amount to **€1,095B**, making up **slightly less than half of the Italian AUM**. When examining the market distribution of Portfolio Management firms[65], the concentration mirrors that of the fund management sector. For portfolio management in general, around **90% of AUM are**

[62] AIFI
[63] FinanceCommunity
[64] CdP
[65] Assogestioni

managed by the ten largest firms, with 32% of total Italian Portfolio Management AUM managed by Generali Group.

The industry of delegated management of portfolios is dominated by three kinds of clients: **Management of insurance products, retail assets, and pension assets**. Together, these make up more than 85% of the entire Assets under Portfolio Management. In particular, the greatest market share of around 63% is absorbed by insurance products.

Exhibit 15: Distribution of Italian assets under portfolio management in 2023



Source: Assogestioni

The **insurance product market** is **one of the most important** markets within the Italian AM industry. It consists of around **€685B** at the end of 2023 and comprises Unit Linked, Index Linked, Gestioni Separate, other insurance products and non-classified insurance products. The first three are products combining insurance aspects with potential investment growth by investing a certain part of the premium paid, making them an attractive allocation. The preferred investment vehicle for Gestioni Separate are government bonds because of their guaranteed returns. The insurance product portfolio management market is characterised by a particularly concentrated distribution, with the five greatest managers within this area of the industry holding around 90% of the AUM collected in this category. The leading asset manager within the area of insurance product portfolio management is **Generali Group**, the biggest insurance company in Italy.

The second largest client group in this regard is **retail assets** with 14% of total assets under Discretionary Mandates. The supply of retail portfolio management services holds about €156B in AUM. The market is dominated by the **Intesa Sanpaolo Group**, holding around 50% of the market share. This dominance is largely due to their private banking firm Fideuram, which allows them to closely engage with and capture retail clients[66].

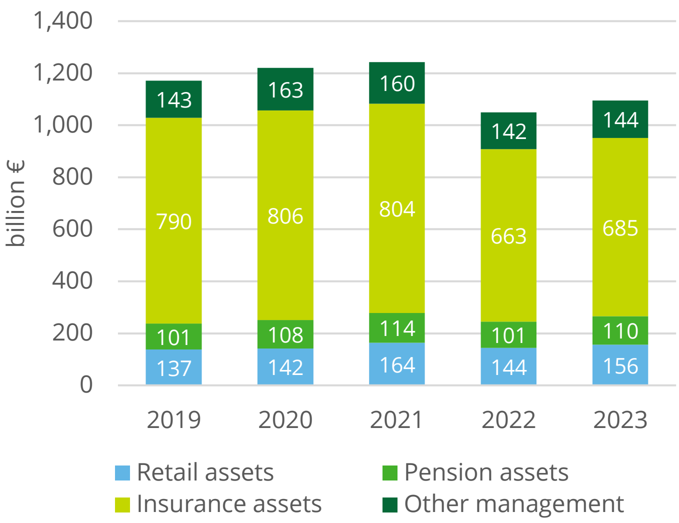
In contrast, the **assets of pension funds** under Discretionary Mandates account for only around 10% of AUM. This share is small in Italy for several reasons. Firstly, Italians are risk-averse and therefore prefer to invest in traditional investment vehicles. Additionally, pension funds are not strongly trusted by Italians due to multiple financial scandals that have occurred over the years. Another issue is the significant tax evasion in Italy, with over €80B

[66] Assogestioni

in taxes evaded in 2021[67]. This results in missed payments that contribute to the fund size, therefore limiting its ability to accumulate a significant amount of assets.

Pension funds are distributed differently compared to other types of portfolio management. The largest ten asset managers hold around 88%[68] of the pension fund AUM, making the market quite saturated. In contrast to others, these asset managers share the market **more equally** with around 8% each. The only exceptions are Intesa Sanpaolo Group and Amundi Group with 23% and 14% market share respectively. In general, pension assets play a small role in Italy, with total pension Fund AUM only amounting to €97B[69].

Exhibit 16: Italian portfolio management asset allocation over the years



Source: Assogestioni

FEES

One of the most important indicators of a fund's performance is its **cost to investors**. This cost pertains, on the one hand, to the **management of the fund** and, on the other hand, to the transactions that the fund must bear. A fund's net performance is highly dependent on fees; specifically, a fund that can beat the benchmark frequently will charge **higher fees**, effectively **reducing the fund's net performance**.

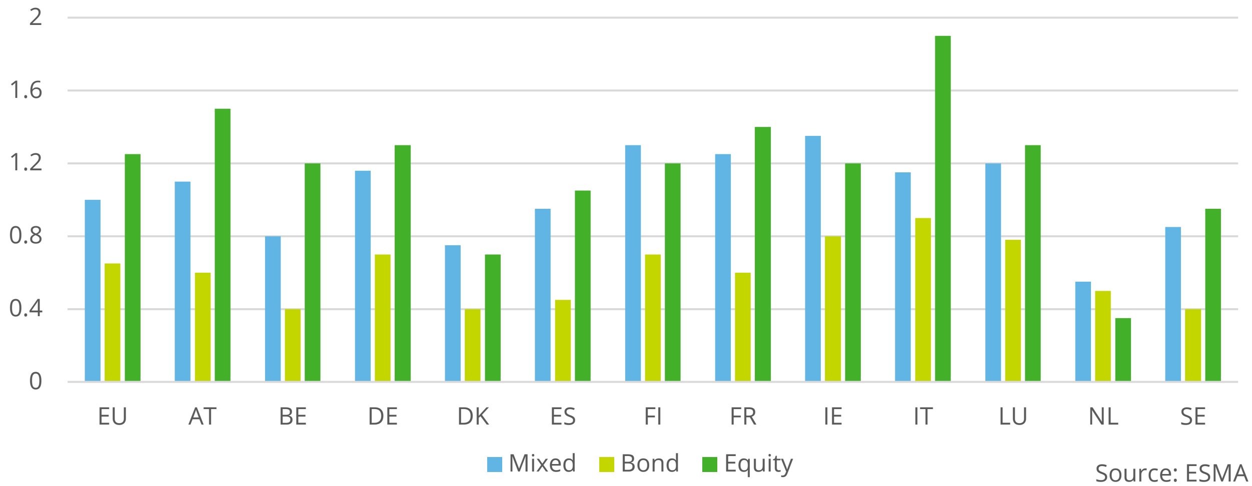
In Italy, as early as 2008, Consob found that Italian fund fees were higher than the European average. Over the years, this trend has not changed. Italy has among the **highest management fees in Europe**, particularly for equity funds.

There could be many causes, but one of the main ones could be the fact that the Italian equity AM market is not particularly developed, which makes it difficult for management companies **to achieve economies of scale**[70]. This negative characteristic of Italian funds makes them less attractive to international investors, who are discouraged by high costs and even lower opportunities than those of major European partners such as **Germany, France,** and the **UK**, which are among the top countries for foreign investment.

67 ANSA
68 Assogestioni
69 Assogestioni
70 ESMA

However, in recent years there has been a trend towards **decreasing management costs for funds**, including equity funds. This is due to **increasing competition** and the entry of **new international players** thanks to increasing integration of the European capital market and the emergence of harmonised funds, which make it easier to invest between EU countries. In addition, **MiFID 2** in 2018 took a major step towards **transparency** of mutual fund costs, by requiring companies to provide an annual statement of costs and charges.

Exhibit 17: Fees across EU



Source: ESMA

CONCENTRATION OF THE INDUSTRY

The Italian asset management industry is dominated by **large national players**, who hold 58% of the total market share. In fact, the **top five** consists of Italian firms, except for Amundi, which holds a significant share due to its acquisition in 2017 of Pioneer, UniCredit's asset management division, gaining over $145B in AUM from the deal. However, despite holding a smaller market share, international players are **growing** at a **significantly faster rate** compared to Italian players. In fact, over the period from 2008 to 2023, **Italian players** experienced a **+5% CAGR** in AUM, while **international players** saw a **+12% CAGR** in AUM.

As of the end of 2023, the Italian asset management market is highly **concentrated**, with the three largest asset managers holding around 50% of total AUM, and the top ten players managing approximately 80%.

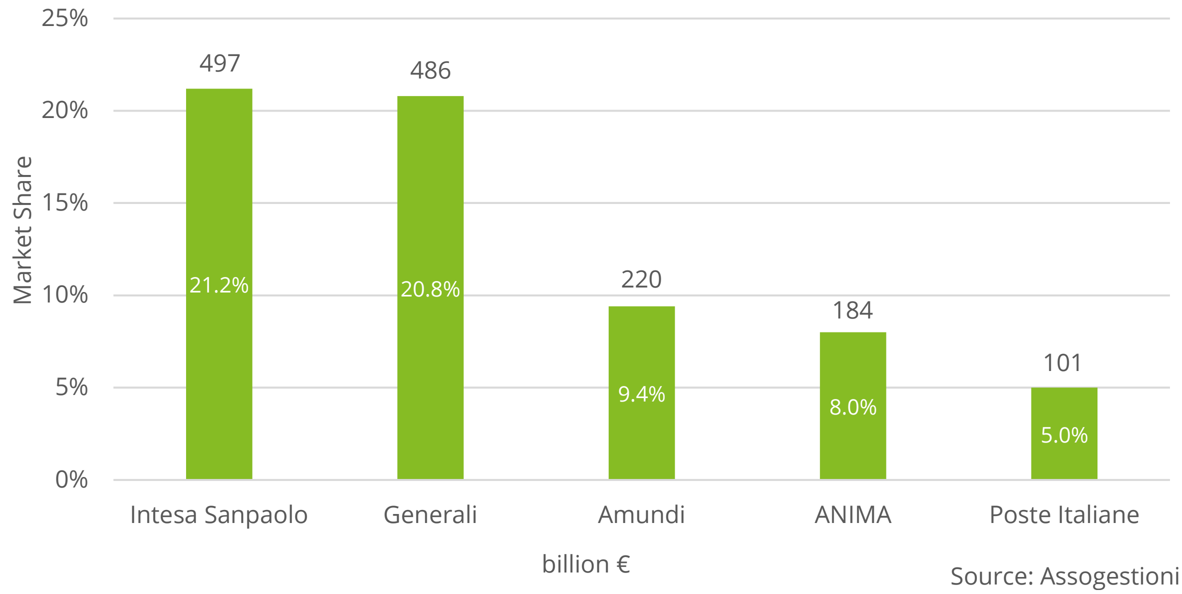
Intesa Sanpaolo Group, with a market share of 21.15% at the end of 2023, is the **market leader** in Italy in terms of AUM, distributed amongst its two sub-companies, **Eurizon Capital** and **Fideuram Private Banking**. The first is Sanpaolo's AM company, with a total AUM of around €377B, mostly gathered through UCITs (53%). In contrast, the AUM of Fideuram, which is Sanpaolo's private banking firm, amounted to roughly €120B, in which €56B AUM are made up of retail portfolio management, closely followed by UCITs with €44B. Intesa

Sanpaolo Group collects many of its assets from retail investors because of its ability to closely interact with retail clients through its retail banking division. This becomes evident when looking at the share of retail portfolio management assets collected by Intesa Sanpaolo, which is around 50% at the end of 2023.

At the end of 2023, the market leader is closely followed by **Generali, with a market share of 20.83%** and a total of €486B AUM. With a total of €354B in portfolio management, around 70% of Generali's assets are collected through **institutional portfolio management**, most prominently insurance product portfolio management, which collected AUM of €271B. Roughly €200B were cumulated through life insurance products, Gestioni Separate, and around €65B were collected through other insurance products. Additionally, €105B were gathered through UCITs. Lastly, there was a remarkable share of AUM coming from **Real Estate funds**, with €22B. This gives Generali Group around 28% of the Italian Real Estate fund market.

The third-ranked asset manager is, in contrast to the other two, a foreign company. In December 2023, **Amundi Group's** market share was 9.38%, and AUM amounted to roughly €220B, composed of 55% of **UCITs** and 42.4% of **Institutional Portfolio Management**. Of the latter, at the end of 2023, around 44% came from Gestioni Separate and around 37% from Unit Linked, which are two kinds of life insurance products differing in their preferred investment vehicles. The small residual of Amundi's total AUM is collected through closed-end funds and retail portfolio management[71].

Exhibit 18: Market Share of the Top 5 players in Italy



Source: Assogestioni

[71] Assogestioni

CONSOLIDATION OF THE MARKET

Since 2016, a significant consolidation pattern was observable in the market, which has been persisting[72,73]. Experts expect this trend to be viable in the years to come for many reasons.

The **great pressure of high interest rates** and growing **demand for lower costs** led to more managers considering strategic measures to consolidate the market, mitigate risk, and scale technology and expertise. The focal points are strategic **M&A deals** and **partnerships**. The greater consolidation of the market and the lower competition would allow a higher specialisation in product categories and, simultaneously, a broader product offering.

In recent years, **market consolidation** has likely been influenced by several macroeconomic and geopolitical factors. The slowdown seen in 2019, possibly driven by high valuations and later worsened by the COVID-19 pandemic, caused a dip in **M&A activity** and AUM growth. However, 2022 introduced new challenges: inflationary pressures, tighter monetary policies, and geopolitical instability—most notably, the war in Ukraine—have significantly impacted dealmaking and slowed down consolidation efforts. Even though the **value of deals** decreased by **26%** in the second quarter of 2022, the **volume of deals** decreased by a lower percentage, showing a greater relevance of **small deals** concerning the integration of technology and expansion into different market segments[74].

In Italy, the trend becomes evident when examining the concentration of the market. Whilst **today the largest ten asset managers collect around 80%** of total AUM, in **2016,** the market was slightly less concentrated with the top ten firms collecting around **75%** of total assets[75]. Even if this is only a small change, it suggests that there has been a slight but consistent **consolidation** of the market taking place over the past few years.

In fact, despite the overall economic slowdown in the last few years, the consolidation process in the asset management industry has continued. Some major players, such as Intesa Sanpaolo, Generali and ANIMA, have taken the lead in this initiative. Intesa and Generali, **aiming to increase its scale**, acquired Pramerica SGR in 2021 and NEXTAM Partners S.p.A. in 2018, respectively[76]. Pramerica, an Italian asset management firm, manages €65B in assets, while NEXTAM, an Italian boutique investment firm, oversees a portfolio of approximately 2500 clients with €1.3B in AUM[77]. ANIMA, on the other hand, focused on **expanding its range of products** by acquiring Kairos Partners SGR and Castello SGR in 2023, two prominent asset- and wealth-management brands in Italy specializing in alternative investments with €4.5B and €2.9B AUM respectively[78,79]. Additionally, some foreign companies also attempted **to strengthen their presence in Italy** through M&A

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[72] Assogestioni
[73] Deloitte
[74] PitchBook
[75] Deloitte
[76] Intesa Sanpaolo
[77] Borsa Italiana
[78] ANIMA
[79] ANIMA

deals. For example, the acquisition of Antirion SGR S.p.A. in 2022, one of the largest Italian real estate investment management firms with over €4B in AUM, by Colliers Global Investors (CBI), a leading global investment management company, aimed to strengthen CBI's established position in Italy and expand its offerings[80].

To make use of the advantages of these measures, an implementation of **due diligence and screening methods** into the in-house operations is recommended. An in-house operation will allow to make maximise the utility coming from strategic measures like mergers and partnerships.

DISTRIBUTION CHANNELS

Over time, the distribution channels of AM products have undergone **numerous innovations around the world**. This has been favoured by the **spread of IT tools**, which have made it possible to **reduce sales costs**.

Despite this, the AM industry in Italy has maintained a **traditionalist approach** regarding distribution channels. First of all, the distribution methods differ by the scope of the products sold. HNWIs and UHNWIs[81] will be better supported in the purchasing process through face-to-face consultancy compared to low-income retail individuals.

The attractiveness of portfolio management of retail assets for asset managers is limited by high costs of consultancy services compared to the assets collected. For this reason, over the years, retail investors have increasingly focused on reducing costs through the digital distribution channel, while institutional investors and HNWIs and UHNWIs have maintained a constant tendency to turn to in-person consultancy services, where they can be best advised. Among these online services, **robo-advisors** are of ever-increasing importance, which has already been discussed in this paper and which consist of real platforms that recommend the types of portfolios based on the risk aversion of the retail investor.

BANKS AND FINANCIAL ADVISORS

At the end of 2023, **95%** of Italian funds were developed through the banking channel, whereas the remaining part is distributed by independent financial advisors[82,83].

However, funds distributed by financial advisor networks were greater for foreign funds with a concentrated distribution (they invest in a limited number of securities, trying to maximise returns, but carrying a greater risk), **amounting to 27%**. The same was true for cross border

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[80] Colliers

[81] UHNWI: "Ultra High Net Worth Individual", investors with more than €30 M

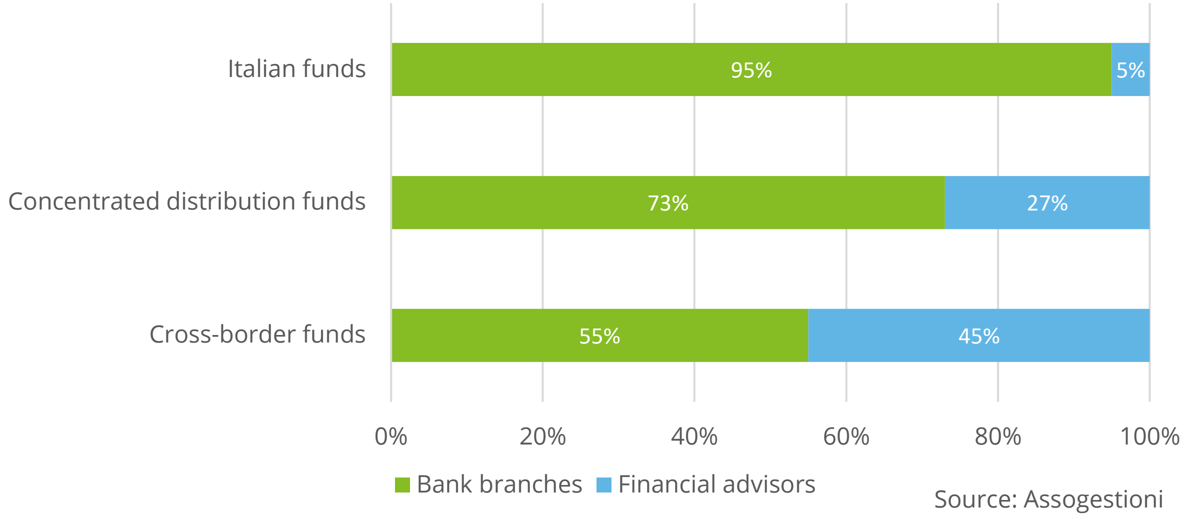
[82] Assogestioni

[83] Data on financial advisors do not include Azimut, as it was removed from Assogestioni in 2022

funds (funds based in another EU country, which allow diversification by investing abroad), reaching 45%.

According to Assogestioni, data on younger investors is particularly interesting. Individuals are actively investing through **financial advisor networks**, with a significant focus on **cross-border funds**. This trend is primarily facilitated by digital brokerage platforms, which simplify the process of purchasing shares in foreign funds—especially ETFs, which are highly popular among younger investors.

Exhibit 19: Distribution channels in Italy in 2023



Source: Assogestioni

In Italy, banks are still the **main means** of **distribution** of funds and the main players in the market. In fact, banks also play a central role in issuing **financial instruments**. Despite the decline, in 2019 (last available data) the share of assets managed by mutual funds belonging to banking groups was around 50%[84]. However, there has been strong warming over the last 20 years (in 2006, the percentage was around 85%).

In Italy, **banking distribution** is **one of the factors that influences the performance of mutual funds**. When banking platforms become the prevalent channel for the distribution of funds, AM companies are acquired by banks and the performance of mutual funds is negatively influenced.

In a 2020 study (based on the period between 2006 and 2017), Bank of Italy[85] recognised that the banking distribution channel and **conflicts of interest** associated with the affiliation of AM companies to banking groups are between the main factors that **affect the performance** of funds managed by banking AM companies. In fact, they underperform independent ones. According to the report, mutual funds managed by bank AM management companies and distributed through banking channels yield less than their competitors managed by independent AM companies by approximately **0.5%** per year.

84 Banca d'Italia
85 Banca d'Italia

The reason for this underperformance lies in the fact that these banking funds have a greater share of investments in securities issued by the reference banking group. Bank of Italy's analysis allows us to understand the extent of the overinvestment in banking products belonging to it. The overinvestment is derived from the difference between the share of the portfolio of mutual funds affiliated with banks invested in banking products and the share of the portfolio of independent funds of the same products. The latest data estimate this overinvestment at around **5% on equity funds** and around **1% on bond funds**.

The research by the Bank of Italy indicates that **bank branches** will likely continue to represent the main distribution channel for financial products in the future, although the development of multi-brand distribution platforms (online marketplaces that connect sellers and buyers of products from different companies), and the introduction of stricter regulations on conflicts of interest, could reverse this trend.

It is necessary to understand whether the AM industry is ready to accept the digital revolution in what is called **digital distribution**: the distribution through digital platforms that allow producers and consumers to be brought into direct contact.

At this moment, in Italy, the **predominant model is the B2B2C** one, i.e. the investor turns to the distributor, who, in turn, has access to a financial product platform. Obviously, this process translates into much higher costs than, for example, in the US, where large platforms intermediate 70% of assets. The technology, in that case, allows faster, simpler, and cheaper access to financial instruments, paving the way for fintech.

However, this model, strong in the US, may not adapt perfectly to the preferences of Italian investors. In fact, around **60% of Italian customers** who are served by digital operators are worried about **data protection** and **potential scams**, according to the C-level team of BancoPosta Fondi SGR in the context of data security. It will, therefore, be essential to invest first and foremost in data security.

For now, the ideal compromise seems to be the **robo-advisor**. However, long-term, despite their growing relevance in Italy too, robo-advisors do not appear to be a particular turning point. The reason is the centrality of the distributor in the **consultancy activity**. This is particularly the case for businesses and professional activities to support investment choices.

Certainly, as pointed out by a C-level executive at Fideuram, a significant factor in the future will be the **generational transition**, which will transfer **enormous quantities** of wealth from a traditional clientele to a more digital one. prompt the development of solutions to simplify the transmission between operators and investors, bringing producers and end-customers closer together. However, this could undermine the role of distributors and professional consultancy services, which are sometimes crucial for investment decisions, particularly for less-informed investors.

As a matter of fact, as a head of Vanguard points out, in the US, where the **digital distribution market** is well **developed**, there has not been a conflict between distributors and digital platforms. The expert also believes that in Italy, the establishment of digital distribution is **possible** and that it can be promoted by the banks themselves or by non-banking operators[86].

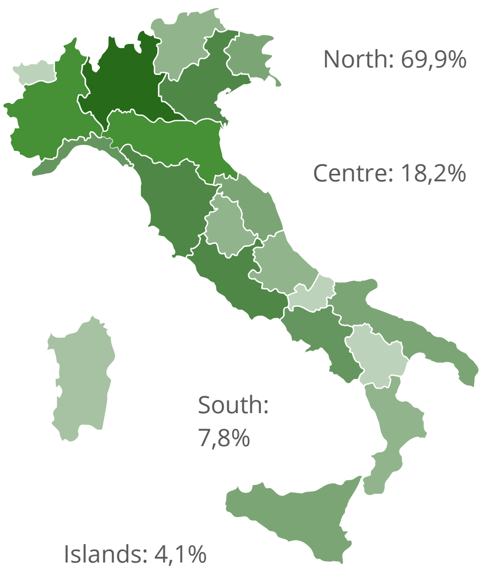
REGIONAL DISTRIBUTION

The Italian regional distribution of funds is **very heterogeneous**, consistent with the distribution across the peninsula[87].

In the 1970s, expectations were set for the North-South gap would close in 2020[88]. Four years beyond this projected timeline, the **gap** is far from being bridged, and not even the AM industry is exempt from this problem that affects the country, where customer involvement varies from region to region.

Analysing the distribution by volume of AUM in Italy among **retail customers** in 2023, it is evident that it is **concentrated in the North** of the country, which alone invests almost 70% of AUM (€364B). Differently, the **Centre** invests just over 18% (€94.5B), the **South** remains at nearly 8% (€40.5B), and the **Islands**, at just over 4% (€21.5B)[89].

Exhibit 20: Distribution of AUM (volume) in Italy



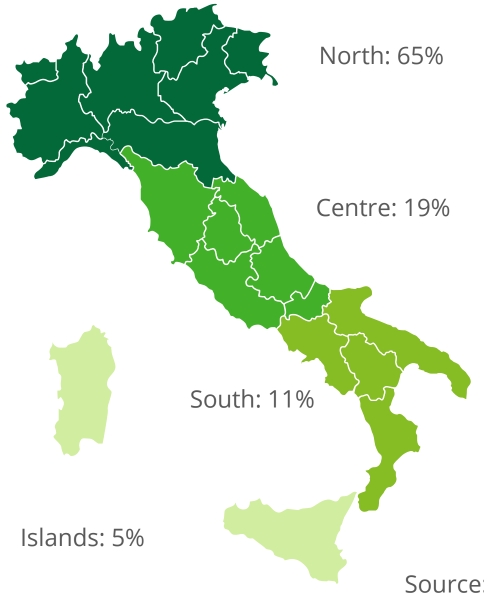
Source: Assogestioni

To provide a complete framework of the Italian situation, it is best to analyse the **participation rate**, referring to the percentage of subscribers in relation to the resident population. The national average is **20%,** yet there are **significant variations between the regions**. In particular, the regions with the highest participation rate are Emilia-Romagna (30.8%), Lombardy (28.4%), Piedmont (27.9%) and Liguria (26%).

86 MedioBanca SGR
87 Assogestioni
88 Il Post
89 Assogestioni

In general, it appears that **65%** of funds subscribers reside in Northern Italy, 19% in the Central regions, 11% in the South and 5% in the Islands[90].

Exhibit 21: Distribution of subscribers in Italian regions



Source: Assogestioni

The Assogestioni Subscriber Observatory attempts to provide an interpretation of these trends, according to which the difference in the distribution of AUM depends on the one hand on **the difference in income between the regions of the North and those of the South** and, on the other one, on a **different density of distribution channels**. In fact, 2023 data explains how, for example, bank branches are concentrated above all in the North (40% of national branches are found only in Lombardy, Veneto, and Emilia-Romagna), while the number of branches in the Southern regions and on the Islands amounts overall to 22% of the national total[91].

The main reason lies in the **digitalisation of banking services**, which leads to cutting costs at branches throughout Italy, but especially in the North. Also, due to the lower savings to be allocated in the South and the lower incomes of the population, the branches in the North have higher revenues, and therefore, the branches in the South are more readily closed.

An element of restraint on investments in the South could depend on the **disparity** in **financial literacy**. In fact, in the North, there is a greater knowledge of financial matters among the population, leading to a greater propensity to invest[92].

Furthermore, there is another reason for the different distribution of AUM between the Italian regions. In **Southern Italy,** assets such as **deposits** and other liquid instruments, like postal savings, are preferred, At the end of September 2023, according to data published by Fabi (Autonomous Federation of Italian Bankers), **national liquidity** amounted to €1,572B, representing approximately one-third of Italians' financial wealth, which stood at €5,216B[93]. This data changes considerably between the Italian regions. In Lombardy, for example, this share in 2019 (latest available data[94]) did not exceed 25%, while in the southern regions, it

[90] Assogestioni
[91] Il Sole 24 Ore
[92] Banca d'Italia
[93] Banca Generali
[94] Focus Risparmio

even reached 50%, to the detriment of AM solutions. One of the reasons why investors in Southern Italy have more liquidity, compared to central-southern savers, is that they appear **more risk averse** and, consequently, less inclined to invest in riskier instruments or be exposed to mark-to-market.

In the future, the industry will have to develop **supply adaptation** to try to reduce this gap. A first step could be PACs, (Capital Accumulation Plans) suitable for individual savers, who tend to be less financially educated than professional savers. PACs are very widespread in Southern Italy, as they allow you to invest even without a large initial capital, emotionally facing the mark to market gradually.

DEMAND ANALYSIS

DEMAND SEGMENTATION

The Italian asset management panorama comprises of a diverse array of clients, categorised by the European legislation (MiFiD), depending on their financial expertise, into three investor classes: **eligible counterparties, professional investors, and retail investors**. Each category is subject to specific regulatory guidelines and tailored levels of protection.

Eligible counterparties include **institutions** with extensive investment knowledge, less regulatory protection, and greater autonomy, offering financial intermediation services like order reception and transmission, proprietary trading, or order execution. Examples would include financial institutions, insurers, pension funds, and governments. Professional investors are distinguished by their ability of making **sound investment decisions** and assessing **risks**, as well as lower regulatory protection. The third class, namely retail investors, represents entities with the **least amount of expertise** relative to the former two categories; they are mainly divided into households and High Net Worth individuals[95].

To simplify the analysis, we divide the Italian clients into two macro-categories: retail clients and institutional investors.

RETAIL CLIENTS

Retail clients can be further segmented into **two subcategories** – Not High Net Worth Individuals (**NHNWI**), individuals who own assets worth less than $1M[96], and High Net Worth Individuals (**HNWI**), who own assets valued above $1M[97].

CONSOB's 2022 Report on Italian Household Investment Choices Survey focuses on the responses of 1,436 investors – people who are the primary income earners in their family and hold at least one financial asset (excluding current accounts, insurance, and pension products). That representative sample didn't include bank employees, insurance company employees, and financial advisors, and it can be considered an accurate representation of **Italian retail investors' population**.

Among retail investors surveyed, **80% are male**. Individuals in the age range of 45-54 represent 32% of the investors surveyed, the two ages 35-44 and 55-64 represent 22% of investors each, the range of people above 65 represents 17%, while the youngest investors with ages 18-34 only account for 6%[98].

In 2022, Assogestioni released a report on **mutual fund holders** in Italy. According to this data, 41% of subscribers belong to the Boomer generation (60-78 years old), 28% to

[95] MiFid
[96] Hereinafter "Million" will be abbreviated as "M"
[97] Investopedia
[98] CONSOB Report on financial Investments of Italian households

Generation X (44-59), and 18.5% to older (79+) generations, while the Millennials (28-43) and Generation Z (younger than 27) account for 13%. Overall, the average age of subscribers is **61 years**. Examining the distribution of AUM, 47% of the funds' managed assets are held by Boomers, 25% by the elderly, and the remaining 28% by younger individuals. Lastly, men make up 53% of mutual fund subscribers, holding 55% of the total investment; the remaining portion is attributed to women[99].

THE DEMAND FOR FINANCIAL INTERMEDIARIES

The current demand for financial advice among retail clients is low – **only 26% of investors claim to use it**. Instead, 24% self-manage their investments, and 45% rely on informal advice from friends, family, colleagues, etc. This is caused by multiple reasons: a lot of household investors believe that **professional help** is **unnecessary** when dealing with small sums of money (29% of the cases), when investing in simple financial instruments (23%), when the advice is too expensive (26%), or when they distrust financial institutions (19%). Furthermore, 57% of retail clients are just **unwilling to pay** for the service. It is also likely caused by the fact that Italian investors are unfamiliar with the help provided by financial intermediaries – only 51% of interviewees declare to be familiar with the notion of financial advice[100].

Understanding the behaviour of investors, especially those not currently using financial advice, can help asset managers tailor their services and market strategies to **attract a broader client base** that was previously underserved. This is crucial in a competitive market where differentiation and client acquisition are key to growth. By demonstrating an understanding and concern for the wider investing public's needs, asset managers can also improve their reputation and brand perception.

SAVINGS

Savings are defined as income that remains available after expenses are deducted. Households have different preferences on how to store their savings, some of which are cash and deposits, but they could also be invested in mutual funds and other financial assets.

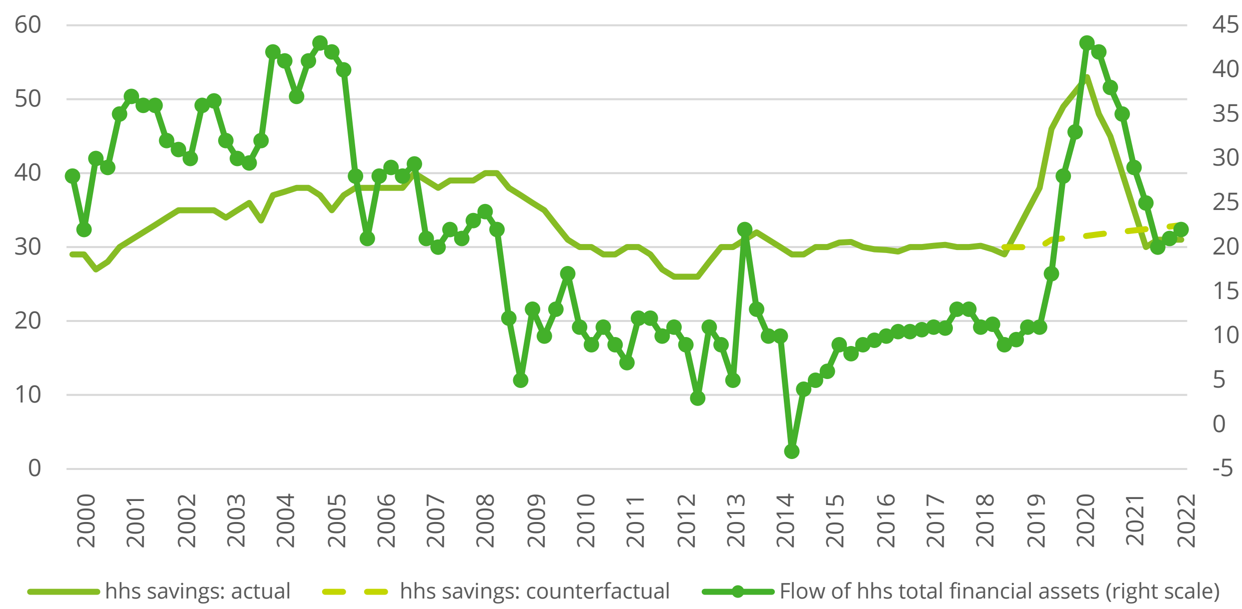
According to the CONSOB's report on financial investments of Italian households from 2022, 45% of investors state securing money in case they face unexpected needs as a main reason for saving, while 31% set money aside for retirement. Other reasons include saving to enjoy life, for the family, or buying a house. Around **44%** of individuals try to **occasionally save** at least some portion of their income, and **36% save regularly**[101].

[99] Assogestioni
[100] CONSOB
[101] CONSOB

The **COVID-19 pandemic** brought an unexpected and significant **drop** in **Italian household consumption**, largely because of lockdown restrictions. Due to the closure of most businesses as well as travel regulations, people's non-essential spending was highly limited. This led to a sharp increase in the propensity to save and the substantial accumulation of financial resources. As a result, during the first wave of COVID-19, the savings rate in Italy more than doubled to 20%[102].

The dramatic surge in savings observed during 2020 and 2021 led many scholars and institutions to speak about "excess savings", broadly defined as the difference between observed savings and a counterfactual scenario where savings are assumed to evolve according to historical regularities. One of the ways the savings gathered during the pandemic were utilised was by acquiring financial assets. In fact, between 2020 and 2022 around **€130B** (11% of annual household disposable income, 2.5% of households' stock of financial assets) **were invested into financial assets** by retail clients, as stated by the Banca D'Italia report[103]. As Italian households' savings increased dramatically in 2020-2021, **investments in financial assets increased** as well.

Exhibit 22: Italian households' savings and financial activities in €B



Source: Banca d'Italia

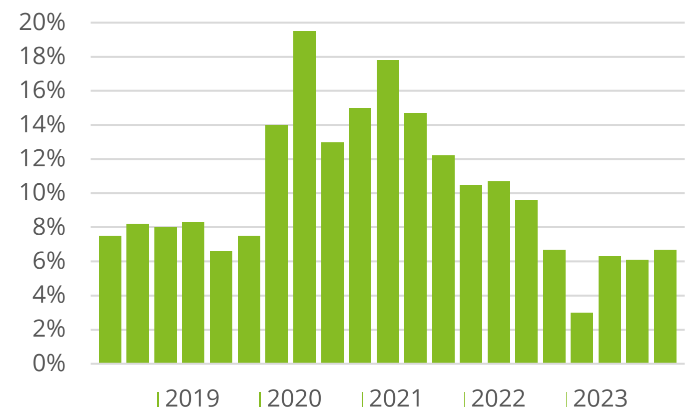
Although poorer households were able to retain some of their income as well, most of the accumulated excess savings (more than 60%) were held by the **highest-income quintile**. Intuitively, affluent households are the ones that spend a higher proportion of their income

102 TradingEconomics

103 Banca D'Italia

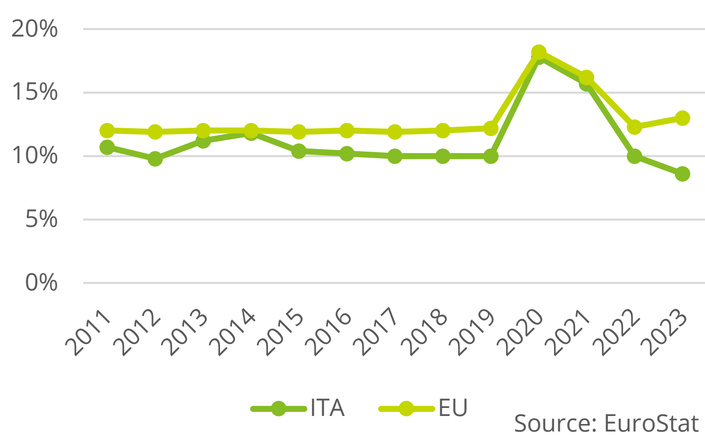
on non-essential consumption (e.g. eating out, taking vacations abroad, shopping, etc.), and for this reason, their financial behaviour was more affected by the COVID-19 regulations[104].

Exhibit 23: Personal savings rate in Italy



Source: Tradingeconomics.com | ISTAT

Exhibit 24: Household savings rate in %



Source: EuroStat

As the lockdown restrictions were being eased, the **consumption rates** started to return to their pre-pandemic level. Ever since the summer of 2021, the savings rate has been steadily declining, going back to its 2019 rate (around 10%) at the beginning of 2023. During this process, a plunge in the saving rate was recorded in the second part of 2022, most likely due to the general increase in prices[105].

The data presented on the left suggests that **Italians exhibit a strong propensity to save,** even though the national savings level falls **below the European Union average**. However, currently, cash and bank deposits are still the most popular way to allocate savings. Therefore, it may limit the potential growth of the asset management market: although Italian retail clients are used to saving part of their money, **they do not use all these financial resources to invest**[106].

REASONS FOR INVESTING

Understanding why Italian investors choose to **enter the market** is crucial. 39% of Italian investors would identify capital protection as their financial goal, 27% followed by capital growth, and 18% would want to generate periodic income[107].

Among those surveyed, 70% are satisfied with their current financial situation and are likely to want to sustain the same level of income after retirement through investment. When it

104 Banca D'Italia
105 TradingEconomics
106 EuroStat
107 CONSOB

comes to time preferences, more than 2/3 of Italian Investors have **short to medium-term investment goals**[108].

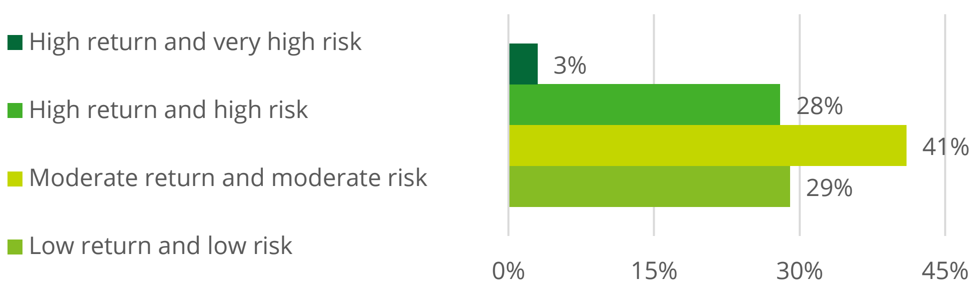
Generally, when people have more savings, they are more **willing to invest** a portion of that money into the financial market. In fact, during the COVID-19 pandemic (2020-2022), 23% of the investors surveyed reported purchasing financial assets for the first time (thus becoming new investors), which is correlated with the increased savings rate observed during that period[109].

RISK AVERSION

Risk aversion of investors is one of the most important concepts when it comes to understanding the mechanisms of the financial markets. On the one hand, **HNWI** are more likely to divide their assets between risky investments, such as innovative start-ups, and very stable investments, like real estate, to ensure steady and secure returns. On the other hand, risk aversion is **negatively correlated** with income, financial wealth, and financial satisfaction, whereas the relationship is positive regarding financial anxiety and difficulty in saving for long-term goals. In fact, in 2022, 70% of retail clients, most of whom are NHWI, prefer investments offering low returns with low or moderate risks (increasing from 65% in 2019), highlighting their risk aversion. This showcases that, overall, **Italians are risk-averse investors**. Still, more than 60% of retail clients are prone to mental accounting: willing to take high risk on a small portion of their investments[110].

Some external factors, like geopolitical instability, rising interest rates, and inflation can create an **environment of uncertainty and caution, increasing the risk aversion of Italian Investors.** It causes investors to reconsider their strategies, **shifting their focus to safer assets** and reducing their appetite for risk[111].

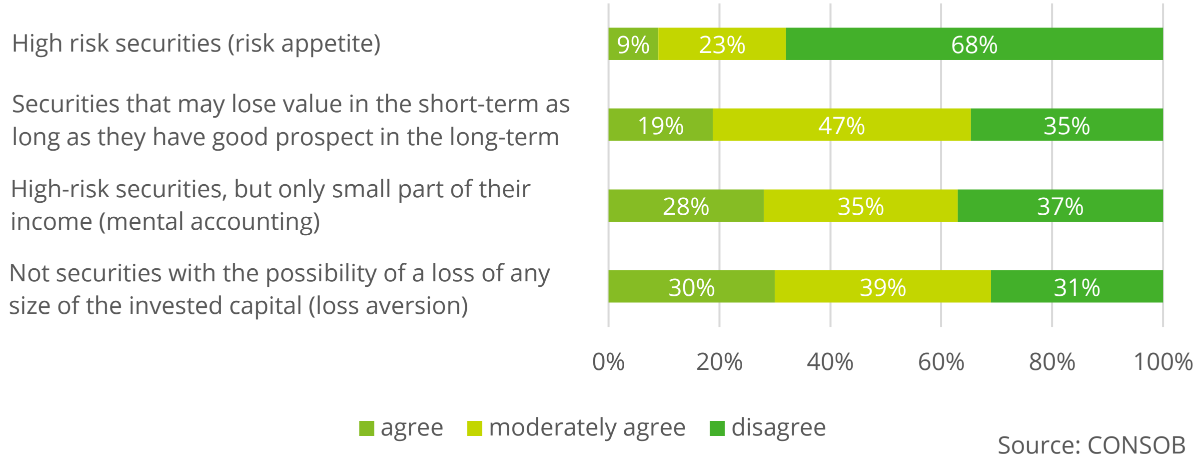
Exhibit 25: Retail investors are more oriented towards investments with...



Source: CONSOB

[108] CONSOB
[109] CONSOB
[110] CONSOB
[111] BplanNow

Exhibit 26: Italian investors would prefer...

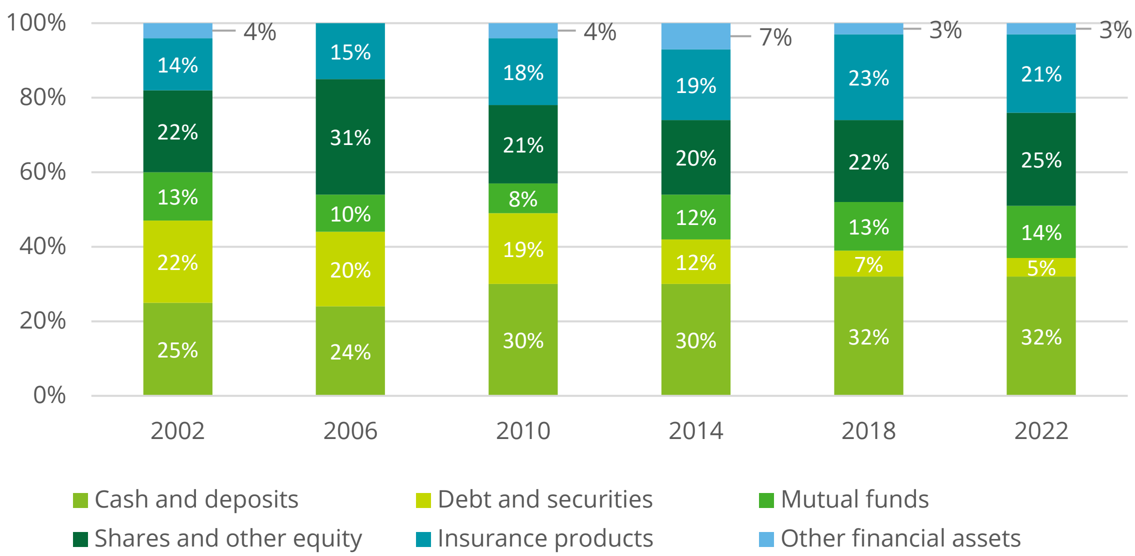


Source: CONSOB

INVESTMENT CHOICES

Looking at the allocation of the total financial assets held by Italian retail clients, it can be stated that cash and bank deposits represent the biggest share, **increasing from 20% to over 30% in the last 20 years**[112].

Exhibit 27: Investment choices



Source: Bank of Italy, Financial accounts

Debt securities are becoming less popular, with their share decreasing from almost 20% to around 5% from 2000 to 2022. **Mutual funds** remained at the share level of around 13-15%

[112] Banca D'Italia

throughout the last two decades due to the diversified and professionally managed portfolios that they provide. Moreover, mutual funds are known for their liquidity, minimal investment requirements, and professional managers running them. However, **commission fees** in mutual funds can be high, which could discourage some clients from investing[113].

The second preference refers to **shares and other equity**, reaching almost 25% in 2022. The main reasons why individuals prefer higher liquidity savings can be split into multiple categories. Firstly, Italian investors want to ensure they have enough cash for their everyday needs and financial obligations. Secondly, more liquid assets can provide more confidence – individuals will have enough cash to cover some unexpected needs if they occur. In fact, 45% of savers state that **being able to face unexpected events** is the **main reason they save**, hence, the need for liquidity and security[114].

Moreover, the proportion of **insurance products** in the total financial assets started increasing in 2010 and reached its peak of 25% share in 2018, going down to 18% in 2022[115]. This change could be caused by the implementation of the **Insurance Distribution Directive** in 2018, which introduced tougher penalties and a more stringent sanction framework to reinforce adherence, aimed at bolstering consumer protection and influencing the development, sale, and management of insurance products[116].

Looking into the **distribution of asset holdings**, half of the retail investors held at least bank or postal savings in 2022. 29% of households invested in at least one mutual fund and 18% in at least one Italian Government bond that year. Government backing of bonds makes them a low-risk and steady growth investment, which is a perfect option for regular households. Among other types of assets, **bonds** offer the highest and most stable cash streams[117]. Moreover, 16% and 15% held at least one portfolio management asset and insurance product, respectively. Other popular types of assets owned by Italian investors include ownership of listed shares, as 13% of retail clients own at least one financial asset of this category, bank bonds (11%), and foreign securities (8%)[118].

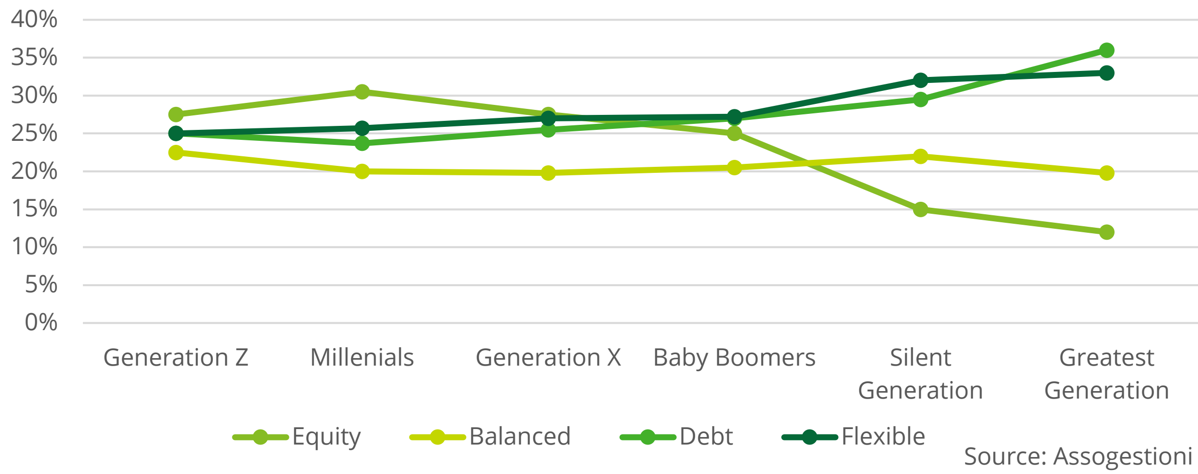
Generally, most retail clients do not diversify their portfolio, apart from purchasing already diversified mutual funds: **81% of households hold at most two financial products**[119].

As can be anticipated, asset allocation choices change according to different parameters, such as experience, time horizon, investment goals, and financial knowledge. For example, an older person reaching his or hers 40s is more likely to have some capital available for investment, compared to a 20-year-old university student. Because of the same reasons, HNWIs have more money that can be put into investments and, hence, **are more likely to**

113 Banca D'Italia
114 Banca D'Italia
115 Banca D'Italia
116 IVASS
117 The Balance
118 CONSOB
119 CONSOB

have more diversified portfolios, compared to regular households. Moreover, there is a **negative correlation** between the weight of the equity component in the portfolio and age, along with a positive correlation between age and the bond and flexible components[120].

Exhibit 28: Fund allocation by age



Source: Assogestioni

FINANCIAL LITERACY

Financial background and education are also important factors that should be considered in the analysis of the Italian asset management industry. In fact, the degree of financial literacy affects one's autonomy in managing assets and increases the need for financial advisors to compensate for a lack of financial knowledge. For these reasons, **Italy's financial literacy rate of 37%**, the **lowest among the G7 countries**, significantly drives the demand for financial advisors. In fact, in 2022, 57% of Italian investors required support from a financial advisor for their investment decisions, well above the EU average of 45%[121].

In 2023, BVA Doxa, in collaboration with the Italian Financial Education Committee, analysed the level of financial education of Italian retail clients by surveying a sample of 5,000 Italians with three questions on the topic of financial knowledge (interest rates, risk diversification, inflation). One-third of the sample are aware of all the basic financial notions. The country's population is most familiar with the concept of interest rates, with 71% of people being able to correctly answer the question about it. Risk diversification seems to be the most complex of financial concepts, with only 64% of people being able to provide a correct answer. The percentage of people who answered **all three questions correctly** is only **44%.** This

[120] Assogestioni
[121] Deloitte

indicates that less than half of the sample demonstrated a comprehensive understanding of the basic financial concepts tested in the survey[122].

Financial literacy is the lowest among **younger individuals** (less than 35 years old), with only 31% of those surveyed answering all questions correctly. This number increases with age, reaching the highest of 54% for the oldest group (age higher than 65 years). There is a notable **age gap** in the knowledge of inflation, with 74% of older individuals demonstrating significantly higher levels of understanding by answering the question about inflation correctly, likely due to their experience with high inflation in the 1970s, compared to the 49% among younger individuals[123].

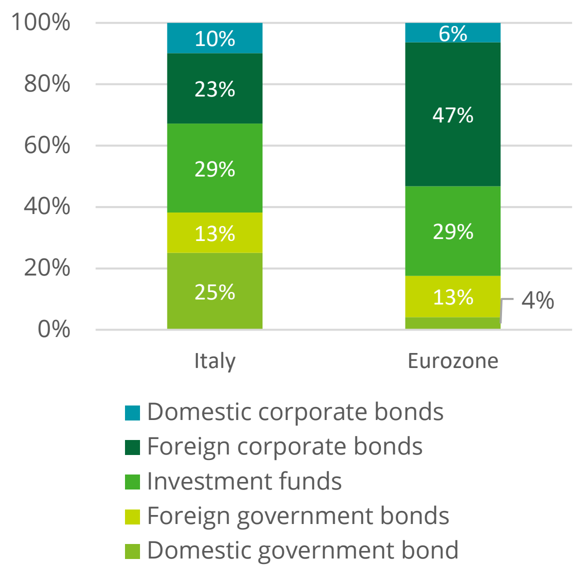
As it can be anticipated, **more educated individuals make more informed financial decisions** whether it comes to managing their assets or budgeting debit or credit card payments. Only 18% of master's graduates or higher educated individuals were unable to provide at least one correct answer, compared to 37% for those who haven't graduated high school[124].

Moreover, there is a **persistent gender gap in financial knowledge**, with women generally scoring lower on financial literacy assessments (37% of surveyed females answered all the questions correctly) compared to men (48% of males providing all correct answers)[125]. This can be explained by the fact that women in Italy are not as involved in the market due to a lack of disposable income[126]. Only **55% of females are actively involved in the labour force**, one of the lowest rankings for the European Union female employment, which prevents them from accumulating disposable income[127].

[122] Financial Literacy and Financial resilience: Evidence from Italy
[123] Financial Literacy and Financial resilience: Evidence from Italy
[124] Financial Literacy and Financial resilience
[125] Financial Literacy and Financial resilience
[126] N26
[127] ANSA

INSTITUTIONAL INVESTORS

Exhibit 29: Main financial assets held by institutional investors in 2022



Source: ECB

The Italian asset management market saw a decline in the market share for institutional investors in 2022 due to several macroeconomic factors. Increased interest rates to fight inflation, poor financial market performance, and geopolitical strains reduced net inflows for Italian institutional investors from **€72B to €34B.** These events also caused a contraction of the value of assets held, **declining from €1,830B to €1,720B**. Moreover, the restrictive monetary policy carried out by the ECB has influenced portfolio allocation decisions. Due to the higher uncertainty and a lack of forward guidance indications by the President of the European Central Bank, Christine Lagarde, institutional clients decided to **reduce the average duration of bonds held** to decrease their exposure to interest rate risk. Furthermore, as in previous years, Italian institutional investors increased the portion of domestic corporate bonds and foreign government bonds at the expense of Italian government bonds, **which decreased from 29% to 25%,** to align their asset allocation more closely with that of European institutional investors, enhancing diversification and mitigating portfolio country risk**.** The rest of the portfolio consists of 29% investment funds, 22.9% securities issued by foreign companies, 13.1% foreign government securities, and 9.9% securities issued by domestic companies[128].

The primary distinction between Italian and European institutional investors is the geographic allocation of assets. In Italy, there is a growing emphasis within this sector on matters concerning investment in the country's system; bonds issued by domestic entities constitute a larger portion of the portfolio compared to foreign financial instruments. However, a common trait of both Italian and Euro area investors is the allocation of around **30% of assets in shares of investment funds**; in this way, institutional investors entrust a certain amount of the funds raised to external asset managers[129].

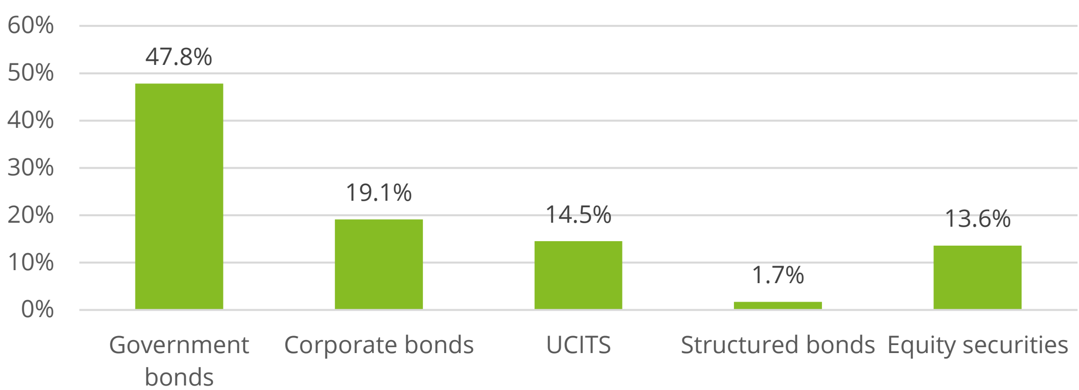
[128] Dati Grafici Relazione
[129] Banca D'Italia

INSURANCE COMPANIES

Insurance companies specialise in **managing client risk**. Indeed, for their services, they receive **risk premia** that are then reinvested to obtain a return. In 2022, the insurance sector reported a contraction in premia for life insurance policies **(-11.1%)** because of policyholders reallocating their portfolios in search of more profitable investments compared to insurance financial products. The lower profitability of insurance companies could be attributed to their **reluctance to take on liquidity and interest rate risk**, as well as their desire to surpass solvency standards. In fact, these institutions **hold equity for 2.5 times the solvency requirement**, allocating a significant portion of capital towards creating reserves to mitigate potential economic losses rather than pursuing riskier yet more profitable opportunities[130].

In 2022, the investments of insurance companies, excluding assets for index-linked, related to indexes or other benchmarks and unit-linked contracts, related to shares of UCITS, amounted to **€677.3B**: 47.8% were in government bonds, and 33.6% were in corporate bonds and shares of UCITS. The main financial assets were government bonds, the majority of them being Italian government bonds; indeed, they represented a liquid financial instrument that can be used by insurance companies to keep control of their financial equilibrium in case of unexpected outflows. To avoid any risk related to a lack of liquidity, these institutions **mainly look for safer investments that can be sold easily and with low transaction costs** to be able to consistently respect the obligations towards their policyholders. Since the business cycle of insurance companies is reversed - premia are paid before the payments for losses are made – and their obligations are long-term and partially unpredictable, they require a stable and secure source of funds. This results in a trend of risk aversion, showcased by the **large investments in fixed income**[131].

Exhibit 30: Main insurance companies investments in 2022 by asset type

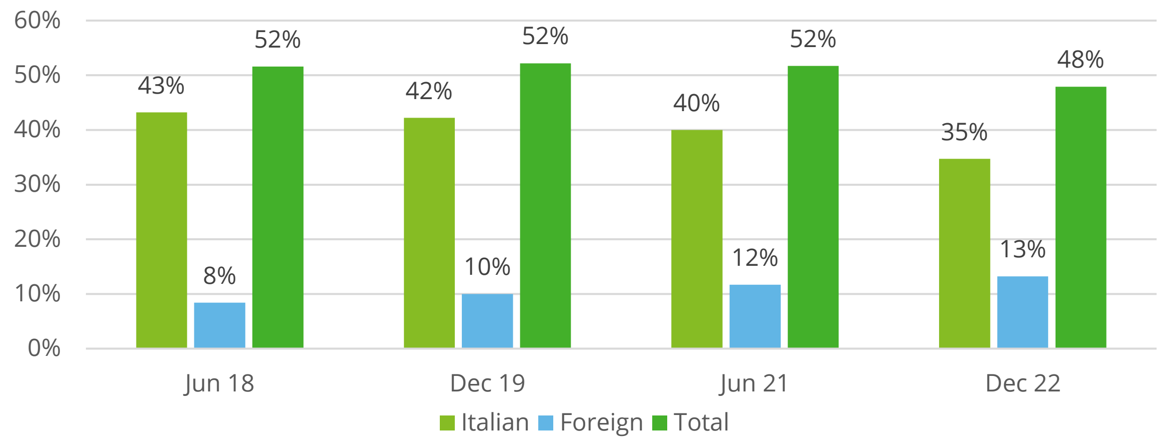


Source: IVASS

[130] IVASS
[131] IVASS

Over the past few years, the percentage of investments in **government securities** as a share of total investments has gradually decreased, although remaining the main asset class in insurance companies' portfolio, with an absolute value of **€324B in 2022**. Similarly, the proportion of Italian government securities in total investments has decreased to 34.7% in favour of foreign government securities, which have steadily grown, surpassing **€90B** in value[132].

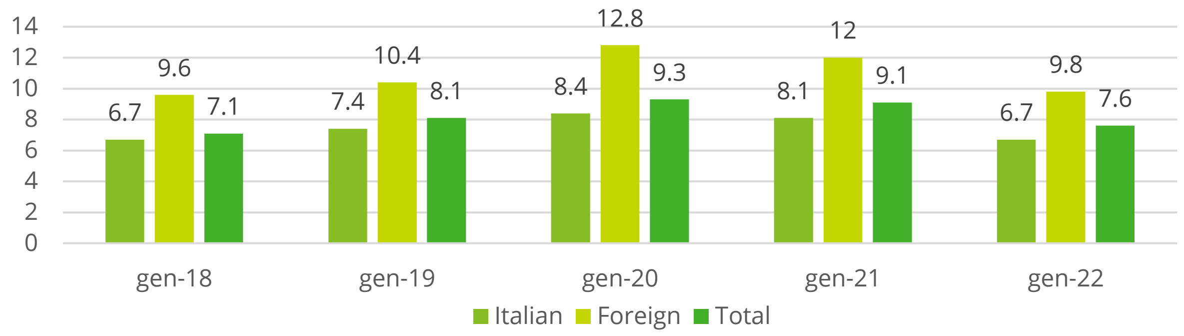
Exhibit 31: Percentage of government bonds out of total investments (excluding index and unit linked contracts)



Source: Ania

The average **financial duration** of the insurance portfolio in government securities has decreased over the past two years to a value of **7.6** years, 6.7 years for Italian government securities, and **9.8** years for foreign ones[133].

Exhibit 32: Average duration of Governmental bonds in portfolio



Source: Ania

[132] Ania
[133] Ania

Regarding the composition of bond holdings based on the associated credit rating class, there is a **significant prevalence of bonds rated BBB**, especially in the case of government bonds. In fact, insurance companies aim at maximising returns on their investments by leveraging BBB bonds, which, being riskier but still meeting regulatory requirements, offer **higher yields** compared to higher-rated bonds[134].

Goldman Sachs Asset Management's Global Insurance Survey[135] focuses on studying the preferred asset classes and strategies adopted by insurance companies in 2023. This survey gathered opinions from 343 financial and investment directors of insurance companies managing **$13T in assets globally**.

From the results, it emerges that, like global trends, the increase in yield opportunities is the **primary driver behind the asset allocation decisions** of European insurers; these insurers are also heavily inclined towards fixed-income investments in both private and public markets. In line with market forecasts predicting a decline in interest rates by 2024, after substantial increases in 2022, 35% of respondents plan to significantly increase exposure to duration, showing interest in long-duration assets in the Eurozone as well as globally[136].

Resource allocation will not only expand in bonds but also in private markets, particularly in corporate private debt, following the intent of **40%** of respondents to **increase credit risk** in their portfolios. Additionally, investment decisions will be strongly influenced by sustainability themes and ESG (Environmental, Social, and Governance) factors: approximately **70%** of respondents aim to **increase allocation to green and impact bonds**.

PENSION FUNDS

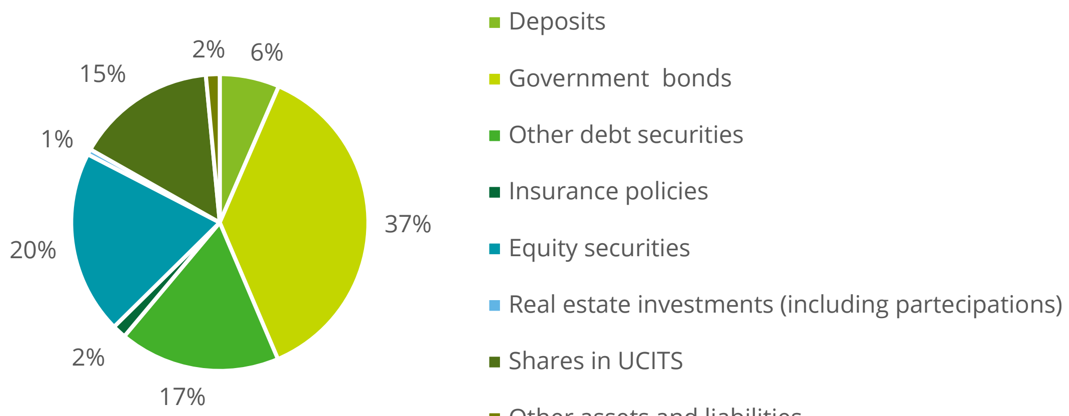
Pension funds are institutions that aim at accumulating long-term savings for **participants' retirement**. Individuals regularly contribute to pension funds during their working lives and, in return, receive an income stream once they reach retirement age. The participants' contributions are invested in a variety of assets to generate sufficient returns to cover future obligations.

In 2022, out of the total of **€205.6B** allocated to **social security benefits**, the actual investments attributable to Italian pension funds amounted to **€170B.** Government bonds and other debt securities make up 54.6% of total assets: 15.4% were Italian government bonds, 21.7% were bonds from other states, and 17.5% were debt securities issued by entities other than states. Shares of UCITS represented 15.3% and equity securities constituted 20%; in detail, of all the types of pension funds, the equity exposure, calculated including equity securities held in OICR and positions in derivative instruments, represented 26.4% of the total assets. Only a small portion of assets was allocated to real estate

134 IVASS
135 Goldman Sachs Survey
136 24 World Europe

investment, €3.2B, with €900M in direct investments and the rest consisting of stakes in real estate companies and shares in real estate funds[137].

Exhibit 33: Composition of investments in 2022



Source: COVIP

Unlike insurance companies, pension funds hold a smaller share, albeit **over 50%** of the portfolio in 2022, **of highly liquid assets** such as government bonds and corporate bonds. This is due to **the greater stability of the collected resources**; more specifically, contributions provided by citizens to pension funds are characterised by very limited mobilization. These deposited funds can be redeemed before retirement age only in certain specific cases such as unemployment for more than two years or disability. Consequently, due to their stable funding, pension funds can opt for less liquid but more profitable investments, while still maintaining an appropriate financial equilibrium.

When it comes to risk aversion, due to the higher stability of contributions, pension funds do not have to maintain high levels of liquidity, hence are **not as risk averse** as insurance companies. To secure steadiness and predictability in returns, their strategies involve using market indexes as benchmarks and adopting a thoughtful approach to handling financial market risks **within target date funds**, ETFs, or mutual funds that gradually rebalance and reallocate assets as they get closer to retirement. The level of risk aversion depends on the type of pension fund; Italian equity pension funds, favoured by younger members, tend to be **more prone to risky investments** as their clients are still far from the retirement age and have a long time before receiving financial loss compensation[138].

A recent 2024 Asset Management's European Pension Survey from Goldman Sachs pooled 126 senior managers and executives of defined benefit pension funds based in Europe on the investment policies they intend to implement. Survey participants expect **investment grade debt and private credit to be the asset classes that will generate the highest**

[137] COVIP
[138] Network analysis of pension funds' investments

returns. In fact, nine out of ten managers plan to increase or maintain their allocations of these asset classes, at the expense of more volatile exposures such as equities[139].

Moreover, European pension funds believe that geopolitical tensions and political events are the most relevant risks to their portfolios in the upcoming year. Another factor influencing decision-making processes is investment sustainability: **87%** of respondents incorporate it as a critical or important factor in their choices, and almost two-thirds (**63%**) allocate more than 10% of their portfolio to sustainable investments, especially in instruments such as developed market equities and investment grade. In 2022, ESMA released a set of guidelines, which were updated in 2023, on the classification of "sustainable investments"; raising the threshold of investments aligned with ESG principles to 80% and excluding those in companies engaged in prohibited activities. In addition, most respondents (84%) believe that **integrating ESG criteria into investment decisions can help reduce long-term risks**[140].

Another characteristic of European pension funds is the **contracting out of portfolio management** to external asset managers, particularly with a focus on ESG considerations and a preference for managers committed to sustainable investment policies. This phenomenon is driven by the presence of more complex compliance requirements, which are delegated to external managers, as well as the escalation of reputational risks and the rising impact of stakeholders, all of which are tackled through relationships with external ESG-focused managers. In support of European pension funds relying on the delegation of asset management, the survey highlights how seven out of ten managers outsource some or all their portfolio.

[139] Goldman Sachs Survey
[140] ESMA

ESG IMPACT

INTRODUCTION

INVESTMENT TRIANGLE AND ESG

The **investment triangle** is a concept used to define the three primary factors considered when choosing an investment strategy. The triangle's vertices represent the crucial factors affecting investors' decisions: risk, return, and liquidity. These three considerations are highly interdependent, implying that prioritising one goal generally comes at the expense of the other two. In the past years, Environmental, Social, and Governance (ESG factors) have become another important factor affecting investors' choices, as clients want to invest their money into something useful and ethical. This has led to the **investment triangle gaining a fourth edge of sustainability and expanding into a square**.

Sustainable investing is a range of practices through which investors aim to achieve financial returns while promoting long-term environmental, social, and governance values. Combining traditional investment approaches with environmental, social, and corporate governance (ESG) insights has led investors to generate more comprehensive analyses and make better investment decisions.

ESG refers to a set of factors used to determine the long-term sustainability of various investments. These are classified into:

- **Environmental** factors include the effects of climate change, carbon emissions, water pollution, waste, and deforestation.
- **Social** elements refer to relevant issues such as human rights, labour standards, and civil community relations.
- **Governance** aspects include factors such as corporate structure, board composition, business ethics, and anti-corruption efforts.

Data from Assogestioni from 2021 shows that most Italian households believe that investing responsibly means, above all, protecting the environment: among ESG factors, 52.1% of investors cite the **environmental criteria as the most important**, 26.2% mention the social one, and 21.7% believe that governance is the most important element[141]. Moreover, Opinium's survey of 300 asset managers worldwide illustrates that financial specialists agree with non-professionals: the environment is the most important ESG factor, as 75% of the respondents believe it should be prioritised over the other two[142].

Data from Assogestioni and IIA highlights a divergence in **ESG priorities**: 75% of global asset managers focus primarily on environmental factors, whereas 47.7% of Italian household investors consider social and governance factors equally important. This indicates that while asset managers position their funds with an environmental emphasis, household investors take a more holistic approach to ESG, valuing a broader range of criteria.

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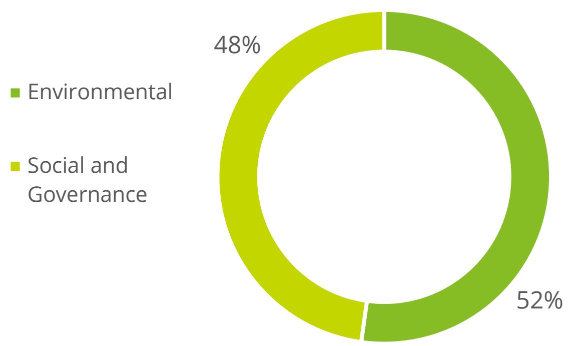
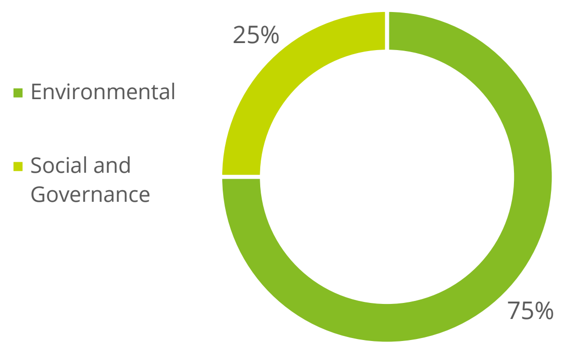
141 Assogestioni
142 IIA

Exhibit 34: Most important ESG factor for Italian Household Investors



Source: Assogestioni

Exhibit 35: Most important ESG factor for Global Asset Managers

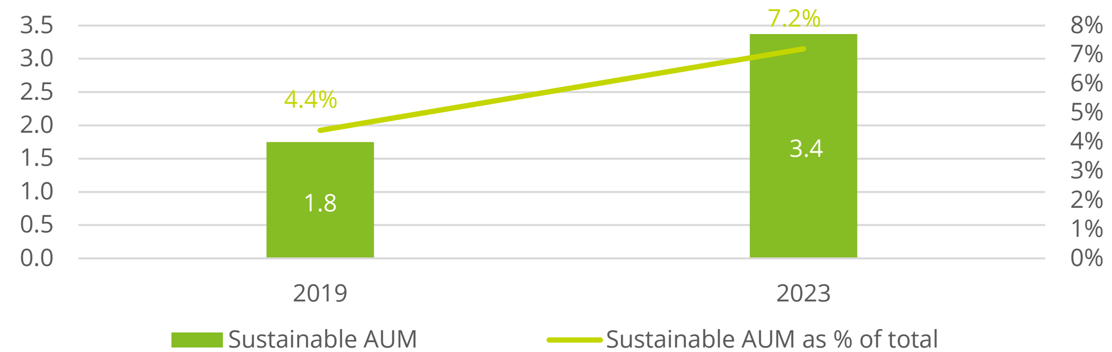


Source: IIA

SUSTAINABLE FUNDS IN NUMBERS

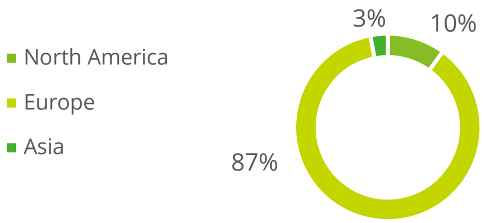
The growing importance of ESG factors has led to an increase in the volume of ESG financial products. Sustainable funds aim to generate long-term financial returns while promoting positive societal and environmental impacts. According to the Morgan Stanley Sustainability Reality Report from 2023, sustainable funds' AUM at the global level increased **from $1.8T in 2019 to $3.4T by the end of 2023**, representing 7.2% of the total managed funds. It is important to highlight that the value of sustainable funds declined to roughly $2.8T as for December 2022. The decline followed the general decreasing net inflows trend for total AUM in 2022 and was caused by mixed expectations and inflation.

Exhibit 36: Global Sustainable AUM in trillion $



Source: Morgan Stanley

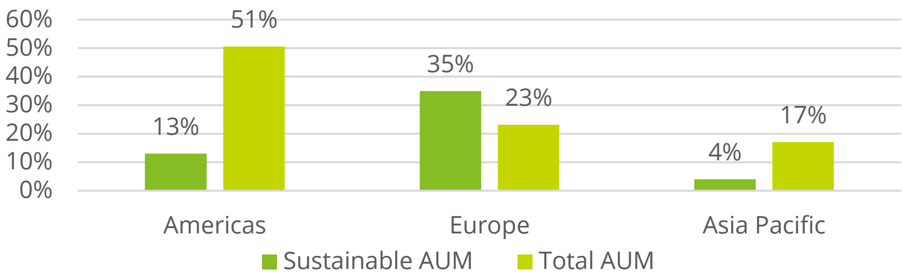
Exhibit 37: Sustainable AUM/fund domicile's region



Source: Morgan Stanley

The geographical fund domicile shows that **most sustainable funds - 87% of them - are registered in Europe**. The remaining 13% is partitioned in North America (10%), Asia (3%), and the rest of the world. Whereas, regarding **investment areas**, sustainable AUM is mainly invested globally (42%) or in Europe (35%)[143].

Exhibit 38: Sustainable vs Total AUM by Investment Area



Source: Morgan Stanley, Statista

There are three reasons why **sustainable investing** in Europe is way more established than in the rest of the world:

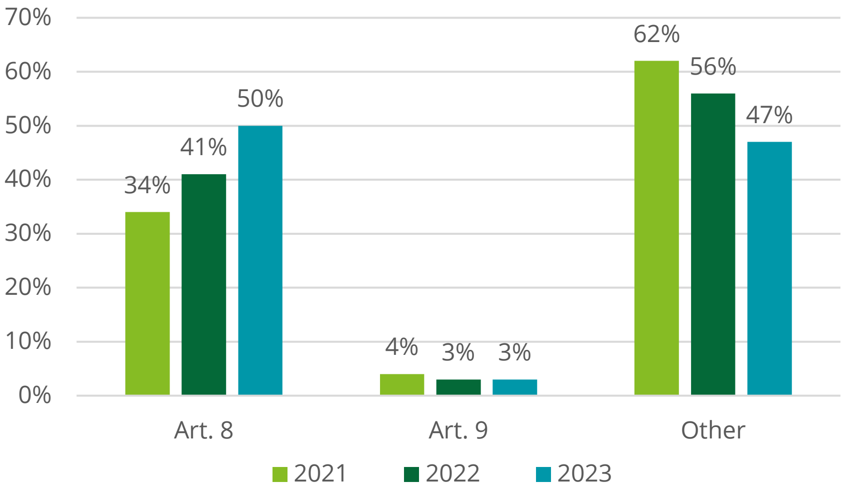
- Firstly, this is attributable to the **increased attention of European authorities** towards the market, evidenced by the recent surge in newly enacted regulations.
- Secondly, more European investors state that ESG is central to their investment approach - 31% in Europe compared to 18% in North America, and 22% in Asia-Pacific. **Europe also demonstrates the highest percentage of investors adopting a sustainable approach** - 93% compared to 79% in North America and 88% in the Asia-Pacific region. This disparity reflects the more developed European ESG market and regulatory framework. Conversely, the North American region exhibits the least confidence in ESG and the lowest percentage of ESG users[144].
- Thirdly, investor demand for ESG in Europe is also higher, largely driven by public pension funds. According to a 2023 LSEG report[145], **73% of European pension schemes identified climate change as an investment priority**, compared to 53% of U.S. schemes.

The growth trend also applies to **Italy**, where the sustainable funds market reached **€553B in AUM** at the end of 2023. This data shows that the **sustainable funds market in Italy is aligned with the European one, being significantly more established** than in the rest of

143 Morgan Stanley
144 CapitalGroup
145 LSEG

the world. Among the Italian sustainable funds, the majority are classified as **Article 8** under the Sustainable Finance Disclosure Regulation (SFDR). These funds promote environmental or social characteristics but do not have sustainability as their primary objective. **Article 9** funds constitute sustainability as their main objective, specifically designed to achieve sustainable investment goals. Recently, Article 8 funds in Italy have experienced **significant growth** at the expense of conventional funds, increasing their share of AUM from 34% in 2021 to 50% in 2023. In contrast, the distribution of Article 9 funds has remained relatively stable in recent years[146].

Exhibit 39: AUM distribution in Italy by level of sustainability



Source: Assogestioni

Over time, sustainable funds started becoming **more popular** among investors. In Italy, the net inflows for sustainable funds in the past years have been higher than the net inflows for general funds. However, this **relationship weakened** in 2023, a year marked by widespread outflows, where flows toward sustainable funds declined more sharply than those for conventional ones. This behaviour could indicate that the sustainable funds' industry has reached maturity, where abnormally high inflows experienced in the past are no longer expected[147].

THE DRIVERS

The 2020 CONSOB survey, which involved 20 national and international asset managers in Italy, revealed a variety of motivations behind companies' adoption of sustainability criteria in their asset management strategies[148].

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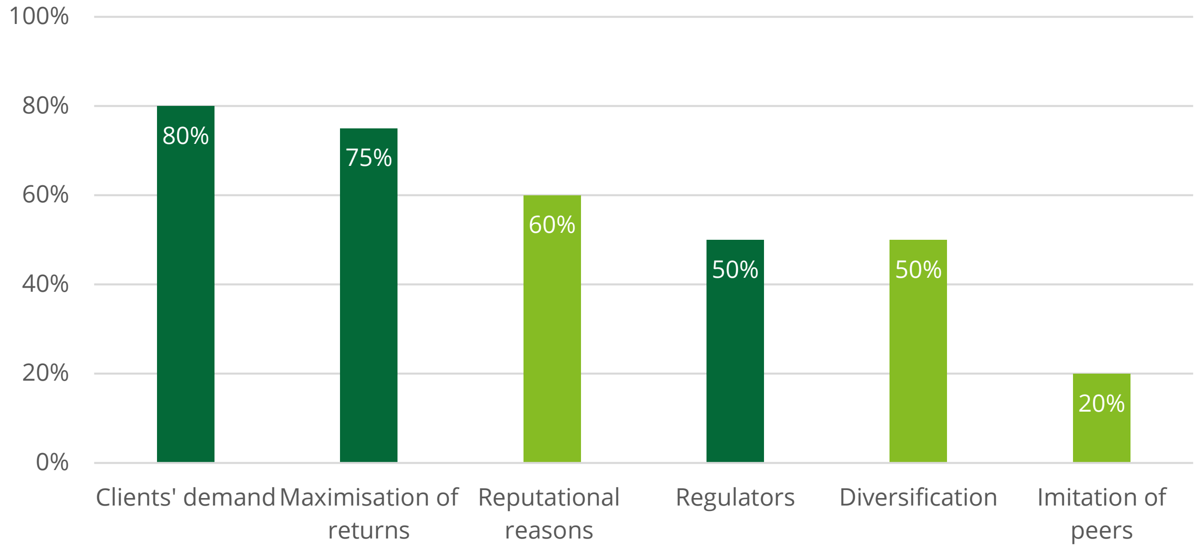
[146] Assogestioni
[147] Assogestioni
[148] CONSOB

Exhibit 40: Main drivers for the implementation of sustainability criteria in Asset Management in



Source: CONSOB

149

The most important drivers identified regard fulfilling **clients' demands** and maximising **returns**. However, asset managers also take reputational reasons, diversification, and imitation of peers into consideration, but in fewer cases. Notably, the survey may inadvertently underestimate the impact of **regulations**, particularly the Sustainable Finance Disclosure Regulation (SFDR), which pertains to ESG considerations and reporting, because it was not yet enacted in 2020. Similarly, other regulatory frameworks introduced within the past four years are becoming increasingly important, as their influence warrants careful consideration in shaping investment strategies and priorities.

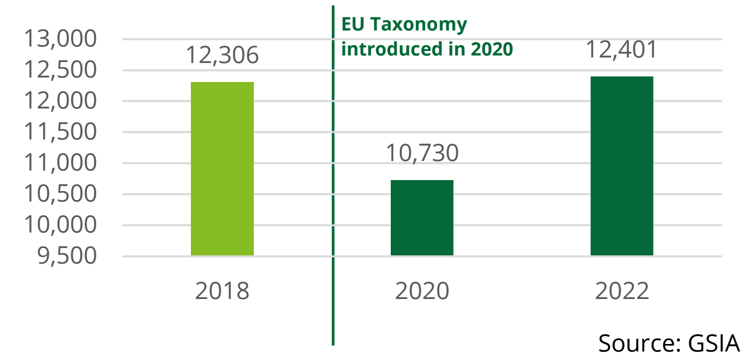
The following section will examine the main drivers in recent years, highlighted with dark green in Exhibit 40, such as the role of European and Italian **regulations** and the evolving **retail investors' demand**. Then, it will address the **benefits of ESG investments**, particularly concerning return maximisation, alongside the influence of **ESG ratings**. Finally, the section will explore the impact of the **Covid-19 pandemic**, which has also significantly impacted the ESG asset management sector.

[149] The graph displays the percentage of asset managers who identified the respective drivers as very likely and extremely likely to be the most important in the implementation of sustainability criteria

EUROPEAN AND ITALIAN REGULATIONS

Although the European total market for ESG investments is rapidly growing, increasing from $12T in 2020 to $14T in 2022, the proportion of sustainable assets declined from 2018 to 2020, relative to the total managed assets by around 5% every year, going back to 2020's level in 2022. This is likely caused by the recent increase in regulatory requirements regarding disclosures, introduced in 2020 and 2021, due to which **some investments cannot be classified as sustainable anymore**[150].

Exhibit 41: Sustainable investing assets in Europe (EUR)



Source: GSIA

Over the past 4 years, the Italian regulatory framework has been influenced by new directives from the United Nations and the EU. These align with the **Sustainable Development Goals in the Agenda 2030** and with COP28, which contributed to the dissemination of ESG issues, particularly those related to the environment[151].

To ensure consistent treatment of these factors in financial practices, three crucial regulations have been introduced: the Low Carbon Benchmarks Regulation (Regulation (EU) 2019/2089); the Taxonomy Regulation of Environmentally Sustainable Activities (Regulation (EU) 2020/852); and the Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088)[152].

At the end of 2019, the **Low Carbon Benchmarks Regulation**, which amended the previous Benchmarks Regulation (2016), established a unified regulatory framework regarding low-carbon standards. These benchmarks were created through the selection of securities characterised by lower levels of CO2 emissions, aiming to ensure that they are reliably produced and minimise conflicts of interest. These benchmarks impact the parameters used by investors to assess the performance of their portfolios across various asset classes, including fixed income, equity, interest rates, commodities, and foreign exchange[153].

Implemented in 2020, the **EU taxonomy** for sustainable activities stands as a comprehensive classification system, covering the entirety of the European Union[154]. Designed to delineate criteria for economic activities, and harmonised with the net-zero trajectory outlined in the European Green Deal and broader environmental objectives, it serves as a pivotal mechanism for enhancing market transparency. The taxonomy facilitates heightened

[150] GSIA
[151] UN
[152] COVIP
[153] Bloomberg
[154] European Comission

investment flows directed towards authentic sustainable ventures by fostering clarity and alignment with sustainability objectives. This united effort is poised to contribute substantially to the realisation of the EU's climate and energy targets for the year 2030[155].

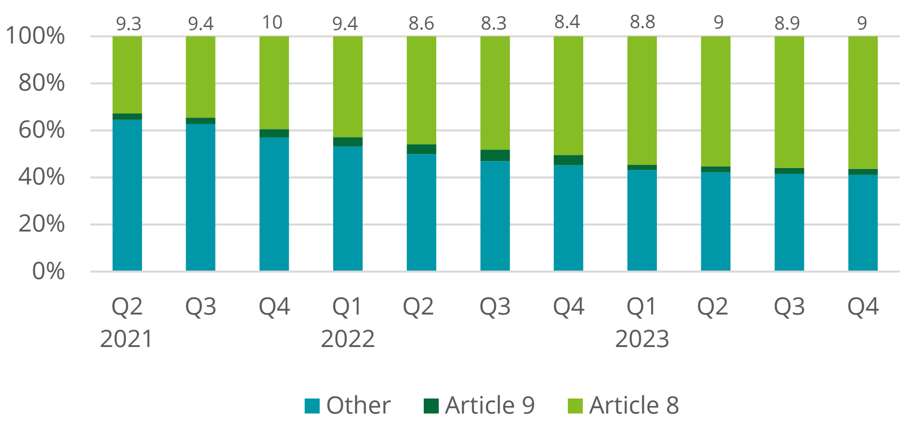
The **Sustainable Finance Disclosure Regulation (SFDR)**, enforced in 2021, delineated sustainable investments as those fostering environmental or social objectives alongside robust governance practices and mandated uniform standards for disclosing sustainability-related information across various categories of financial entities[156,157]. Overall, the aim is to regulate the communication of sustainability-related information to prevent situations of unfair competition and abuses of power as well as to help investors make informed choices. This regulation addresses the issue of **greenwashing**[158], where entities, products, or financial services do not accurately reflect their true sustainability profile, engaging in behaviours contradictory to the sustainable image they promote. Specifically, this legislation requires entities to disclose information regarding the integration of ESG factors in internal business decision-making processes and in financial products offered in EU markets[159]. That way, the SFDR is designed to enable investors to adequately assess how sustainability risks are integrated into the investment decision process, all with the goal of attracting private funding to help Europe make the shift to a net-zero economy.

Indeed, the Index Industry Association survey affirmed that two-thirds of EU asset managers in 2023 expected the EU SFDR to have a **significant impact on their investment strategy**[160].

Additionally, the regulation outlines two main categories of "sustainable financial products." **Article 8 products**, commonly referred to as "light green products," prioritise investments or projects with positive environmental or social characteristics, or a blend thereof, provided the investments align with robust governance practices. **Article 9 products**, often termed "dark green," prioritise sustainability as their primary objective and aspire to achieve specific sustainability outcomes alongside financial goals. These products typically feature portfolios comprising predominantly ESG-focused investments[161].

155 European Council
156 European Commission
157 ESMA
158 Banca d'Italia
159 Forum per la Finanza Sostenibile
160 IIA
161 Banca Etica

Exhibit 42: Quarterly asset breakdown by SFDR classification in EU (EUR T)



Source: Morningstar Direct

The implementation of the SFDR has marked a significant milestone in Europe, leading to substantial growth and diversification in the ESG investment universe over the past two and a half years[162]. Even amidst market uncertainties, investors continue to be interested in sustainable financial products. They are increasingly aware of the influence their investment decisions wield on the environment and society, prompting them to seek investment options that resonate with their values and incorporate environmental, social, and governance considerations.

Another EU regulation that aimed at encouraging the disclosure of ESG information by EU companies and financial institutions is the **Corporate Sustainability Reporting Directive (CSRD)**, which came into effect in early 2023. This directive requires listed companies in Europe to report on the socio-environmental impact of their activities in order to help investors, analysts, consumers, and other stakeholders better assess those companies' performance and related risks[163].

As for the regulatory panorama in Italy, there is no specific ESG regulation beyond those at the European level. However, there are laws aimed at achieving United Nations sustainability objectives. In addition, there are guidelines, such as the **Charter of Sustainable and Responsible Investments of Italian Finance**, overseen by the Italian Association of Private Equity, Venture Capital, and Private Debt (AIFI)[164]. It provides a platform for members to discuss industry trends, share best practices, and advocate for favourable regulatory frameworks. The guidelines cover aspects such as ESG due diligence, monitoring, reporting, and engagement with portfolio companies. The aim is to enhance **transparency**, **mitigate risks**, and ensure that investments **contribute positively** to society and the environment. In the investment phase, the Charter suggests conducting a screening of the companies under the analysis of the AIFI members relative to their exposure to ESG risk factors. Subsequently, the monitoring phase involves identifying certain ESG-related KPIs, representative of the target companies; these are then updated with data collected from the investees and organized into aggregated reports. Finally, during the exit period, the

162 Funds People
163 IBM
164 Drooms

guidelines recommend assessing the adherence to ESG criteria by potential buyers to guarantee the continuity of environmental management practices.[165]

CHANGES IN THE RETAIL INVESTORS' PREFERENCES

As ESG factors are gaining greater importance in the investment market, retail clients are adjusting their preferences, taking sustainability into account when making decisions about the allocation of their finances.

In 2022, **sustainability was considered a priority or otherwise relevant consideration** alongside financial factors for **62% of Italian household investors** (compared to 59% in 2021). This figure reaches 75% among respondents with higher knowledge of sustainable finance and 77% among those interested in sustainable investments[166].

The rising interest in ESG instruments among retail clients can be justified by two broad reasons[167]. First, households have the desire to **align their investments with personal values**, which motivates them to choose ESG funds over non-ESG funds. Secondly, by integrating ESG factors, investors can satisfy their need to create a diversified portfolio, thus obtaining long-term value and **minimizing risks**. Based on the CONSOB's report from 2022, 15% of retail investors prefer sustainable investments over alternative investment options, even if conventional investments will have had a higher return. 29% would instead choose sustainable investments if risk and return were the same for alternative investments, and 19% would choose the sustainable option only if its return was higher than the alternative options. Merely 17% of household investors were not interested in sustainable investments at all. For many retail clients (almost 50%) the perfect proportion of sustainable investments in their portfolio would be within the range of 10% to 40% of all their financial assets[168].

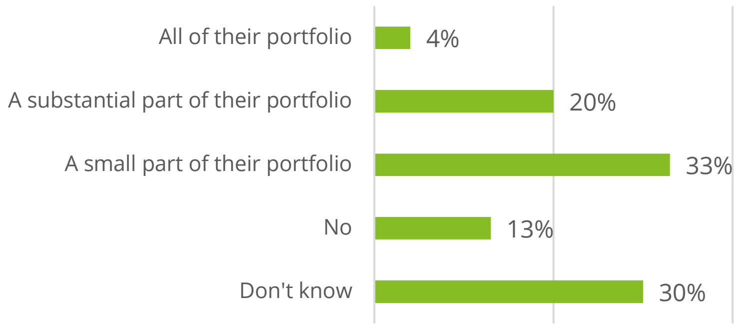
Although the recent popularity of ESG factors expanded the market of sustainable investments, they are still not widespread among retail investors. Data from 2022 by CONSOB shows that **only 11% of the surveyed household investors owned sustainable investments in 2022**. Lack of knowledge is the main deterrent to sustainable investments (28% of surveyed), followed by the perception of high risk (19%), low financial performance (17%), lack of useful and clear information (16%), high costs (13%) and fear of greenwashing (11%).

Moreover, according to CONSOB, **33%** of surveyed **retail** investors claim that they receive **information** about sustainable finance **from financial advisors**. This proportion rises to **51%** among those consistently seeking professional help in managing their portfolio. This statistic underlines the crucial **role** that **financial advisors** play in **informing clients about ESG** (Environmental, Social, and Governance) opportunities. However, as mentioned in the

[165] AIFI
[166] CONSOB
[167] Borsa Italiana
[168] CONSOB

Industry Overview, Retail clients often refrain from using financial advisors not only due to affordability constraints but also due to a lack of awareness and education about the services. As a result, wealth managers, traditionally catering to high-net-worth individuals (HNWIs) and institutional clients, should consider introducing tailored products and services that bridge this gap, targeting the broader retail market to enhance financial literacy and expand their client base. Therefore, **collaboration** between **asset managers, wealth managers, and financial advisors is crucial**. Asset managers, responsible for creating and curating sustainable investment products, must work closely with both financial and wealth managers to address customer concerns and align their offerings with the growing demand for ESG investments.

Exhibit 43: Would Italian Investors invest in Sustainable investments in the next 2 years?



Source: CONSOB

Wealth managers play a pivotal role in **recommending ESG funds to their clients** and **integrating sustainable finance** into long-term wealth strategies. By effectively communicating the benefits of sustainable finance, asset managers, financial advisors, and wealth managers can foster greater client trust and promote more widespread adoption of ESG practices, positioning these investments as essential components of a modern portfolio.

BENEFITS OF ESG INVESTMENTS

ESG products benefit not just retail clients but all kinds of investors. Such investors incorporate ESG factors into investment decisions, supporting sustainable entities and diversifying their portfolios. This approach could lead to improved financial performance, with higher risk-adjusted returns, and allow for better assessment of securities through ESG ratings.

FOCUS ON: ESG RATINGS AND BRAND PERCEPTION

ESG ratings are important tools at the disposal of investors in the realm of sustainable finance. Indeed, according to the RBC Wealth Management survey, **among ESG drivers impacting investment decisions in 2023, ESG ratings held the top spot both globally and in Europe**.

ESG rating providers, authorised and supervised by European Securities and Markets Authority (ESMA), assess a wide range of companies, basing the analysis of specific E, S, and G components on multiple criteria. Scores generally follow a scale from 1 to 100 and may vary among rating agencies, which may employ different metrics and weights. The higher the score, the better a company's performance in meeting various ESG criteria. Among the most well-known ESG rating agencies, we observe Bloomberg, S&P and Dow Jones indices, JUST Capital, MSCI, and Refinitiv; these providers take into account elements such as annual reports, corporate sustainability strategies, human and economic resource management, board structure and compensation for their assessment[169]. **Obtaining an ESG rating can either create or destroy the value for shareholders**; indeed, the assignment of a score can have a significant impact on the company's reputation. Consequently, based on the reputation and rating associated with the specific company, investors are better able to assess the quality and risk levels of a particular investment. Due to standardisation efforts promoted by the EU, it is now possible for Italian investors and asset managers to incorporate these ratings into their investment decisions[170]. Recently, the Council and the European Parliament reached a provisional agreement on a proposal for a regulation governing ESG rating activities, aiming to strengthen their reliability and comparability. This consolidation aims to bolster investors' trust in sustainable products.

FINANCIAL PERFORMANCE OF ESG INVESTMENTS

As previously mentioned, investors integrate ESG criteria into their investment choices also with the aim of maximising their returns while minimising associated risks.

Indeed, several financial instruments that incorporate ESG factors can offer higher returns than traditional ones; by the way, it is not guaranteed because the performance of each ESG fund is greatly associated to the investment duration and the macroeconomic and geopolitical context[171]. From an European perspective, the **Morningstar Europe Sustainability Index has outperformed the Morningstar Europe Index over the last five years** (from 2019 to 2023) by a modest but consistent margin, recording an average annual return of 6.22% compared to the traditional benchmark's 5.44%. These results are attributed to the **better performance of European companies with high ESG ratings** compared to market averages during correction phases, therefore benefiting from stock price rebounds. Additionally, these securities exhibit lower volatility on average compared to the broader benchmark but also have a lower dividend yield since most of these companies reinvest a significant portion of their excess capital in growth and share buybacks[172]. For example, the JULCD (JUST U.S. Large Capital Diversified Index), which tracks large U.S. companies with a high ESG rating, has outperformed the Russell 1000 index for three consecutive years, despite sharing 50% of its companies. Therefore, investing in sustainable activities means putting money into companies with a high ESG rating and **providing a decent return on**

169 Forbes
170 European Council
171 WEALTH
172 Morningstar

investment, while also mitigating the portfolio risk[173]. However, it is important to note that the reason behind such great performance of high ESG rating companies could be caused by such companies being in earlier stages of development generally, causing faster growth rates.

Furthermore, ESG investments can be leveraged by investors to **decrease exposure to systematic risk, ensuring better performance during international crisis periods**. In fact, academic studies demonstrate that after a catching-up phase, ESG funds can generate higher risk-adjusted returns and that such an enhanced performance does not come at the cost of higher systematic risk exposure. This encourages both investors and asset managers to invest in ESG funds[174]. Investors may now benefit from an exposition to market fluctuations by tilting their portfolio towards more responsible assets. As for non-financial risks, investing in ESG instruments allows investors to hedge against all those risks related to environmental issues, social issues, and governance issues that can influence the financial performance of companies, their reputation, and therefore the performance of their securities[175].

According to a survey conducted in 2023 in Germany, Spain, and Italy by the Deutsche Bundesbank, **43% of Italian retail investors believe that ESG factors can help in risk management; meanwhile, 50% believe that the performance of their portfolios will increase thanks to ESG investing[176].**

Finally, since ESG criteria can be applied to various asset classes such as stocks, bonds, and mutual funds, investors can choose from a wide range of financial instruments that allow them to generate returns in line with their preferences.

FOCUS ON: IMPACT OF COVID-19

It was feared that the ESG trend would slow down during the COVID-19 pandemic, as companies struggled to cope with economic pressure[177]. However, the opposite phenomenon has been observed: Italian and global companies have accelerated their transition towards ESG criteria. According to several experts, **COVID-19 has been a catalyst for integrating ESG factors** into companies' core business management and strategy. Indeed, it has highlighted our society's unpreparedness for some major risks, such as climate change, that will manifest in a non-linear manner[178]. Additionally, from the investors' standpoint, the pandemic showed how vulnerable the financial system is and had a significant impact on many asset managers' stance on ESG issues. Indeed, COVID-19 could have accelerated the phenomenon of "sustainable investing", which was

[173] AgendaDigitale
[174] Hearding and Anti-Hearding across ESG funds
[175] AgendaDigitale
[176] Statista
[177] EQS
[178] Etica News

previously considered as a risk hedging tool able to help align the need for positive returns with the will to contribute to the creation of a sustainable future.

Amid the pandemic, the MSCI World Index, which gauges the equity market performance of developed markets globally, experienced a decline of 14.5% in March 2020. However, **62% of ESG-focused funds targeting large-cap companies surpassed this index**. This superior performance can be attributed partially due to these funds' exposure to sectors less impacted by containment and social distancing measures, such as Technology or Telecommunications, as well as to the resilience of investment flows into ESG funds.

Several factors may account for this resilience. Firstly, investors may have perceived ESG funds as being **resistant to the pandemic's effects**. Additionally, investors may have demonstrated greater commitment to their ESG investments, driven by the belief that investing responsibly is inherently rewarding. This sentiment aligns with the notion that investors derive satisfaction from responsible investment practices, motivating them to maintain their investments even during market downturns.

Moreover, ESG products may have benefited from **investor preferences**, evidenced by capital flows across asset classes, which often seek to anticipate future investment trends. Consequently, during the crisis, investors may have viewed ESG factors as defensive attributes, regarding ESG funds as "**safe haven assets**"[179].

EFFECTS ON THE ASSET MANAGEMENT MARKET

GENERAL TREND

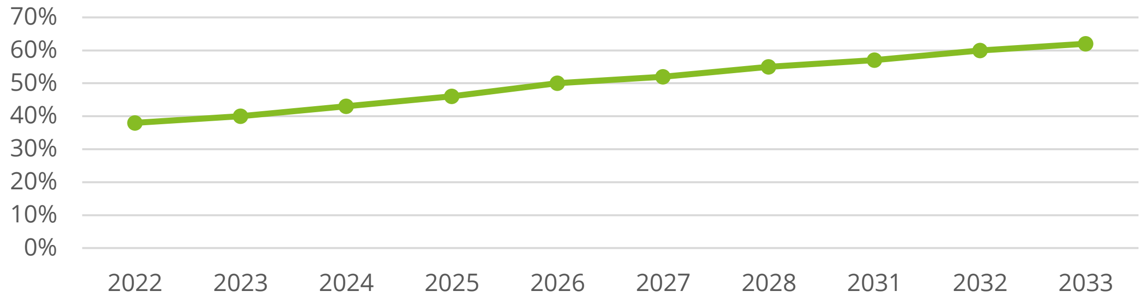
As previously mentioned, **ESG factors have a strong impact on the investment choices of asset managers**. In 2023, only 7% stated that ESG factors did not influence their decisions, unlike in 2022, where this number was as high as 22%. Specifically, the Russell Investments' 2023 ESG Manager Survey highlighted the main considerations shaping investment choices. Among respondents, 26% utilised ESG factors to reduce security risk, and 19% to drive positive returns. Additionally, the increase in the integration of ESG criteria is also caused by the asset managers' desire to meet investors' preference towards more sustainable products and to comply with new regulatory frameworks[180].

At a global level, despite significant economic turbulence, geopolitical instability and political scepticism, asset managers are increasingly prioritising ESG factors in their investments. Surveying 300 respondents comprising portfolio managers, CFOs, and CIOs from the US and main European countries, the 2023 ESG survey by the Index Industry Association revealed that eight out of ten (81%) asset managers acknowledge that ESG has gained more

[179] Amundi
[180] Russel Investments

prominence in their investment strategy, with 54% stating it has become more of a priority and 28% indicating it has become much more of a priority. ESG investing is projected to reach almost half of portfolios within the next 2-3 years and to reach **63% in 9 years**[181].

Exhibit 44: Expected average future share of asset portfolios that will contain ESG investments (forecast of 2023 survey (%))



Source: IIA

As for European asset managers, the integration of ESG factors into their asset allocations has been gathering **momentum** over the years. In 2022, around 50% of the total assets managed in Europe applied the ESG investment approach (60% in discretionary mandates and 42% in investment funds). The difference can be explained by the fact that institutional investors, who are the primary recipients of mandates, frequently impose rigorous ESG criteria for managing their investments[182].

The emerging relevance of ESG factors is showcased by the **increasing proportion of asset management companies that implement ESG criteria** on equity, bonds and commodities. For instance, in 2021, only around 50% of asset management companies were implementing ESG criteria on equity investments, compared to 80% in 2023[183]. The reason for this growth is that equity investments give the power to actively guide companies towards achieving their sustainability goals[184]. The same growth trend applies to fixed income: from 42% in 2021 to around 78% in 2023[185], possibly fuelled by the expanding availability of sustainable fixed-income options like green bonds[186]. Moreover, the surge in commodities in ESG investing is notable, with the proportion of companies incorporating ESG criteria for commodities rising from 37% in 2021 to 47% in 2022 and reaching 62% in 2023. Factors that are propelling the growth of the commodities asset class are the asset managers' concerns for ESG factors (31%), reputation or regulatory risk (27%), and high energy prices (26%)[187].

181 IIA
182 EFAMA
183 IIA
184 Morningstar
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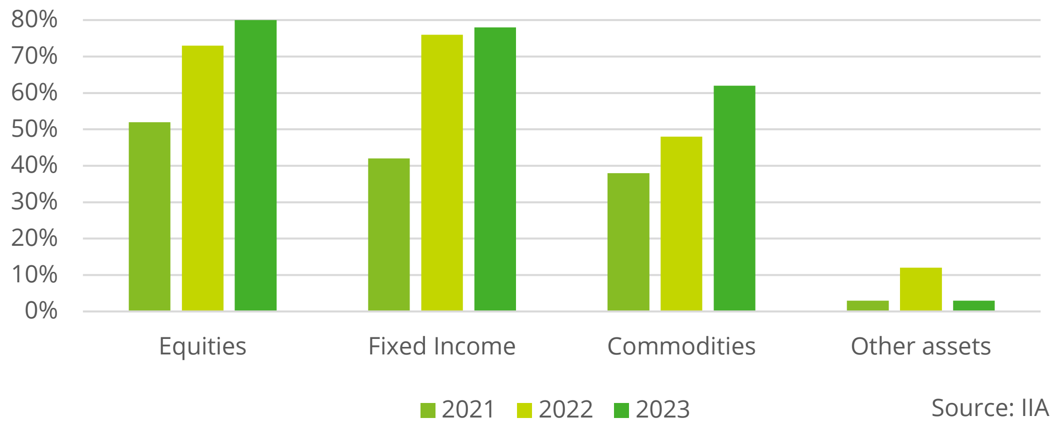
186 Morningstar
187 IIA

Exhibit 45: Asset classes in which companies implement ESG criteria, 2021-2023



Source: IIA

As for the European ETF market, there is a growing integration of ESG criteria. In 2022, sustainable ETFs grew to €248.8B, representing 18.8% of the total ETF and ETC assets invested in Europe[188]. In Italy, the value of AUM related to ESG ETFs increased significantly between 2019 and 2021, rising **from €3.36B to €23.08B**, respectively. However, between 2021 and 2022, the growth was much more modest, just a 0.25% increase. Despite the relatively small increase in both assets invested in ESG ETFs and fund inflows, the number of these listed instruments rose from 333 in 2021 to 484 in 2022. Additionally, the proportion of ESG ETFs to the total ETFs in Italy increased over the year, climbing from 26.4% to 33.6%[189].

E, S, AND G FACTORS

Upon closer examination of the elements of ESG, asset managers exhibit various reactions at a global level.

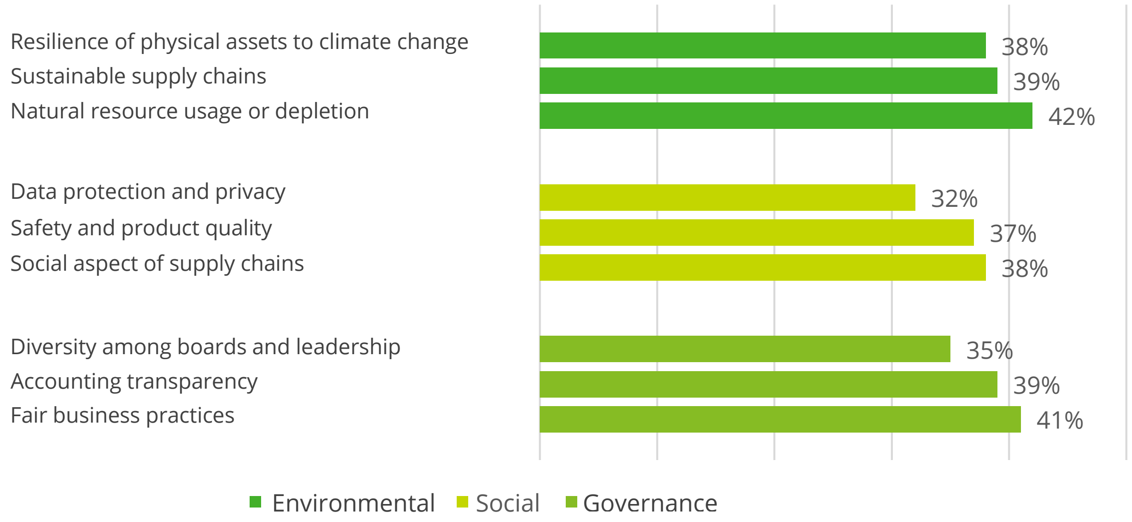
- Regarding the "E" (environmental) dimension, asset managers are expanding their outlook on environmental issues to consider aspects such as **natural resource usage** or depletion (42% of surveyed), **sustainable supply chains** (39%), the **resilience** of physical assets to climate change (38%), and **greenhouse gas emissions** (32%) as paramount to their ESG investing strategies.
- In the "S" (social) domain, 62% of asset managers include societal factors in most of their portfolios. Within asset managers' ESG strategy, significant societal factors encompass the **impact of supply chains** (38%), **safety and product quality** (37%), **diversity and inclusion** (34%), and **data protection and privacy** (32%). Nevertheless, the broad and intangible nature of social factors presents challenges for asset managers: over half (54%) find it hard to evaluate the social and governance

188 Morningstar
189 Borsa Italiana

performance of companies, and 56% struggle to keep up with evolving societal perspectives and ESG expectations.

- In the "G" (governance) aspect, asset managers are also paying attention to corporate governance – what firms do, how they do it, and with whom – in their ESG investment decisions. 67% of respondents claim to consider governance criteria as a core part of their portfolio decisions, which has not changed since 2022. Among different factors, they prioritise aspects such as **fair business practices** (41%), **accounting transparency** (39%), and **diversity** among boards and leadership (35%)[190].

Exhibit 46: Main factors considered by asset managers for each of the E, S and G



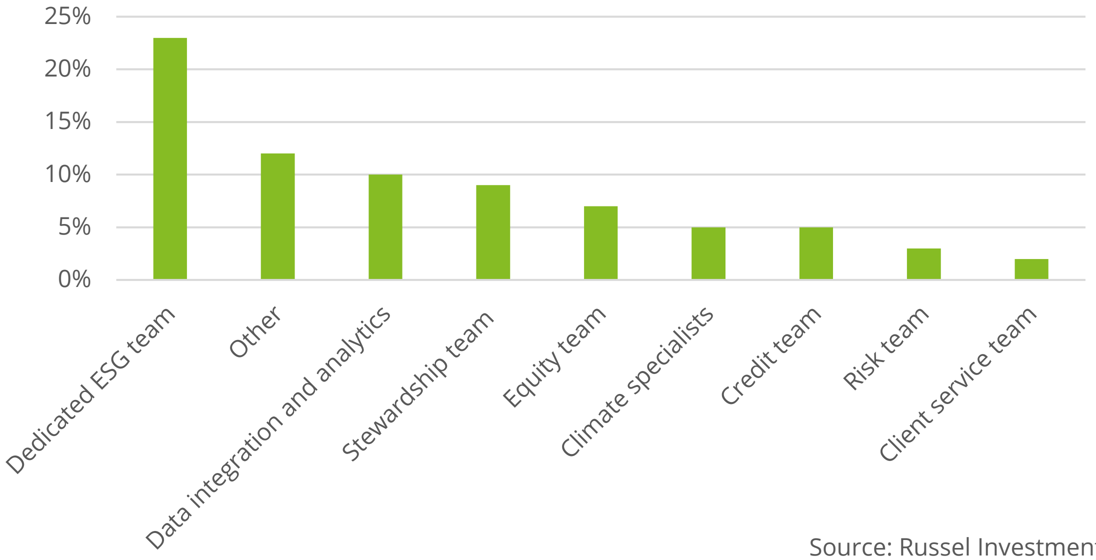
Source: IIA

ESG IMPACT ON PERSONNEL

The increased consideration of ESG factors within the asset management industry has impacted the personnel recruitment process. According to Russell Investments' 2023 ESG Manager Survey, the search for ESG roles in asset management companies seems to have improved year-to-year, as indicated by the proportion of employees in these roles. **75% of the surveyed respondents stated that they had added dedicated ESG personnel in the past year** across various functions. These functions include ESG teams (23%), data integration and analytics (10%), stewardship (9%), and equity investment (7%). Compliance emerged as a frequently added role under the "other" category for new ESG roles[191].

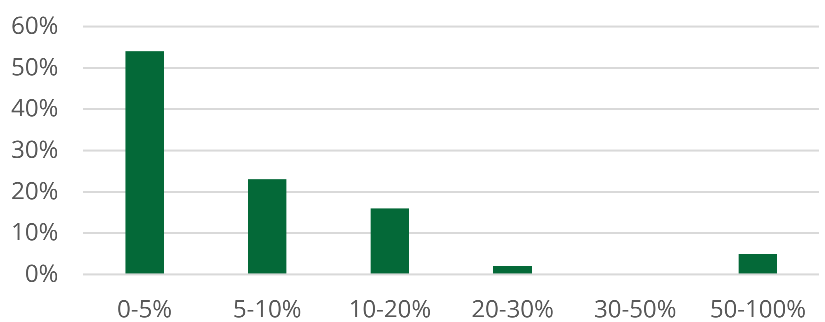
190 IIA
191 Russel Investments

Exhibit 47: In which areas have asset management companies hired dedicated ESG resources in the past year (2023)



Source: Russel Investments

Exhibit 48: Percentage of Dedicated ESG Investment Professionals at Asset Management Firms, Spending Over 90% of Their Time on ESG Matters



Source: Russel Investments

Additionally, 54% of respondents reported having 0-5% of their employees **exclusively dedicated to ESG matters**, while 23% of respondents allocated 5-10% of their personnel to ESG roles. In 2023, the percentage of respondents reporting having over 5% of their employees in ESG roles rose to 46%, marking an increase from 39% in 2022. These figures suggest that asset management firms either maintain or increase the resources dedicated to ESG initiatives.

There is a growing **global trend** of companies increasingly **hiring dedicated ESG professionals**. Continental Europe leads in the proportion of companies with such personnel, likely driven by a higher demand for sustainable investments. In 2022, 90% of European companies employed dedicated ESG professionals, reflecting a 12% annual increase, compared to 76% in the UK, which saw a 13% annual rise[192].

[192] Russel Investments

Moreover, according to the Cerulli Edge-Global Edition report (2023), asset managers in Europe are actively seeking new ESG talents. 61% of them agree or strongly agree that the **demand for these talents significantly exceeds the supply**. Asset managers, given the increased demand for transparency and ESG expertise from regulatory authorities and investors, require training and recruitment of specialised individuals to provide stakeholders with greater confidence in their ability to engage in sustainability issues[193].

CHALLENGES

ESG METRICS

Asset managers have experienced a significant improvement in **ESG tools and metrics**, with **85-87% considering them fairly or highly effective**, compared to only 66-69% in 2021[194]. However, despite this increase in confidence, the gaps that characterise the sustainable finance framework persist. These gaps, combined with the shortage of ESG data for assessing the sustainability features of companies, are serious problems that expose asset managers to potential accusations of "greenwashing"[195]. Furthermore, the absence of agreed-upon ratings and techniques by providers (24%), inadequate quantitative data (29%), and a lack of data standardisation (30%) are the main causes of them. However, it is important to note that Europe holds a leading position globally in terms of regulations and certifications that ensure the protection of investors and asset managers from misleading or false non-financial information.

Another common theme in relation to ESG measurements is the **lack of transparency**, which can relate to a wide range of topics, including methodology, data sources, and other aspects. It can also refer to the various participants in the ESG data supply chain, such as businesses, rating agencies, indexes, third-party data providers, and so forth. The IIA report shows that since 2021, when 25% of asset managers cited a major obstacle to ESG implementation as inadequate public corporate disclosures of ESG activities, and 18% cited more general concerns about methodological transparency, there has been no improvement in transparency[196].

Despite the presence of these data gaps and lack of transparency, the picture is generally one of **high trust to drive ESG innovation and standards**, with around three quarters trusting regulators (75%), the asset management industry (78%), and index providers (79%). The lowest level of trust is associated with other data providers, a category that includes rating agencies, reporting bodies, and various third-party data providers.

Emerging ESG technologies - analytics, Internet of Things, blockchain, AI and machine learning, and others - are seen by asset managers as unprecedented opportunities to close

[193] Cerulli
[194] IIA
[195] EFAMA
[196] IIA

the data gap, improving the timing, depth, and predictive content of ESG data and metrics. A UK CFO commented: "**With technological advancements** such as AI, machine learning, and predictive analytics, **investors will be able to evaluate ESG criteria in an increasingly sophisticated manner**." Indeed, generative AI applications can play an especially useful role in ESG compliance by summarising and documenting sustainability performance and matching risk indicators against established parameters. They can help handle ESG data by isolating relevant information across a wide range of contexts and consolidating it into a single easy-to-understand output[197].

ROLE OF ASSET MANAGERS IN ESG SHIFT

Many see **asset managers** as potential **catalysts** for sustainable change. Their significant influence is showcased by the fact that they can **exclude companies** from their actively managed funds that cause substantial harm to the environment.

However, this is **not possible for passively managed funds**, particularly ETFs, which track indices with different composition criteria. This is a relevant challenge because, as outlined in the Industry Overview, **passive funds** are becoming increasingly **popular**. Index providers like MSCI or FTSE Russell could address this issue by excluding non-sustain

able companies from their indices. However, index providers have historically been reluctant to act as gatekeepers, as such a move could conflict with indices' core function of replicating the investable universe[198].

REPORTS FOR ESG MANAGERS

The prominence of Environmental, Social, and Governance (ESG) factors has surged within the Italian asset management sector due to regulatory demands and investor expectations for transparency in sustainability practices. Asset managers in Italy integrate ESG issues within their management control systems (MCS), enhancing their ability to handle ESG-focused transformations by incorporating these factors into decision-making, risk assessments, and strategic planning.

Supervisory expectations refer to the standards and guidelines that regulatory bodies set for banks and financial intermediaries to ensure that they manage risks effectively and operate in a safe, sound, and compliant manner. The Bank of Italy issued a document on **Supervisory Expectations concerning climate and environmental risks** in April 2022. This document guides banks and financial intermediaries on integrating these aspects into governance, control systems, and market disclosure. It provides comprehensive guidelines for embedding climate and environmental considerations into governance structures, risk

197 EFAMA
198 Can BlackRock Save the Planet?

management frameworks, and transparency efforts. The approach includes ensuring board-level oversight and senior management involvement in climate-related risk management, developing methodologies for identifying, assessing, and integrating climate-related risks into the institution's overall risk management framework, including the use of scenario analysis and stress testing. It also enhances transparency by aligning disclosures with internationally recognised frameworks such as the Task Force on Climate-related Financial Disclosures (TCFD), providing stakeholders with clear and reliable information on the institution's sustainability efforts. This approach conveys a bank's commitment and progress towards sustainability to stakeholders, demonstrating resilience to climate-related risks and contributing positively to environmental sustainability[199].

To understand the effective implementation of ESG reporting, the identification of specific regulations and frameworks guiding these practices is crucial. Firms, including asset managers, can choose between these standards based on their specific needs and regulatory requirements. The standards can be integrated to provide a comprehensive and transparent reporting framework:

Task Force on Climate-related Financial Disclosures (TCFD) recommendations guide asset managers in reporting climate-related financial risks and opportunities. This framework is increasingly embraced by Italian firms under regulatory and market pressure to enhance transparency in climate governance and risk management[200].

The **Sustainability Accounting Standards Board (SASB)** provides industry-specific standards that help organisations, from 77 different sectors, disclose material sustainability information likely to impact financial performance. This standard aligns well with the increasing demand for materiality and relevance in ESG reporting[201].

The **CSRD**, effective as of January 5, 2023, is a piece of legislation within the European Union (EU) mandating that EU businesses, including eligible subsidiaries of non-EU firms, reveal their environmental and social footprints and elucidate the influence of their environmental, social, and governance (ESG) endeavours on their operations. EU Taxonomy and CSRD are part of the EU's broader efforts to enhance the reliability and comparability of sustainability reporting. The EU Taxonomy provides a classification system for sustainable activities, while the CSRD aims to extend ESG reporting requirements more broadly and deeply than previous directives[202].

Italian asset managers are also influenced by the **European Directive 2014/95/EU** and its implementation through the Italian Legislative Decree 254/2016. This regulation mandates large firms (more than 500 employees) to **disclose detailed social and environmental information.**

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[199] Banca d'Italia
[200] TCFD
[201] SASB
[202] EU Taxonomy

The Global Reporting Initiative (GRI) Standards offer a flexible framework for creating sustainability reports. Although not mandatory, these standards are widely adopted globally and in Italy. They are suitable for any organisation, including the asset management industry, and help in reporting on a range of economic, environmental, and social impacts[203].

While none of these standards are exclusively designed for asset managers, they can all be effectively applied within the asset management industry. Asset managers can benefit from using a combination of these frameworks to meet the diverse expectations of their stakeholders and to comply with regulatory requirements. For example, TCFD and SASB can provide detailed industry-specific insights, while GRI and CSRD offer more comprehensive reporting structures.

Research demonstrates a positive relationship between ESG disclosures and firm performance, which encourages Italian asset managers to adopt more comprehensive and transparent reporting practices. This positive impact is attributed to several key benefits, including improved risk management, enhanced stakeholder confidence, and better access to capital[204].

Improved risk management is one significant benefit of ESG reporting, helping asset managers identify and mitigate environmental, social, and governance risks. This proactive approach leads to more resilient investment strategies, which are essential for long-term sustainability and financial stability[205]. **Enhanced stakeholder confidence** is another advantage, as transparency in ESG practices builds trust among investors, clients, and other stakeholders. This trust can lead to stronger relationships and increased investor loyalty, which are crucial for asset managers operating in a competitive market[206]. Additionally, better **access to capital** is a notable benefit, as companies with robust ESG disclosures often attract socially responsible investors seeking sustainable investment opportunities. This improved access to capital can potentially lower the cost of capital as investors perceive these companies to be better managed and less risky[207].

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203 GRI Standards

204 Does ESG Disclosure Influence a Firm's Performance?

205 Environmental, social, and governance (ESG) performance and financial outcomes: Analyzing the impact of ESG on financial performance

206 Stakeholder Engagement and Sustainability Reporting

207 ESG disclosure and financial performance: Moderating role of ESG investors

INFLATION IMPACT

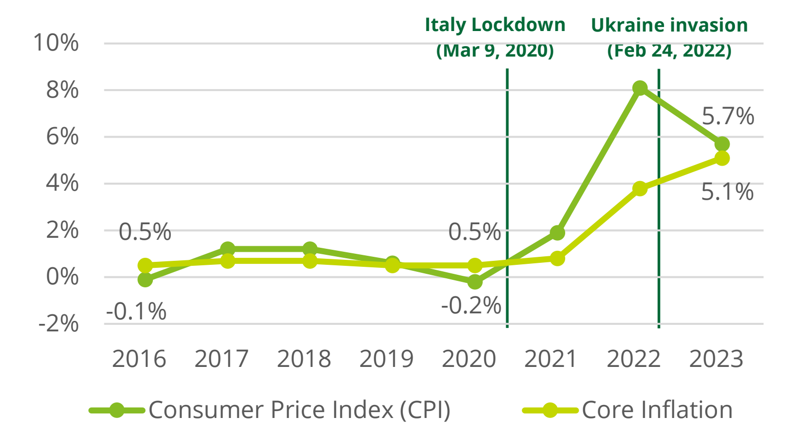
INTRODUCTION

The **inflation rate** is an economy-wide trend related to the **generalised increase in prices of goods and services** from one year to the next. From an investor's perspective, this rate represents the percentage of nominal return that is eroded when adjusted for real value. In quantitative terms, the Fisher Effect highlights this relationship by defining inflation as the difference between the nominal and real return. As such, it serves as an accurate indicator of purchasing power over time[208].

THE RECENT INFLATION DYNAMICS

Although inflation can be caused by many factors, two main types of it are worth mentioning. Demand-pull inflation occurs when demand for a good or service exceeds the available supply, leading to producers increasing prices. Cost-push inflation is usually caused by a sudden increase in production costs, which increases the cost of the good or service for consumers as well. However, the recent rise in inflation became a consequence of both, mainly **caused by recent geopolitical events**. In Italy, prices began to rise in the second half of 2021 as economic activities rebounded after the **COVID-19 pandemic**, causing a rapid growth in demand, with which supply couldn't keep up. Furthermore, production had been negatively affected by the disruption of the global industrial supply chain and the rising costs of raw materials, following the **Russia-Ukraine conflict** in 2022. This global event caused inflation to peak between late 2022 and early 2023. However, inflationary pressures significantly eased afterwards, primarily due to the effects of the ECB's policies. By the last quarter of 2023, the price level in Italy had dropped to its lowest point since early 2021. The Consumer Price Index (CPI) - a key indicator of the variation in prices of goods and services purchased by consumers - notably **decreased due to reductions in energy, intermediate goods, and food products prices**. Even prices for non-energy industrial goods and services decreased. In Italy, core inflation, which measures the price variation of a basket of goods and services excluding volatile products such as unprocessed food and energy, **fell to 3.1% in**

Exhibit 49: CPI and Core Inflation in Italy



Source: Istat

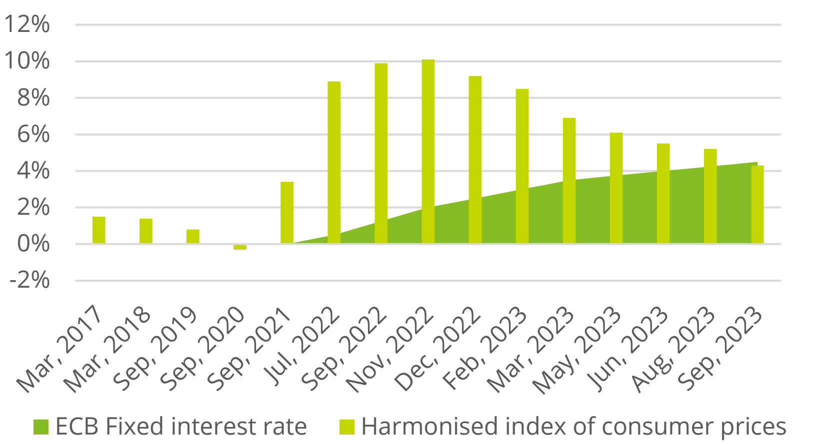
208 Investopedia

December 2023 from a year peak of 6.3%[209,210]. The Euro Area, after a comparable sharp increase in 2021, saw a similar decline, with core inflation dropping to 3.4% in December 2023, down from its yearly high of 5.7%[211]. These recent inflationary dynamics, along with expectations about future inflation, have significantly affected financial markets, investment strategies, and the behaviour of investors and asset managers.

THE REACTION OF CENTRAL BANKS AND THE INTEREST RATES DYNAMICS

Inflation is closely linked to interest rates, tools used by central banks to control price fluctuations of goods and services. Through **restrictive monetary policies**, central banks raise interest rates, slowing down the real economy and, therefore, **reducing inflation**. In Europe, this manoeuvre was delayed by a few months because the ECB initially considered the mid-2021 price increase as a non-structural phenomenon. Only later, the Bank recognised the persistent nature of inflation, which resulted in a time lag in implementing rate hikes. **After years of being at negative or near-zero levels** - an extraordinary economic situation - interest rates were **increased** to combat growing inflation, reaching levels between **4%** and **5%** for most of **2022**. These dynamics undoubtedly impacted financial markets and contributed to a loss of trust among investors in financial institutions. The main reason for that was interest rate-related crises such as the one involving the American Silicon Valley Bank (SVB) and the Swiss bank Credit Suisse. The resulting climate of **uncertainty created urgency for banks**, as the timeframe to restore liquidity and improve market perception was limited. This was evident during the significant **sell-off** of **Deutsche Bank's Tier 2 bonds** in **March 2023**. The German bank, one of Europe's largest and most important banks, experienced a sharp decrease in its stock price, largely

Exhibit 50: ECB response to inflation



Source: Eurostat

[209] Istat
[210] Istat
[211] Trading Economics

influenced by the decline in investor confidence stemming from the turmoil surrounding SVB and Credit Suisse[212,213].

EFFECTS ON ECONOMY AND FINANCIAL MARKETS

The surge in inflation observed after the pandemic has altered the way investors and the public navigate the financial landscape. These changes were reflected in three interconnected areas: savings and consumption, investments, and financial instruments' returns.

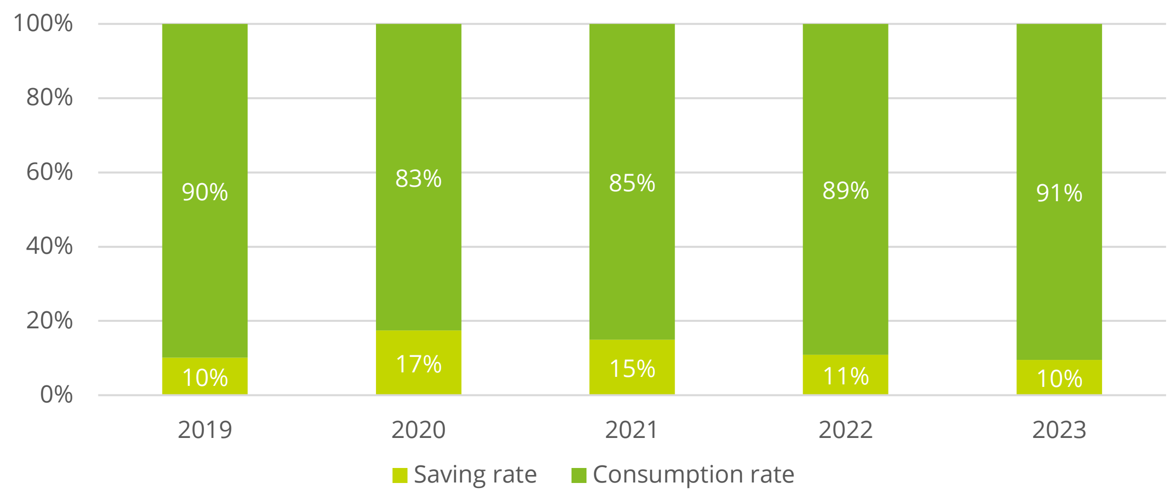
SAVINGS AND CONSUMPTION

Given the recent international macroeconomic dynamics, Italian investors - as well as those in other main Euro Area countries - have adjusted their savings choices. From the second half of 2019 to the first half of 2020, the **gross saving rate has increased by about 6.5% in Italy**, reaching a peak of 17.39% of gross disposable income. Indeed, during a period of such uncertainty due to the pandemic outbreak, Italian households - who have traditionally been risk-averse - preferred to postpone consumption and investments. As the economic recovery began in the summer of 2021, **the savings rate gradually decreased**, returning to pre-pandemic levels seen in 2019 by the end of 2022, **driven by the early stages of rising inflation**[214].

In 2022, as the economic recovery gained momentum, consumption began to rebound significantly, although concerns about rising inflation began to emerge. In 2023, **consumption continued to grow**, albeit at a slower pace than in 2022, driven by the **recovery of activities involving greater social interaction**, such as those of the HoReCa industry, which had been significantly affected by the pandemic. At the same time, the **savings rate declined** once more, reaching 6.3% in Italy (the lowest level since the 1960s) **due to a reduced propensity to save** among wealthier households, **financial difficulties** for lower-income households, and **improved unemployment expectations**. In other words, Italian investors - and, more generally, investors across the Euro Area - were less inclined to save as economic conditions were recovering from the negative impact of the lockdown. In addition, the increase in prices and interest rates reduced real income and presented more attractive investment opportunities[215].

[212] Statista
[213] Reuters
[214] Banca d'Italia
[215] Banca d'Italia

Exhibit 51: Composition of Gross Disposable Income



Source: Statista

ITALIAN INVESTORS' BEHAVIOUR

Inflation typically impacts both the financial markets and the real economy; however, an inflationary shock, such as what has been observed in recent years, presents particularly difficult challenges. Davide Maspero, Associate Professor of Asset Management at Bocconi University, clarifies that, paradoxically, a **stable inflation rate**, like a steady 10%, though far from ideal, **can be managed easier than a sudden spike in prices** because everyone incorporates the expectations about future inflation into their financial planning. This allows the economy to adjust accordingly, as seen in countries like Brazil, which have developed mechanisms, such as indexed contracts, to handle high inflation. The real danger arises when transitioning from a scenario with essentially no inflation to unexpectedly high rates.

In this context, those who were most affected by the recent volatility are the **younger generations of investors, who were unaccustomed to high inflation**. Their inexperience with such economic conditions amplified the negative effects of the inflationary shock, intensifying the element of surprise. According to Professor Maspero, *"For [younger] generations, there was never a distinction between nominal and real rates; now this distinction is clear."* Previously, inflation expectations had no real role in asset allocation, but that has changed. Consequently, these investors now **need to consider inflation as a risk factor in their decisions**.

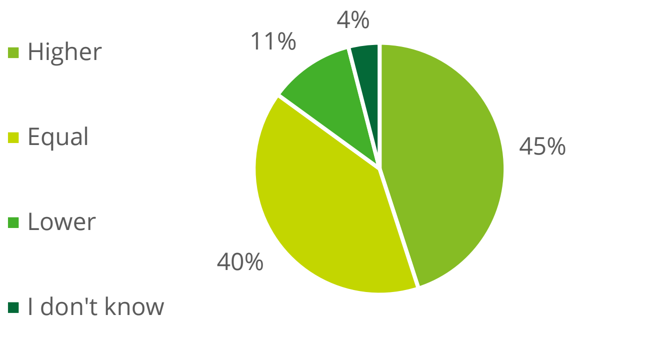
In 2022, the performance of retail financial investments experienced a significant decline in Italy, with real returns dropping from +0.4% to -0.9% due to the overall negative performance of the markets[216]. Indeed, flows into financial investments nearly halved

[216] Consob

compared to the previous year, reflecting market uncertainty and high volatility. Italian households significantly reduced their investments across various assets - deposits, mutual fund shares, stocks, and insurance – with total value falling from about €143B in 2021 to around €80B in 2022[217]. Furthermore, the increase in liquidity, combined with the decline in the value of capital market instruments - including listed shares, bonds, mutual funds, and insurance and pension products - primarily due to valuation effects, resulted in a slight **decrease in the financial market participation ratio**, which fell from 1.4 in 2021 to 1.3 in the second quarter of 2022. This metric is defined as the ratio between financial instruments and liquidity held by households[218].

In 2023, Italian household financial investments declined further to €45B, driven by an additional decrease in the savings rate. Despite the overall market downturn, there was a notable portfolio reallocation. As highlighted by Professor Maspero, investors started favouring assets that benefited from rising interest rates. Italians have shown a preference for actively managed funds and private assets, such as infrastructure and renewable energy, private equity funds, real estate funds, and government bonds. Meanwhile, despite offering higher rates, deposits were seen as investments with high opportunity costs compared to bonds, which were perceived as offering better risk-adjusted returns[219]. This shifting investment environment is illustrated by insights from the Global Investor Study 2023, which revealed a more **positive outlook on return expectations among Italian investors**, with 45% of respondents expecting returns to be higher than the year before and 40% expecting returns to remain at least the same[220].

Exhibit 52: Return Expectations of Italian Investors for the Next 12 Months Compared to the Previous Year



Source: Schroders

PORTFOLIO ALLOCATION AND INFLATION IMPACT ON RETURNS

The **high inflation in recent years has influenced portfolio distribution across various asset classes in different ways**, particularly when comparing institutional and retail investors. As Giuseppe Leo Corvino, a Bocconi Professor from the Department of Finance, explained, periods of extremely low interest rates create unique challenges for investors. When inflation began to exceed the risk-free rate - as seen before 2022 - **institutional**

217 Banca d'Italia
218 Consob
219 Banca d'Italia
220 Global Investor Study 2023

investors, particularly those with obligations to guarantee minimum yields or fiduciary duties to provide returns above inflation, **began seeking alternative sources of yield**, especially in the **private markets** (private equity, private debt, etc.), which offer higher returns along with increased risk.

The **retail market**, however, **experienced a different shift**. A noticeable change has occurred in the types of instruments being favoured. In Italy, where there has traditionally been a strong focus on investing in Italian government bonds (BTPs), the environment of **low interest rates prompted the industry to offer alternative options**. These alternatives, aimed at diversifying away from BTPs, include fixed-maturity funds, certificates, and even the resurgence of policies with guaranteed yields.

Following this phase, the rise in interest rates prompted a new shift in portfolio structure. **Investors once again turned to fixed-income products, particularly government bonds**, which had become genuinely attractive. However, with interest rates now beginning to decline and inflation returning to more typical levels, expectations regarding private markets are increasing again. As the macroeconomic environment stabilises, demand for private assets is likely to be robust as institutional investors continue to seek higher returns in these more dynamic, higher-risk segments of the market, especially compared to traditional assets like bonds, which offer lower yields in a low-interest rate environment. This situation underscores how the interplay between interest rates and inflation can shape the financial landscape, impacting even non-professional participants like retail investors.

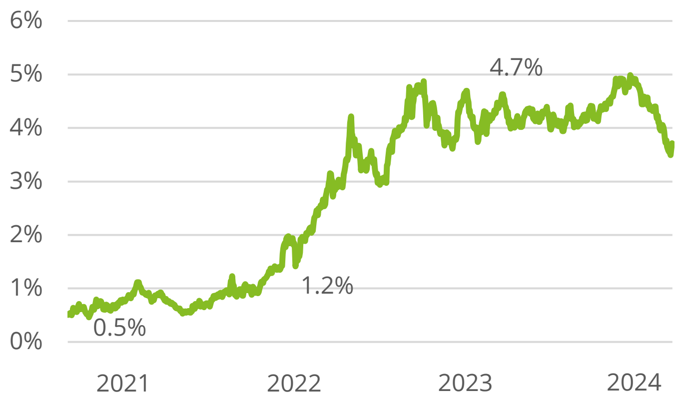
BONDS

Bonds tend to struggle during inflationary periods. As inflation rises, the prices of existing bonds decrease because the coupon interest payments lose value in real terms. For instance, portfolios with longer durations can experience dramatic declines in value as yields adjust to reflect the new inflationary environment, negatively affecting various asset classes. Traditional portfolios, especially those composed of conventional bonds and equities, may not withstand inflationary pressures effectively.

In 2022, the investment market rapidly transitioned from a phase of negative nominal bond yields to a phase of rising interest rates and declining long-term bond prices, as central banks, including the ECB, opted to raise interest rates in response to rising inflation. In this context of significant market instability and fluctuations, **Italian households predominantly turned to bonds**. In particular, the Italian CCTeu - a floating-rate bond indexed to Euribor - saw a rise in volumes throughout the year, with both inflows and average size increasing. This activity likely reflects the growing focus on this segment, driven by market participants' expectations of medium- to long-term inflation. Not surprisingly, the Italian Treasury, as a result of the increased interest in the CCTeu segment, issued the new

CCTeu 1 October 2030 bond in March 2023[221]. Such a shift towards government bonds is common during periods of market turbulence, as investors tend to favour safer assets like government bonds - financial instruments that are backed by the government's creditworthiness.

Exhibit 53: Italy 10-Year Bond Yield



Source: Investing

As investors adapted to the evolving financial landscape **in 2023, the bond market emerged** as a particularly attractive option, **with bond investments nearly tripling**[222]. Both newly issued and existing bonds in the secondary market offered more attractive returns compared to 2022, both in nominal and real terms. In fact, as Professor Davide Maspero said: "*The good news is that* **new investments in bonds are more rewarding***, creating an investment opportunity that had essentially vanished over the previous five years.*" As a result, Italian investors became attracted to bonds by the opportunity of receiving higher coupon payments, driven by the increased nominal return of newly issued bonds and the advantage of lower management costs compared to actively managed funds. This led to a significant rise in bond allocations within their portfolios[223]. By the end of 2023, the U.S. Treasury's announcement of a reduced bond issuance, combined with data indicating that inflation had moderated more than expected, led to a decline in yields on long-term government bonds[224].

Recent conditions in the Italian financial markets have improved, benefiting from heightened investor confidence largely driven by expectations of less restrictive monetary policies from the ECB. As a result, **by the beginning of 2024, the yield on Italian ten-year government bonds reached 3.7%, reflecting a contraction of approximately 120 basis points** compared to the end of 2023. Simultaneously, the spread between Italian BTP and the German Bund has significantly decreased, aided by reductions in interest expenses on public debt due to the decline in long-term yields. Additionally, yields on corporate bonds, issued by both Italian and European banking and non-financial companies, have fallen, a trend attributed to lower rates and increased investor risk propensity[225].

[221] Dipartimento del Tesoro
[222] Banca d'Italia
[223] Intesa Sanpaolo
[224] Bank for International Settlement
[225] Banca d'Italia

EQUITIES

The interplay between inflation and the stock market is more complex. In an ideal scenario, **equities prefer to see moderate inflation**, typically from 1% to 3% per year. This level of inflation can stimulate economic growth by boosting consumption and investments, primarily because it decreases the real value of current and future debts, making borrowing cheaper. As a result, companies' profits rise, which often translates into higher stock prices. However, when inflation spikes to high levels, as observed in 2022 and 2023, it introduces significant uncertainty and volatility in the market. **High inflation erodes future profits** due to rising commodities and production costs, **which can lead to declining stock prices**[226].

Additionally, **equity securities faced further challenges from rising interest rates**. As borrowing costs increased, companies' ability to generate profits worsened, leading to a subsequent decline in stock prices. For instance, in 2022, the FTSE Italia All-Share index decreased its value by approximately 16%[227]. The situation improved between late 2023 and early 2024, marked by a significant 10.7% increase in Italian stock prices, alongside a 7.4% rise in European stocks. This positive trend can again be attributed to investors' downward revision of market expectations for both the Fed's and the ECB's official interest rates, as both institutions adopted similar monetary policies. Consequently, **as these forecasts improved, stock prices rebounded, with a notable reduction in perceived market volatility**[228].

Investors navigated these market conditions, changing their preferences to reflect the specific characteristics of the stocks they held. In this context, it is possible to distinguish two primary types of stocks:

- **Growth stocks** represent companies' shares that are **expected to grow** at a significant rate higher than the overall market. They typically appear expensive relative to their current profits, sales, and dividends, as investors anticipate significant future earnings. As a result, key valuation ratios, such as price-to-earnings (P/E) or price-to-book (P/B), tend to be much higher than those of comparable companies. However, **high inflation may erode expected future profits, leading to a decline in share prices**. Furthermore, rising interest rates, which are implemented to control inflation, can also adversely affect growth stock. These companies often rely heavily on borrowing for growth, and higher interest rates make borrowing more expensive. In 2022, for instance, the FTSE Italia Growth Index recorded a sharp decline of 19.7%[229].
- **Value stocks**, on the other hand, are commonly found in sectors like financial services, oil and gas, health care, telecommunications, and machinery manufacturing. These companies typically have lower valuations relative to their current profits, sales,

[226] Forbes
[227] Borsa Italiana
[228] Banca d'Italia
[229] Borsa Italiana

and dividends. Unlike growth stocks, their profits are expected to grow slowly or decrease over time. This relatively steady path can make **value stocks more resilient in high-inflation environments**, as their earnings are not much based on future expansion[230].

ALTERNATIVE ASSETS

Certain financial products, known as **alternative investments**, fall outside conventional investment strategies and exhibit low correlation with traditional markets, making them **suitable asset classes for hedging portfolios against inflation**[231].

Real assets - those deriving their value from tangible items in the real world - such as real estate, infrastructure, and commodities like gold, oil, and lumber, **tend to maintain stability or even appreciate during inflationary periods**, positioning them as effective, safe haven assets[232,233]. For instance, gold has historically served as a hedge against inflation, with its value rising when the cost of living increases. Indeed, from mid-2021 to the end of 2022, the price of gold per gram rose by approximately 14.2%[234]. Globally, while all three categories of real assets are well suited to inflationary periods, they have different characteristics that can influence their attractiveness. Commodities may be most appealing during periods of accelerating economic growth and increasing demand for production and investment. In contrast, infrastructure typically offers more stable revenue streams, making it potentially more defensive during slower growth phases[235].

Real estate has historically been a strong hedge against rising prices. In inflationary environments, rental rates tend to increase, leading to higher revenues for property owners. Like commodities, investors can either invest directly in real estate - by purchasing properties - or indirectly - by seeking exposure to companies like Real Estate Investment Trusts (REITs) or investment funds, such as REIT ETFs, that generate revenue from these underlying assets. These investments are particularly favoured in stable growth environments, where property values and prices appreciate while interest rates remain steady[236].

Additionally, **certain sectors, such as Energy, have traditionally performed well during high and rising inflation periods**. Energy stocks have consistently been the top performers in these conditions since 1973, with the iShares MSCI Europe Energy Sector UCITS ETF growing by approximately 36.62% during 2022[237,238]. This trend has also been evident in Italy:

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230 Investopedia
231 Empaxis
232 Lazard
233 Nasdaq
234 Il Sole 24 Ore
235 Lazard
236 Concreit
237 Forbes
238 iShares

the FTSE Italia Energia index increased by around 21.6% from the onset of the inflationary period until the end of 2022[239].

While alternative assets have demonstrated potential as effective hedges against inflation, **they remain primarily targeted at institutional investors**, according to Andrea Beltratti, Academic Director of the Executive Master in Finance and Full Professor at the Department of Finance at Bocconi University. He explains that these assets are often evaluated based on their cost rather than their market value, which can create an illusion of stability and complicate performance comparisons year over year. This characteristic poses challenges for small investors who may not benefit from the same transparency or access as larger institutions. As a result, although these assets can be effective under certain conditions, **their suitability for a wider range of investors remains subject to debate**.

IMPACT ON THE ASSET MANAGEMENT INDUSTRY

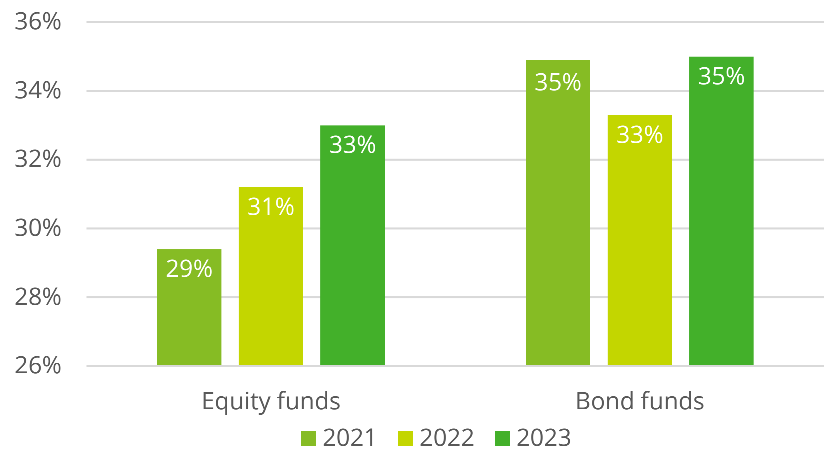
In 2020, thanks to low interest rates aimed at mitigating the effects of COVID-19, the Italian asset management industry experienced two years of exceptional growth[240]. Indeed, by the end of 2021, the value of AUM reached €2,594B. However, **the industry faced significant challenges in 2022 due to high inflation, coupled with an increase in interest rates**, leading to a fall in AUM to €2,210B. Due to the poor market performance, margin pressures, high inflation, rising interest rates, geopolitical instability, and supply chain disruptions, 2022 was one of the rare years since the late 1990s when bond and equity markets were bearish simultaneously[241].

The challenges faced in 2022 translated into a relevant **decline in investment flows** from Italian households into the asset management industry between 2021 and 2023. In 2021, investment flows amounted to €74.1B but dropped to €7.4B in 2022[242]. Furthermore, in 2023, there were outflows totaling €45.7B. However, it is important to note that despite the negative flows in 2023, the **total AUM for Italian households increased** to €1,632B, up from €1,536B in the previous year, thanks to the **recovery of financial markets** and the **increased value of listed instruments**, such as bonds and stocks[243].

[239] Borsa Italiana
[240] Publicis Sapient
[241] Deloitte
[242] Banca d’Italia 2023
[243] Banca d’Italia 2024

CHANGES IN ITALIAN ASSET MANAGER ALLOCATION STRATEGIES

The Italian AUM landscape between 2021 and 2023 has **remained mostly stable**. The proportion of collective and portfolio management remained consistent, with a **slight increase in portfolio management**. Nevertheless, within collective management, open-end funds, representing the majority, underwent significant changes over the past two years. In 2021, equity and bond funds accounted for 29.4% and 34.9% of the AUM of open-end funds, respectively, while in 2022, equity funds increased to 31.2%, whereas bond funds decreased to 33.3%[244,245]. Despite market downturns, **Italian equity funds**, unlike their European counterparts, **maintained positive inflows**, attributed to **greater investor confidence** in the recovery of stock prices. Over time, investor confidence was restored as expectations of rate cuts and fears of recession lowered, leading to a renewed robust wave of investments in the stock market.



Source: Assogestioni

In 2023, **equity and bond fund shares increased** to 33% and 35%, respectively. Notably, the recovery of the **fixed-income sector** was driven by **newly issued financial products**, which offered particularly attractive yields for investors[246]. Professor Corvino explains that *"bond management, when rates were close to zero or negative, did not satisfy the typical implicit client's benchmarks: capital or inflation. Over time, returns have returned to be adequate for these two benchmarks, and investors started investing in government bonds again."* The presence of these newly issued bonds with higher yields led to a new increase in the share of bonds in overall asset allocations. Additionally, Professor Maspero noted that with the higher interest rates, there is **a shift towards bonds with longer durations**, taking advantage of the higher rates before there is an expectation of a decline.

Specifically, **for Italian retail investors, investment preferences have massively shifted to BTPs**[247]. According to Professor Corvino, *"Investments in local government bonds surged,*

[244] Assogestioni 2022
[245] Assogestioni 2023
[246] Assogestioni 2024
[247] Department of Treasury

with Italian clients choosing BTPs due to net returns exceeding 4%. This shift significantly diminished other types of retail investments."

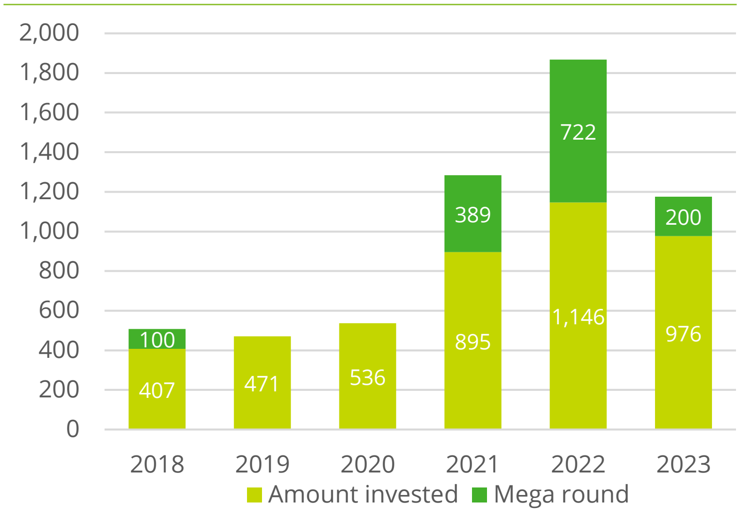
In Italy, **before the interest rate hikes in 2022, private market investments were attractive to institutional investors**. Because of their low yields, traditional investments such as bonds could not offer returns greater than the inflation rate. Professor Corvino explains that investors were willing to take the usual illiquidity risks of the private markets while seeking certainty in cash flows. Consequently, they opted for private investments *"that offered relatively stable payouts such as private debt, direct lending, real estate, and infrastructures."* Furthermore, Professor Beltratti notes that **private debt had performed better** because its returns were tied to short-term interest rates.

However, **after interest rates increased in 2022, Italian institutional investors reduced their commitments to private debt**. Professor Corvino explains *"Once attractive, private debt-like instruments began to seem less appealing in the context of rising interest rates. Their typical risks and the resulting regulatory capital absorption became less favourable than more liquid bond-like investments. Institutional investors sometimes have found their private investments burdensome, leading to regrets about past commitments. This has resulted in a shift towards reallocating resources for these instruments."*

Some notable changes occurred within the alternative investment space, specifically real estate funds, venture capital funds, and private equity funds. Firstly, **real estate funds have continued to grow**, regardless of the macroeconomic conditions that have impacted financial markets in recent years. Italy's AUM rose from €66.1B in 2021 to €74.3B in 2023, leveraging the need for inflation-resilient products[248]. Secondly, **venture capital funds** emerged as a **promising investment opportunity** to mitigate the impact of rising prices and interest rates, especially for Italian investors[249]. In fact, in 2022, unlike the European market, which experienced a decline of about 6% compared to the previous year, investments in startups by VC funds increased by 45.5%, mainly due to the success of some large deals, such as the €320M Satispay investment.

However, in 2023, venture capital funds aligned with the European trend, losing 37% of AUM from 2022 due to fewer large financing rounds. Finally, similarly to venture

Exhibit 55: Investments into venture capital funds (EUR)



Source: Assogestioni

[248] Assogestioni
[249] Growth Capital

capital funds, **private equity funds** also **showcased initial resilience** between 2021 and 2022, with a growth of 43%, **but then collapsed** by 19% in 2023[250].

Furthermore, **alternative investment funds** have become **more accessible to a wider base of investors in Italy**. According to Professor Maspero, alternative investments were once reserved for much higher income brackets but are now becoming more available to lower-income households. Especially in times of uncertainty, the illiquidity risk associated with alternative investments has pushed away retail investors. However, more liquid products are now being offered, leading to an increased interest in alternative investments among retail investors.

Additionally, asset management firms have been increasing the accessibility to alternative assets for their clients to increase the firm's profits. **Asset management firms can charge higher fees for alternative asset investments**, resulting in more lucrative sales and increased profits for the firm. Due to the recent market volatility and uncertainty, there has been an increasing trend from active to passive investments. Active investments, which could usually charge between 1-2% in management fees, are now losing those profits to passive investments, which charge lower fees. However, managers of alternative investment funds can charge higher fees because these investments often yield greater returns than traditional active funds. Therefore, according to Professor Maspero, not only are investors more interested in alternatives, but asset managers will also prefer selling alternatives because it is one of the only remunerative products they can still sell at a high fee.

While the strategies used by European and Italian asset managers are generally aligned, the main **differences in the strategies depend on the country's long-term government yield**. Professor Maspero explains that worldwide strategies are generally aligned because managers rely on the same *"reports and analysis worldwide, providing [them] with a common decision-making basis. For Italy specifically, the products of Italian asset managers compete with products typically managed in Luxembourg and Ireland, such as SICAVs and foreign funds."* Therefore, Professor Corvino explains that the Italian retail industry is affected by the yield of the country's government bonds. Consequently, the **misalignment in investment products and strategies** for Europe compared to Italy has been related to the **dynamics of the BTPs** yield.

FOCUS ON: THE IMPACT OF INFLATION ON AUM ALLOCATION STRATEGIES

Giuseppe Leo Corvino, former Managing Director at BlackRock and a longstanding Associate Professor of Financial Markets and Institutions at Bocconi University, shares insights on the impacts of inflation on AUM, changes in investors' preferences, and divergences in strategies between Italian and European asset managers' clients.

Q1. Considering the inflationary phenomenon and the dynamics of interest rates, what have been the main challenges faced by asset managers operating in Italy when

[250] Focus Risparmio

implementing their investment strategies from 2021 to 2024? What opportunities have emerged?

"There are two main challenges. Firstly, with ***risk-free rates increasing*** *from 0% to 2.5%, the overall* ***bond market has declined****.*

Secondly, Italy and other EU countries came from a period of very low interest rates, which led to a ***significant allocation towards more complex private market instruments****, especially bond-like ones as such as private debt, direct lending, real estate, and infrastructures. When rates increased, investors were left with commitments to these more complex and illiquid products when they would have preferred simpler and more liquid ones.*

In terms of opportunities, ***fixed income has become attractive*** *once again. While investors holding fixed income positions before the increase in rates experienced losses, those without that exposure can enter now and benefit from the higher yields available in the current environment."*

Q2. Given the change in investment choices of both Italian retail and institutional investors, what have been the main reactions of asset managers operating in Italy regarding their asset allocation strategies due to the macroeconomic dynamics? Have they increased the number of products offered, further diversifying their portfolio, or have they focused on specialisation in specific instruments? Are these reactions structural or temporary changes to the offerings?

"On the institutional side, there has been a reallocation between different investment instruments. The allocation to ***fixed income has increased****, mainly because, in the institutional world, investors face obligations in terms of capital allocation, transparency, and risk analysis. In 2021, the Italian supervisory authority, IVASS, published a letter reminding insurance companies of the* ***rules for investing in illiquid assets.*** *The letter reminded that* ***investing in private markets is not easy****: investors must fully understand what is in the fund, be able to analyse its risk-adjusted performance, and be able to understand and manage the implicit risk of the investment. There is, therefore, a considerable amount of skilled work involved. The rise in interest rates meant that the private market investments* ***no longer offered a clear advantage over*** *the public market instruments. [Bonds] did not require all the administrative complexity of these instruments, which led to a potential reallocation. However, the reallocation was not immediate because institutional investors had to honour their previous commitments. There were no significant innovations in terms of new instruments, only a shift in the allocation between various existing instruments.*

On the other hand, the situation was somewhat different for retail investors who do not invest in private markets. ***A shift has been observed in the types of instruments used by retail investors****. In the case of mutual funds, for example, fixed-term funds have made a comeback. The main selling point of these instruments was that they offered an expected return in line* *with the one offered by the BTPs while having a diversified underlying portfolio of different instruments. There has also been a revival in **guaranteed-return instruments**, such as certificates, although these are not part of the asset management sector. It is important to note that the **retail industry faced a significant crisis** as the clients shifted heavily towards BTPs. While there was some diversification into equities and other instruments, the attractiveness of BTP yields at 4.5% made it objectively difficult to choose anything else.*

*Whether these changes are structural or temporary will largely **depend on how interest rates evolve**.”*

Q3. Have there been divergences in the behaviour of asset managers operating in Italy compared to those in Europe or globally? If so, what are the reasons behind this misalignment?

*“**Behaviour has changed significantly** depending on **the yields on local government bonds**. BTPs offered much higher yields than other instruments, so the misalignment was felt more strongly in Italy in particular. The changes discussed earlier have been particularly evident in the retail market but have also affected the institutional market.*

*From a regulatory standpoint, European insurance regulations do not take into account the credit risk of government bonds. This means that BTPs are treated as having **zero risk** from a counterparty risk perspective. As a result, they have become much more **dominant** than government bonds in other European countries offering lower rates.”*

Q4. Has the price rise, followed by increased rates, pushed Italian asset managers to lower or maintain the fees charged? Is there an alignment between the Italian trend and the international one?

*“There has been a different impact on fees for institutional and retail investors. For institutional investors, there has been a **reduction in overall fees**, mainly due to a **shift towards beta**, which means a greater reliance on passive financial instruments. At the same time, there has been an **increase in costs** as the **private markets** component has grown. Overall, fees are falling, making the **market increasingly competitive**. However, there have not been any significant disruptions.*

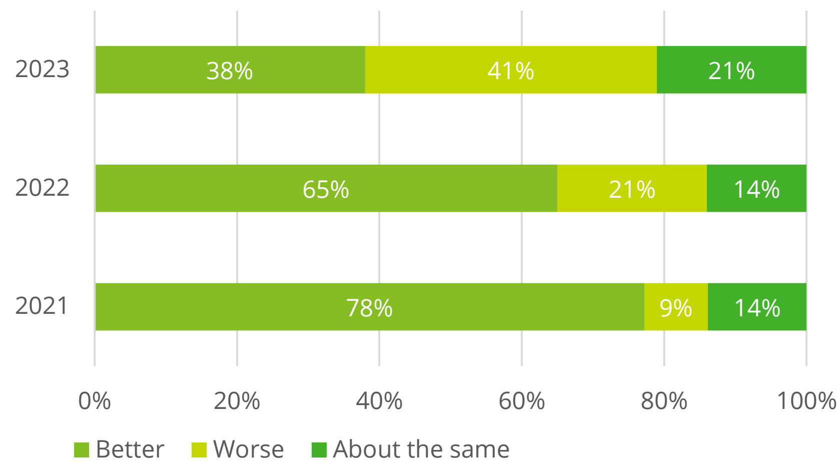
*On the retail side, there has been a lot of focus recently on the "**value for money**”. For example, there is a European regulation on value for money, which is also being adopted at the Italian level. So, in addition to rebalancing fees towards more passive management, there is a lot of pressure to **reduce the price of individual products**. The reduction is not so much related to inflation dynamics, but simply to a greater focus on the client’s value for money profile.”*

DECREASE IN COSTS AND CHANGES IN SOURCES OF REVENUE

Since 2022, poor market conditions caused by high inflation have negatively influenced asset managers' operational costs and revenues of asset managers. Decreasing AUM values due to high interest rates have imposed **major cost pressures and margin constraints**. This has compelled firms to assess how they can withstand pressure from larger players while maintaining profitability. As a result, many asset managers were pressured **to cut costs and compress fees**, hindered by competition from robo-advisors charging lower fees[251].

Moreover, during the recent period of a bearish stock market, revenues of many investment firms plummeted. According to Deloitte's 2025 Investment Management Outlook survey, there is **growing pessimism** among asset managers regarding **their firm's revenue prospects**. In 2023, only 10% of respondents expected significant revenue growth in 2024, compared to 20% and 30% in previous years[252]. Furthermore, Professor Corvino explains that globally, **unit fees have decreased with the increasing implementation of IT in passive management**. Professor Corvino emphasised that for passive management *"to be efficient, it is essential to have huge state-of-the-art trading platforms*." On the other hand, the investments that were made in private markets required a lot of human input. Therefore, in private markets, while the expected returns are very high, the labour and risk management fees are equally as high.

Exhibit 56: Investment management industry's revenue prospects



Source: Deloitte Financial Services

EXPECTATIONS ABOUT THE FUTURE

As mentioned before, the recent market volatility has revealed that the **younger generation** of investors **did not know how to respond to high inflation** because they had never experienced it. Investors have learned that they now **need to consider inflation** as a risk factor in their choices and seek out instruments that can offer them a return greater than the inflation rate.

[251] Empaxis
[252] Deloitte

However, while investors are now more aware of the impact of inflation, there **will not be any structural changes** in both the investors' and asset managers' strategies. Professor Corvino explains that managers **will not systematically integrate new products** specifically targeted at combating inflation, such as inflation-linked products. Rather, there will be an **increase in the diversification of investments** into infrastructure, equity, real estate, and other assets in which inflation is protected.

Additionally, investors are now better prepared to make some **hedges**. However, Professor Corvino shares an important insight, stating that "***portfolio hedging*** *works only if done for very* ***short periods***. *Structural hedging brings the investor's position back to the risk-free rate minus the costs of the hedge."* Generally, hedging instruments, such as inflation-linked products, can be useful to protect against inflation, but they can't be used systematically. Rates move very quickly, and identifying investment strategies that include this riskiness is difficult; therefore, diversifying investments is the most effective form of hedging against inflation and interest rate fluctuations[253].

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[253] Bank of Italy

CONCLUSION

Italy's asset management industry has grown significantly over the past decade, with a 5.8% CAGR, reflecting **resilience and adaptability amid evolving economic conditions**. Key growth drivers, such as favourable financial market performance and low interest rates in the first part of the last decade, have fostered a robust investment environment. However, **market volatility and uncertainty due to geopolitical tensions** - such as the 2018 US-China trade war and the 2022 Russian invasion of Ukraine - have **disrupted the growth trajectory** of AUM. In 2022, high inflation, driven by the Ukraine conflict and supply chain issues, prompted the ECB to implement tighter monetary policies. Trends in Italian AUM growth and market behaviour closely mirror those across Europe, with both markets experiencing AUM declines in 2022 due to inflation and geopolitical uncertainty, highlighting their interconnected dynamics. Italian investors, known for their risk-averse nature, have increasingly favoured **highly liquid and accessible investment options**, such as bonds, balanced funds, and cash deposits. This shift reflects the adaptive nature of both asset managers and investors in response to changing economic conditions.

Moreover, the Italian asset management industry and the broader European market have experienced significant trends, including the **growing importance of retail investors**. A generational transition largely drives this shift, as Italy's ageing population increases demand for retirement planning, estate management, and wealth transfer services. With around 70% of Italian wealth held by those over 60 years old, a substantial portion is expected to be inherited by the next generation in the coming years. Combined with a rising interest in investing, this trend is expected to lead to a substantial increase in the AUM of retail clients. Furthermore, with an increase in Italian retail investors, there will also be an increased demand for financial background and education. **Italy has a low financial literacy rate**, where only 37% of people have a solid grasp of financial concepts, and many investors request financial advisors for guidance. Additionally, regional disparities influence investment behaviour, with Northern Italians more likely to invest, driven by higher financial literacy, while Southern Italians tend to favour liquid assets like bank deposits. In addition, **recent regulatory changes in the asset management industry have significantly boosted investor confidence** by increasing market transparency and providing liquidity management tools. These measures have also attracted more retail investors by improving accessibility, ensuring "value for money" in investment products, and strengthening oversight from authorities like ESMA and EIOPA to protect investors and promote fair competition. Furthermore, **AI-powered tools have transformed interactions between investors and asset managers**. Robo-advisors, for instance, have intensified competition by providing automated, low-cost financial advice. Additionally, AI improves data analytics and operational efficiency, allowing asset managers to deliver a broader range of customised investment options at a lower cost. Robo-advisors have been particularly appealing to younger retail investors due to their affordability, but adoption has been slower in Italy compared to other European countries.

The Italian asset management industry is being reshaped by two fundamental forces: the **rising importance of ESG factors** and the **impact of inflation**. ESG has become a powerful driver within the sector, as ESG ratings increasingly influence investor behaviour. More individuals are prioritising ethical investments that offer competitive financial returns, a shift supported by increased regulatory transparency, greater awareness, and broader European policies promoting sustainable finance and responsible investing. This has led to **significant growth in sustainable funds globally**, with AUM increasing from $1.8T in 2019 to $3.4T by the end of 2023. **Europe remains the leader in sustainable investing**, serving as the geographic domicile for 87% of all sustainable funds worldwide. Additionally, ESG funds have shown greater resilience during market volatility, often outperforming traditional benchmarks. However, challenges such as the **lack of standardisation** and concerns about "**greenwashing**" **highlight the need for improved education and robust reporting practices in the ESG space**. By addressing these challenges, asset managers can strengthen their competitive position and improve their offerings. A positive correlation between strong ESG disclosures and firm performance presents an opportunity for asset managers to adopt comprehensive reporting practices. As a result, more Italian asset managers are increasingly integrating ESG considerations into their portfolios.

The **recent spike in inflation also prompted asset managers to adjust their portfolios**. In 2022, the sharp rise in interest rates from near-zero levels led to a significant decline in bond prices, resulting in an overall drop in AUM and creating challenges for asset managers. However, the **increase in interest rates also induced a reallocation of investment portfolios to fixed income**, as new bond issuances paid higher yields. Investors who had previously committed to private market investments during periods of low rates shifted their focus to more liquid, higher-yield investments, such as government bonds. At the same time, inflation sparked **renewed interest in diversifying into real asset classes**, such as infrastructure and real estate, which were perceived as potential hedges against inflation. Given their intrinsic value, real assets are increasingly viewed as a strong component of hedging strategies. This shift highlights a global reaction to inflation on the part of both retail and institutional investors, illustrating an interest in stability during times of economic downturn and reduced purchasing power. Investors are now more aware of inflation as a risk factor, leading to more diversified approaches across asset classes. Nevertheless, despite these fluctuations, the fundamental strategies among Italian investors remain consistent with those observed across Europe.

The future success of the Italian asset management sector will depend on how effectively asset managers **can adapt to recent trends and capitalise on emerging opportunities**. Incorporating ESG criteria into investment decisions is expected to become standard practice, driven by evolving regulations and shifting investor demands. Technological advancements will be vital in this transformation, improving the ability to assess and integrate various factors into investment strategies, thus helping asset managers better align with investor expectations. Additionally, addressing financial literacy challenges will be key to unlocking the full potential of the retail investment industry, particularly in light of the upcoming generational shift. Technology can support this by providing accessible educational resources and tools that help investors engage with and access information more easily, supported by the ongoing improvement of EU regulations. Furthermore, the **upcoming reduction in interest rates** will encourage asset managers to **turn back to private markets** in **search of stable returns** that exceed fixed-income instrument yields. Making these markets more accessible to retail investors, as is already happening with REITs, will be crucial. Overall, the future of asset management in Italy will be shaped by regulatory changes, technological innovation, and enhanced financial literacy, ensuring that the sector can meet the demands of an increasingly environmentally and socially conscious investment community while also broadening access to diverse investment opportunities.

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