Italian GPs embrace asset-class diversification

- Alessia Argentieri - **15 November 2019**

In a climate characterized by political uncertainty and economic fluctuations, multi-asset diversification appears to be the winning strategy pursued by an increasing number of established Italian GPs. Alessia Argentieri reports

Italian private equity firms have expanded and diversified their fund offerings by launching new strategies and raising vehicles dedicated to private debt, special situations, credit recovery and non-performing loans (NPL).

These GPs have been building teams dedicated to alternative asset classes in addition to their more traditional private equity offering. Furthermore, this approach allows GPs to spot interesting opportunities in neglected corners of the market and put to work the excess capital that has been pouring into private equity, while avoiding exposure to the volatility of the public market.

"We have seen a noticeable increase in diversification across the Italian market," says Sunaina Sinha, managing partner at Cebile Capital. "About five years ago there were only buyout funds, while now GPs tend to offer a wider array of sector-focused vehicles and funds dedicated to specific asset classes, such as debt, NPL, turnaround and restructuring. This allows them to take advantage of a different side of the market and insulate their portfolios with a highly diversified fund basket. Furthermore, this is a sign of how the Italian private equity landscape has evolved and matured."

DeA Capital was one of the first Italian GPs to follow a multi-asset strategy and move in the direction of broader asset management. The firm manages **CCR I** and **CCR II**, two funds active in the credit recovery sector with a special focus on the unlikely-to-pay segment, which provide debtor-in-possession financing and target financially stressed mid-market Italian companies. These vehicles complement DeA's private equity offering, focused on the agri-food industry, with **Idea Taste of Italy I** and **Idea Agro**, launched in 2017 and 2018, respectively. In addition, DeA is fundraising for its second food-dedicated fund, **Taste of Italy 2**, which was launched this year with a €300m hard-cap.

Italian GP **Clessidra** has also embraced a multi-asset strategy by adding a **restructuring fund** dedicated to bank credits to its private equity offering. The vehicle, which has a focus on unlikely-to-pay exposures, was launched with a €600m target and held a €320m first close in September 2019.

Another such example is **Green Arrow,** which has also pursued an intensively diversified strategy. The GP held a final close for its third buyout fund, **Green Arrow Private Equity 3**, on €230.6m in September last year, and one month later it closed its **Green Arrow Private Debt** fund on €136.2m. The firm will launch its **fourth private equity buyout fund** in the first half of 2020 with a €400m hard-cap. In addition, it is raising a €200m fund called **Special Credit Situations** and plans to launch a €700m fund named **Fondo Infrastrutture Energetiche** at the beginning of 2020 to focus on energy infrastructure and renewables.

Winning mix

"A strategy focused on multi-asset diversification can be extremely successful, allowing GPs to allocate their resources across a wide array of segments, insulate their portfolios and satisfy the different investment appetites of their LPs," says **Green Arrow Capital CEO Eugenio de Blasio**. "This can be enticing for certain categories of institutional investors, such as pension funds, given their obligation to pay regular distributions to their subscribers. In addition, with this approach a GP can diversify its exposure between more cyclical asset classes, which can be affected by the economic climate, such as private equity, and more anti-cyclical and resilient segments."

However, diversification can be complicated to navigate, especially when exploring new asset classes that fall beyond a firm's core capabilities and might present risks of inefficient or excessive diversification. Finding willing LPs can also be a challenge, particularly when trying to entice international investors with higher resistance towards overexposure to the Italian market.

"One of the biggest concerns for GPs is over-diversification," says Sinha. "The key to reaching an optimal level of diversification is being strictly selective, developing a deep knowledge of the asset class and building an excellent team. It can be hard work and carry higher risks, but allows GPs to seize the best opportunities."