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Using Open-End Mutual Fund Resources to Finance SMEs: The Potential Market Share of ELTIFs

Fabrizio Crespi

11.1 Introduction

The Italian financial system has always been considered a bank-oriented system in which the majority of funding for SMEs comes from traditional bank products such as credit lines, commercial credit in the form of receivable discounts, factoring, mortgages and leasing. For other types of financing, such as venture capital and private equity, commercial paper or bond issuing and the public placement of shares is not common for SMEs, even when such tools are available (see Accornero et al. 2015).

The total amount of bank credit for industrial and family businesses accounted for 898,452 million euros in June of 2015 (roughly 55% of the GDP) according to the Statistic Bulletin of the Bank of Italy (Bank of Italy 2015a). Yet, after the government debt crisis of 2011, we witnessed

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F. Crespi (✉)
Department of Economics and Business, University of Cagliari, Cagliari, Italy
e-mail: fabrizio.crespi@unicatt.it

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a tightening of credit standards and enterprise bank credit access in Italy (especially for SMEs) until at least mid-2015. Better conditions started to appear in the third quarter of last year according to the European Central Bank (ECB 2015).

Similarly, Italian households have generally preferred (at least until now) to invest their savings in bank deposits or bonds issued by financial intermediaries. As a general statistic, the financial wealth of Italian households was estimated by the Bank of Italy at 3897.2 billion euros (238% of the GDP) at the end of 2014 (Bank of Italy 2015b). From 2010 to 2014, the financial wealth of Italian households increased by 8.26%. Of this amount, 714.2 billion euros (18.33%) are invested in bank deposits [521.9 billion euros (or 13.29%) occupy current accounts], and the other 235.6 billion euros (6.05%) are held in bonds issued by banks.

Nevertheless, over the last couple of years, Italian retail investors have been driven by financial intermediaries to intensify their use of asset management products, such as open-end mutual funds and investment trusts (*SICAV*, in Italian terminology). The amount directly invested in mutual funds by Italian households is 376 billion euros (9.65% of the total financial wealth), but it must be noted that mutual funds are also implicitly sold to private investors through insurance products, which amount to 803.8 billion euros (20.63% of the total financial wealth of Italian households).

The reasons for this commercial push can be related to the credit-crunch phenomenon that followed the financial crisis and to the consequent rethinking of business models by several domestic banks. Having yet to address a critical portion of non-performing loans (NPLs)—which for the whole banking system reached an astronomical level of 201.50 billion euros in September of 2015 (10.86% of the total amount of bank credit)—and less prone to amplifying the traditional deposit-credit circuit, domestic banks redirected their focus to advisory and private banking (i.e., less capital-absorbing activities). It should therefore be important to better understand where Italian households' financial resources are invested through asset management products, especially when these products are supplied by Italian investment firms. Indeed, even if more intense international diversification is a primary need for investors typically affected by *home bias*, households may be interested in knowing when their savings are (also) used to finance SMEs operating on the domestic landscape, and government authorities may be interested in redirecting part of these savings to the internal economy.

The aim of our analysis is thus twofold. First, we attempt to estimate how much of the assets controlled by domestic open-end mutual funds are currently invested in Italy (and which types of instruments they are held in). This can give us an approximation of the importance of these investment vehicles as a form of financing for large and small companies. To the best of our knowledge, this topic has never been properly investigated before.

Second, and consequently, we examine opportunities to redirect part of these financial resources, which in the end are largely private investor savings, to the financing of SMEs through the use of European Long-term Investment Funds (ELTIFs), a new investment vehicle introduced by the European Parliament in 2015.

The remainder of this chapter is thus organized as follows. The following section describes the structure and dimensions of the Italian asset management sector to illustrate how the sector has grown overtime, which competition forces are involved in the market, and how assets under management (AUM) are distributed between Italian and foreign investment firms. Section 11.3 introduces the basic rules that govern ELTIFs. Section 11.4 presents a descriptive analysis of investments made via open-end mutual funds supplied by domestic investment firms to estimate the amount of money that is now held in Italy. Finally, considerations are made, in Sect. 11.5, regarding the prospects of a new model of intermediation for the Italian banking sector.

11.2 The Italian Asset Management Sector: Dimensions and Structure

To better determine whether credit to SMEs could be increased using financial resources currently invested in asset management products, we consider it appropriate to describe how the sector has grown in the past and its current dimensions. Moreover, we believe that it is important to understand competitive forces at work in the market and how asset management products are created, sold and bought by final investors. Indeed, asset management products, and open-end mutual funds in particular, have never been considered as tools for the intermediation of financial resources to SMEs; if we wish to explore this possibility, we must determine whether a change in the modus operandi of principal market players is feasible.

The birth of the Italian asset management sector can be traced back to 1983; in that year, a law (n.77/83) introducing open-end mutual funds in domestic legislation was issued by Parliament, and in the following year (1984), the first Italian open-end mutual fund was created by Gestiras. Prior to this, only some foreign investment vehicles had been sold to Italian private investors by financial advisors/tied agents of specialized banks such as Banca Fideuram.

It could thus be argued that Italian households have been acquiring the necessary skills and expertise to invest in these types of products over the last thirty years. In fact, the Italian asset management sector has undergone various phases and difficulties, which can be reported as follows. Until the start of the 1990s, open-end mutual funds (and similarly direct investments in bonds and stocks) were fully outclassed by government bonds, which granted very high returns and which were mistakenly considered risk-free by private investors.[1] However, from 1993 onward a number of events reshaped the landscape: key companies owned by the state were privatized through IPOs reserved for retail investors. Then, a gradual process of harmonization in view of the introduction of the single currency reduced returns granted by government bonds, making it more appealing to invest in diversified open-end mutual funds. Finally, the 'dot.com fever' of the late 1990s (from which Italian retail investors were not immune) favoured the diffusion of equity funds specialized in high-tech companies.

[1] Government bills returned a nominal yield of more than 10%. While inflation was similarly high and public finance was in distress, Italian households considered a government default to be impossible. The situation was partially restored in 1992 through a massive property tax consisting of a forced withdrawal from private bank accounts in favour of the government.

It is thus possible to assert that the Italian asset management sector had reached a satisfying level of maturity by the start of the new millennium: on one hand, a vast array of different products was indeed available for private investors, and the total AUM value exceeded 500 billion euros (roughly 42% of the GDP). On the other hand, the percentage of household wealth invested in mutual funds reached a maximum level of 16%, which it never reached again in subsequent years (Rota 2014).

The first decade of the new millennium was mainly characterized by three key features: first, the strong diffusion of so-called ‘open architecture’[2] and the consequent expansion of mutual funds supplied by foreign investment firms; second, the amplified production and sale of ‘round-trip’ mutual funds (mutual funds created by investment firms domiciled abroad—especially in Ireland and Luxembourg—but entirely owned by a domestic banking group[3]); finally, the financial crisis, with its well-known consequences, was another factor. By the end of 2012, only 31% of the AUM value was invested in domestic mutual funds, 26% was invested in foreign mutual funds and another 43% was invested in round-trip products.

From current features of the sector, it is possible to report the following data. In September of 2015, the total amount of AUM invested in open-end mutual funds [as noted by Assogestioni, the category Association (Assogestioni 2015a)] reached 818,455 million euros, which is approximately the same amount of bank credit dedicated to non-financial institutions as reported above and which is roughly half the domestic GDP estimated at 1,635,384 million euros for the end of 2015. However, only

[2] The open architecture (or multi-brand) approach refers to an opportunity for the sales force of a bank (private bankers, relationship managers and tied agents) to sell mutual funds from different investment firms, and not only those created by the banking group captive investment firm. This is typically achieved through trade agreements made between a bank and numerous domestic and foreign investment firms. The open architecture approach is currently a very common practice in the market.

[3] This practice is still largely used today; it is in effect due to fiscal advantages available to domestic banking groups that have created their own investment firms abroad (until a fiscal revision made in 2012) and due to corresponding advantages available to Italian private investors who have bought these (actually untrue) foreign mutual funds. In any case, the production of mutual funds abroad by Italian banks accompanied by a greater diffusion of mutual funds supplied by foreign investment firms (also in the form of exchange-traded products) has largely extended investment decisions beyond domestic borders. In turn, Italian household money is increasingly conveyed to financial markets by foreign asset managers.

a meagre 27.87% (228,079 million euros) is invested in domestic open-end mutual funds. Italian private investors generally prefer mutual funds specialized in bonds (42.6%); other popular categories include equity funds (21%) and alternative funds (23.5%). Alternative funds (or 'flexible funds' as they are denominated in Italy) can be dedicated 0–100% in bonds or stocks and can use leverage until reaching 200% of fund assets. These products are used to implement sophisticated investment strategies that were originally reserved only for hedge funds.

While Assogestioni reported 231 investment firms, the market is largely concentrated in the hands of large firms. The most important asset management companies are indeed those owned by the two major banking groups: Eurizon and Fideuram (owned by Banca Intesa Group) and Pioneer Investment (owned by Unicredit Group). Next are Generali Investments Europe (Generali Group), Anima Holding (owned jointly by Poste Italiane and BPM group), Mediolanum and Azimut, and other domestic investment firms and global players such as Franklin Templeton, J.P. Morgan, Amundi and Invesco. In regards to open-end mutual funds, Fig. 11.1 shows that the market share of the first five groups accounts for 51%.

To better understand the Italian asset management sector, it is also important to analyze its structure in terms of supply and demand forces. On the supply side, it is possible to distinguish between two main distribution channels: (i) local branches of traditional commercial banks, which mainly distribute open-end mutual funds generated through the captive investment company of the banking group and (ii) private bank/tied agent networks,[4] which are more prone to (also) selling products created by foreign investment firms. Direct investments in mutual funds created by private investors through Internet platforms (even when possible) are rather rare.

[4] There are approximately 30,000 operating tied agents. The most influential private banks that use these consultants (who are not employees) are Fideuram, Mediolanum, Fineco, Banca Generali, Azimut, and Allianz Bank. Approximately 66% of mutual funds distributed by tied agents are products domiciled abroad (i.e., round-trip funds or foreign funds). Furthermore, tied agents typically work with affluent and high net worth clients, while the local branches of commercial banks mainly serve retail consumers.

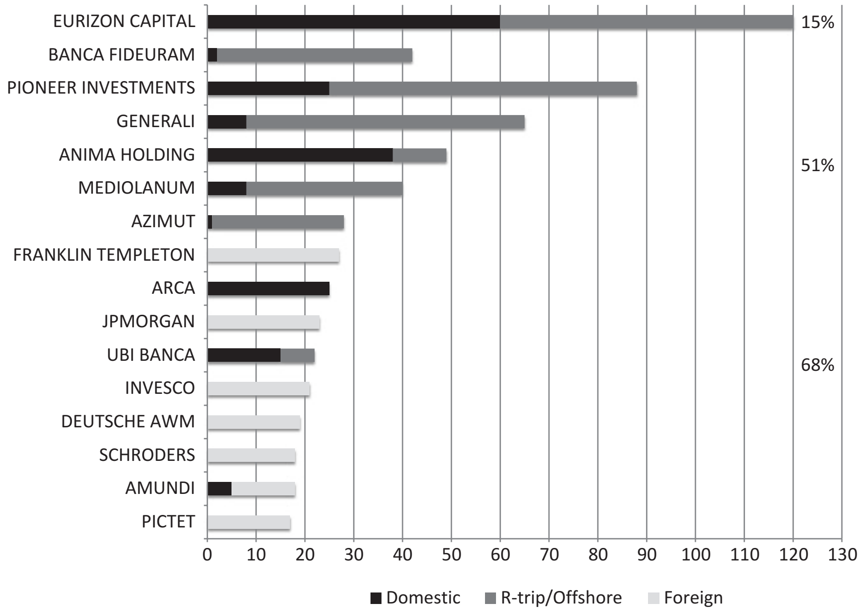

Fig. 11.1 Top 15 groups (open-end funds only) in billions of euros (*Source*: Assogestioni (2015b), *The Italian asset management market. Key Figures*)

In term of dimensions, and considering domestic open-end mutual funds in particular, local branches of commercial banks account for roughly 70% of the amount distributed to private investors. This is a very important feature that must be considered carefully in analyses of the sector. Rather, it is indeed plausible that mutual funds offered through a commercial bank can be influenced by funding requirements imposed by the same bank. In fact, a strong inverse correlation between offering in-house funding products (bonds and deposits) and the commercial push for mutual funds has been proven empirically (Assogestioni 2015b). Especially for the 2010–2014 period (see Fig. 11.2), we have witnessed strong outflows from bonds issued by banks and consequent massive inflows in mutual funds.

The causes of these movements of financial resources can be traced back to difficulties faced in traditional commercial banks during the post-crisis period. It is widely recognized that most Italian banks accumulated

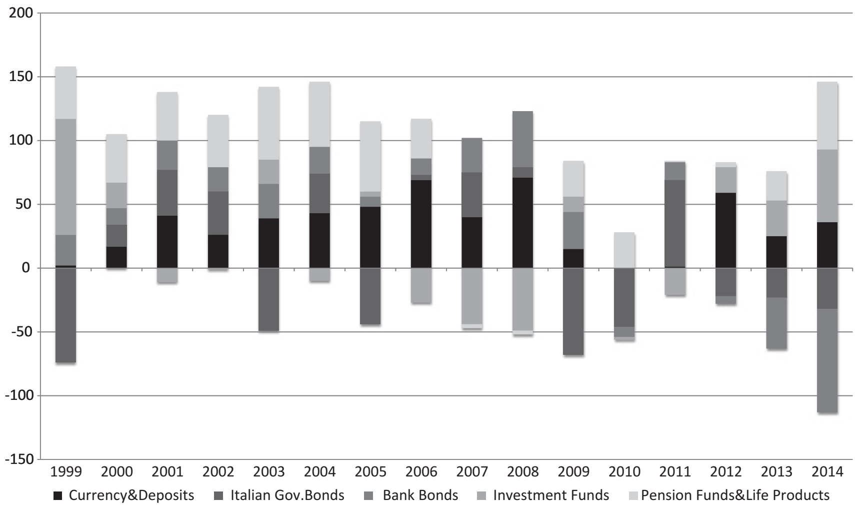

Fig. 11.2 Flows of financial resources into different investment instruments in billions of euros (*Source*: Assogestioni (2015b), *The Italian asset management market. Key Figures*)

considerable NPLs during this phase, and several were forced by authorities (Bank of Italy and ECB) to increase their regulation capital.

This request for additional capital, especially after the introduction of the Capital Requirements Directive (CRD-IV), contributed to a tightening of credit standards required by SMEs in order to access credit and to a diffuse credit crunch phenomenon (Rapacciuolo 2014). On the other hand, commercial banks redirected the investments of private savers into mutual funds; indeed, the placement of asset management products and the availability of advisory services generated commission revenues that effectively boosted profits during a period characterized by very low interest rates. Furthermore, such banking activities do not increase the quantity of risk-weighted assets and consequently require less regulation capital.

From a strategic point of view, this shift towards more intense sales of asset management products accompanied by a decline in traditional intermediation activity (collection of deposits and provision of credits) depicts an interesting change in the business models of several banks.

Yet this change may harm SMEs if, in the long run, it reduces the quantity of household financial resources accessible to finance small companies that are not used to placing their own bonds and stocks in the marketplace. Conversely, if some investments of open-end mutual funds could be redirected for SME financing, a new model of intermediation could be created. To accomplish this, it will likely be necessary to create a new type of asset management product, such as the ELTIFs described in Sect. 11.3.

11.3 ELTIFs: New Instruments for SME Financing

As stated above, open-end mutual funds do not invest significantly in shares or bonds issued by SMEs. In the analysis presented in Sect. 11.4, we show that the majority of investments are directed to government bonds and to shares and bonds issued by large listed companies. To reallocate financial resources to SMEs, focused asset management products are needed. We thus consider it appropriate to introduce to our analysis a thorough description of ELTIF features to better appreciate whether this new asset management product could effectively and efficiently create a new model of intermediation.

On 20 April 2015, the European Council adopted a regulation aimed at increasing the pool of capital available for long-term investment in the EU economy by creating a new fund vehicle. Regulation (UE) 2015/760 was approved on 8 June 2015, and from 9 December 2015 onward it has been in force in the member states. European long-term investment funds are now marketable in the EU.

From a juridical point of view, ELTIFs will be created as EU alternative investment funds (EU AIFs) that are managed by EU alternative investment fund managers (EU AIFMs), who are authorized in accordance with directive 2011/61/EU on AIFMs. ELTIFs can also be divided into different investment compartments, and each compartment is regarded as a separate ELTIF.

ELTIFs offer long-term financing for various infrastructure projects, unlisted companies and listed small and medium-sized enterprises that issue equity or debt instruments for which there are no readily identifiable buyers. By financing such projects, ELTIFs contribute to the financing of the Union's real economy and to the implementation of its policies. Indeed, as the financial crisis has shown, complementing bank financing with a broader variety of financing sources that better mobilize capital markets could help address financing gaps. ELTIFs can play a crucial role in this respect and can also mobilize capital by attracting third-country investors.

By virtue of the asset classes they are allowed to invest in, ELTIFs are expected to provide investors with long-term, stable returns. ELTIFs thus follow a new collective investment framework that allows private investors to invest money in companies and projects that need long-term capital (e.g., infrastructure projects), thereby stimulating employment and economic growth.

ELTIFs will only focus on alternative investments that fall within a defined category of long-term asset classes whose successful development requires long-term investor commitment. These include:

- Equity or quasi-equity instruments that have been issued by a qualifying portfolio undertaking and that have been acquired by the ELTIF from a qualifying portfolio undertaking or from a third party via the secondary market. A qualifying portfolio undertaking is an undertaking which: (i) is not admitted to trading on a regulated market or multilateral trading facility, or which (ii) is admitted to trading on a regulated market or on a multilateral trading facility while at the same time presenting a market capitalization value of no more than 500,000,000 euros;
- Debt instruments issued by a qualifying portfolio undertaking;
- Loans granted by the ELTIF to a qualifying portfolio undertaking with a maturity level of no longer than the life of the ELTIF;
- Units or shares of one or several other ELTIFs, European Venture Capital Funds (EuVECA), and European Social Entrepreneurship Funds (EuSEF) provided that those ELTIFs, EuVECAs and EuSEFs have not themselves invested more than 10% of their capital in ELTIFs;

- Direct or indirect holdings via qualifying portfolio undertakings of individual real assets with a value of at least 10,000,000 euros or its equivalent in the currency in which, and at the time when, the expenditure is incurred.

Essentially, ELTIFs are designed for investing in unlisted companies that require long-term capital such as infrastructure, notably in network industries (e.g., transport and energy) but also in terms of social infrastructure (hospitals, schools and social housing). ELTIFs can also invest in certain small and medium-sized listed enterprises, in real assets that require long-term capital for their development, in intellectual property, in other intangible assets and in EuVECA and EuSEF.

It is thus possible to assert that this new fund vehicle could also be invested in stocks, bonds and other form of credit[5] issued by small companies if they require long-term financing for multi-year project development. ELTIFs are certainly designed to increase non-bank finances available to companies investing in the real economy of the European Union, thus creating a new model of financial resource intermediation that differs from the traditional deposit-credit circuit employed by commercial banks.

Indeed, as we note above, the same commercial banks could see this form of disintermediation as an opportunity: if the deposits of private investors should be partially redirected to ELTIFs investing in SMEs, this could decrease bank credit risk exposure levels as well as the need for regulation capital. Credit risk exposure would be transferred to ELTIFs (and finally to investors), but could be better diversified, as ELTIFs must follow typical rules of diversification established for mutual funds. Banks would eventually lose part of their interest revenue but could increase commission revenues by placing and trading ELTIFs and by providing advice on them.

ELTIFs are subject to additional rules that require them, *inter alia*, to invest at least 70% of their capital in clearly defined categories of eligible

[5] This opportunity for mutual funds to grant loans is not a first of its type under Italian legislation. Indeed, closed-end mutual funds established as alternative investment funds (AIFs) can invest in credit acquired by third parties, in asset-backed securities and in credit granted by the fund itself. This capability has recently been extended to closed-end AIFs established in the European Union.

assets (this limit must be reached within five years after fund creation). Trading in assets other than long-term investments is only permitted for up to a maximum of 30% of their capital. An ELTIF shall invest no more than: (a) 10% of its capital in instruments issued by (or loans granted to) any single qualifying portfolio undertaking; (b) 10% of its capital directly or indirectly in a single real asset; and (c) 10% of its capital in units or shares of any single ELTIF, EuVECA or EuSEF.

The aggregate value of units or shares of ELTIFs, EuvECAs and EuSEFs in an ELTIF portfolio shall not exceed 20% of the value of ELTIF capital. ELTIFs are also conceived of as investment vehicles through which the European Investment Bank (the EIB) Group can channel its European infrastructure or SME financing.

It is important to note that ELTIFs do not generally offer redemption rights before their end of life; technically speaking, they are not open-end mutual funds (i.e., investors cannot have their money back every day as normally prescribed for open-end mutual funds), and this must be clearly disclosed to investors. However, managers can allow investors to get their money back under certain circumstances. In cases where this is allowed, this should be clearly explained to investors before their money is committed.

Moreover, ELTIFs are not prevented from seeking the admission of their units or shares to a regulated market or multilateral trading facility, thus providing investors with opportunities to sell their units or shares before the end of the life of the ELTIF. Indeed, the rules or instruments of ELTIF incorporation should not prevent ELTIF units or shares from being admitted to trading on a regulated market or multilateral trading facility, nor should they prevent investors from freely transferring their units or shares to third parties who wish to purchase those units or shares. This is intended to promote secondary markets as an important venue for retail investors who are buying and selling units or shares of ELTIFs.

Notwithstanding the fact that ELTIFs are not open-end mutual funds, they will target both professional and retail investors in the EU. For this reason, regulations lay down specific rules that help protect retail investors in particular. Fund managers and distributors must ensure that retail investors with portfolios of up to 500,000 euros do not invest aggregate amounts exceeding 10% of their portfolios in ELTIFs, provided that initial amounts invested in one or more ELTIFs are not lower than 10,000€. Moreover, when the lifecycle of an ELTIF exceeds ten years, a fund manager or distributor must issue a written alert that it may not be suitable for retail investors who are unable to sustain such a long-term and illiquid commitment.

In any case, contrary to European Venture Capital Funds (EuVECA) and European Social Entrepreneurship Funds (EuSEF), for which a minimum investment of 100,000 euros is required so that they are targeted at professional investors, ELTIFs could serve as appropriate financial instruments for non-institutional investors. Moreover, ELTIFs could also be included in the assets of other investment products normally bought by retail investors (e.g., funds of funds and insurance products).

11.4 Italian Open-End Mutual Funds Supplied by Italian Investment Firms: A Descriptive Analysis

As noted above, the total amount of open-end mutual fund AUM distributed in Italy is approximately equivalent to the amount of bank credit available to non-financial institutions. To investigate that proportion of these financial resources which is invested in the domestic economy, we created a database of domestic open-end mutual funds (i.e., products domiciled in Italy—and supplied by Italian investment houses—that invest more than 15% of their assets in bonds and stocks issued by domestic companies). The 15% limit was selected after carrying out quantitative simulations. Indeed, if we took mutual funds that invest less than 15% in bonds and stocks issued by Italian companies into account, we would have run the risk of also considering products that only temporarily invest a relatively small amount of money in the domestic economy, and mainly for cash-parking reasons. Our estimate is thus considered an approximation by defect.

Our selection is based upon the following reasoning. As the scope of our analysis is to estimate the potential resources of open-end mutual funds that could be redirected to SME financing and the potential market share of ELTIFs, we consider only those funds which:

(a) Are managed by Italian investment firms that may be interested in investing in Italian SMEs as a commercial strategy (it is indeed plausible to posit, for example, that the expansion of ELTIFs could happen through a focused commercial push directed to sensitize Italian private investors on the need to finance domestic SMEs). For these funds, investment decisions are ultimately made in Italy and could be in some ways 'influenced' by domestic authorities through moral suasion or administrative and fiscal facilitation. This does not mean that foreign investment companies should not be interested in Italian SMEs. Rather, in the case of products domiciled abroad (and this is also true for round-trip funds), the investment process is normally guided by foreign managers, who are typically characterized by an international mindset and who are less sensitive to domestic issues;
(b) Are right now sufficiently invested in Italy. It is in fact obvious that a fund supplied by an Italian investment firm but created to invest in foreign asset classes (e.g., a fund domiciled in Italy but in the American Equity category) will continue to channel Italian household financial resources abroad and will invest only slightly in Italy.

To create our dataset, from the investment firms recorded by Assogestioni, we first selected those mainly owned by Italian shareholders—namely, captive investment firms of primary banking groups or independent investment houses. We then omitted those houses with no funds investing more than 15% of assets in Italy and those for which clear data are not available. We ultimately identified 22 investment firms [or *Società di Gestione del Risparmio* (SGR) as they are called in Italy], which are listed in Table 11.1.

Investment companies listed in our database include principal players of the sector (e.g., Eurizon Capital SGR S.p.A, Pioneer Investment Management SGRpA, Generali Investments Europe S.p.A.). Excluding top foreign investment companies that operate in Italy, we can confirm

Table 11.1 List of Italian investment firms included in our database

AcomeA SGR Spa	Fideuram Investimenti SGR SPA
Agora Investments SGR Spa	Fondaco Sgr
Aletti Gestielle SGR S.p.A.	Generali Investments Europe S.p.A.
Anima Sgr S.p.A	Groupama Asset Management
ARCA SGR S.p.a.	Investitori SGR
Azimut Capital Management SGR S.p.A.	Mediolanum Gestione Fondi SGRp.A.
BancoPosta Fondi S.p.A. SGR	Pioneer Investment Management SGRpA
BCC Risparmio&Previdenza S.G.R.p.a.	Sella Gestioni SGR S.p.A.
Etica SGR SpA	SOPRARNO SGR S.P.A.
Eurizon Capital SGR S.p.A	UBI Pramerica S.p.A.
Euromobiliare Asset Management SGR SpA	Zenit SGR S.p.A.

that the list shown in Table 11.1 almost fully covers the supply side of the market.

We then considered only those open-end mutual funds that invest in Italy consistently. To do so, we used data provided by Morningstar, one of the information providers most commonly used by financial consultants and practitioners. More specifically, we used data reported in the asset allocation section of each fund profile, which lists the number of stocks and bonds owned by a fund, the weights of the first ten positions and the percentage invested in different countries. From this information, which was collected manually by analyzing individual Morningstar data sheets, we were able to determine when a mutual fund invested more than 15% in Italy, and we could analyze types of securities held. Even if we could specifically study only the top ten positions of each fund, it should be noted that these positions normally cover a rather high percentage of assets invested by a fund. In our database, the mean weight of the first ten positions in which funds are invested is roughly 57%. Definitively, our data could be considered a snapshot of the asset allocation of funds on a specific date (September 30, 2015).

We studied 266 funds, and the total AUM related to these funds amounts to roughly 73.58 billion euros.[6] Of course, not all financial

[6] We consider different classes of the same fund (i.e., the class reserved for institutional investors or that reserved for private investors) as different products, as they are assigned different identification numbers (ISINs).

resources of the studied funds are invested in the domestic economy, as a fund that invests more than 15% in Italy can still invest in foreign companies. However, even so, 73.58 billion euros can be considered as a starting point to estimating dimensions of the phenomenon or the amount of financial resources that could be redirected (at least partially) to SME financing and ELTIFs.

Table 11.2 presents summary statistics for our database. The majority of funds (162 or 60.9%) are held in the Macro category bond. More specifically, 46 of these funds are classified by Assogestioni as Bond Government Debt funds (which are also divided into short/medium and long term categories). If we add this number to the number of Cash funds (12), we obtain a total of 58 products characterized by a very low risk profile.

Another important category is flexible funds (55). As among the macro category bonds we also find 47 products that are classified as flexible (even if principally invested in bonds), we find more than 100 products that use innovative (active) strategies of asset allocation. Less surprising, on the other hand, is our identification of few equity funds (27), reflecting Italian investors' limited engagement with the stock exchange and diffuse preference for bonds. Similarly, the median dimension of funds in the macro category bond (266 million euros) is more than double the median dimension of equity funds (118 million euros).

Our specific analysis of the investments made by mutual funds included in our database reveals a total of 5,980 equity instruments and 10,661 bond instruments. In the first ten positions held by each fund (in terms of dimension as reported by Morningstar), we find that domestic instruments (bonds and stocks) amount to 1,809: the financial resources invested in these instruments amount to 28,275 million euros. Of these 1,809 instruments, the vast majority are government bonds (1,155), which amount to a total value of circa 23 billion euros.

It is thus clear that a large proportion of the financial resources of open-end mutual funds included in our database are invested in bonds issued by the government; this means that public debt still drains a fundamental portion of Italian household savings, even when these savings are invested through asset management products. In fact, it should be noted that Italian private investors also buy government bonds on their own. The

Table 11.2 Summary statistics for our database

Macro category	Sub-category (from Assogestioni classification)	N. obs.	N. obs (%)	AUM (value) €ml	AUM (%)	AUM (mean) €ml	AUM (min) €ml	AUM (max) €ml	% First ten posi-tions (mean)
Equity	*Total category*	*27*	*10.2*	*3191.62*	*4.3*	*118.21*	*0.35*	*660.49*	*42.21*
	Equity America	1	0.4	187.97	0.3	187.97	187.97	187.97	28.54
	Equity Euro Area	1	0.4	19.95	0.0	19.95	19.95	19.95	51.88
	Equity Europe	3	1.1	78.00	0.1	26.00	0.35	73.04	31.19
	Equity International	2	0.8	39.56	0.1	19.78	2.93	36.63	21.94
	Equity Italy	19	7.1	2677.54	3.6	140.92	1.31	660.49	44.72
	Equity Pacific	1	0.4	188.60	0.3	188.60	188.60	188.60	72.03
Bal-anced	*Total category*	*10*	*3.8*	*1836.88*	*2.5*	*183.69*	*0.01*	*684.13*	*58.65*
	Balanced	1	0.4	86.98	0.1	86.98	86.98	86.98	56.59
	Balanced Equity	3	1.1	108.67	0.1	36.22	0.01	107.21	67.65
	Balanced Bond	6	2.3	1,641.23	2.2	273.54	0.01	684.13	54.49
Flex-ible	*Total category*	*55*	*20.7*	*20,710.57*	*28.1*	*390.77*	*0.15*	*6581.00*	*54.76*
Cash		12	4.5	4757.41	6.5	396.45	0.01	1,255.85	73.09

(*continued*)

Table 11.2 (continued)

Macro category	Sub-category (from Assogestioni classification)	N. obs.	N. obs (%)	AUM (value) €ml	AUM (%)	AUM (mean) €ml	AUM (min) €ml	AUM (max) €ml	% First ten posi-tions (mean)
Bond	*Total category*	*162*	*60.9*	*43,090.73*	*58.6*	*265.99*	*0.01*	*4909.39*	*58.91*
	Bond other specialization	31	11.7	4620.14	6.3	149.04	0.01	537.60	57.29
	Bond government debt medium/ long term (US dollar)	1	0.4	15.24	0.0	15.24	15.24	15.24	86.70
	Bond euro corporate investment grade	2	0.8	263.27	0.4	131.64	122.81	140.46	17.27
	Bond government debt short-term euro	32	12.0	9750.49	13.3	304.70	0.01	2470.20	63.54
	Bond government debt medium/ long term (euro)	12	4.5	2123.16	2.9	176.93	0.35	841.92	57.38
	Bond flexible	47	17.7	7824.18	10.6	166.47	6.35	1,019.76	59.01
	Bond government debt international	1	0.4	133.57	0.2	133.57	133.57	133.57	53.77
	Bond Italy	7	2.6	1657.06	2.3	236.72	0.01	532.36	77.54
	Bond mixed	29	10.9	16,703.62	22.7	575.99	7.11	4,909.39	53.52
Totals		**266**	**100**	**73,587.21**	**100.0**	**278.74**	**0.01**	**6581.00**	**56.98**

last estimate made by Bank of Italy shows that roughly 171.7 billion euros of household financial wealth (or 4.41% of the total wealth) is directly invested in government bonds. Other debt instruments held by bond funds are mainly debt instruments issued by banks and primary listed companies; bonds issued by small cap companies are virtually absent.

On the other hand, if we look at equity instruments that appear in the first ten positions of the asset allocation of mutual funds analyzed, we find 182 open positions, resulting in a total of roughly 1.7 billion euros. Yet, by examining the data shown in Table 11.3, one can appreciate a very high level of concentration: the first 15 companies, which include the most important blue chips listed on the Italian Stock Exchange (and also some positions in futures on the FTSEMIB, the principal index of the domestic market), cover roughly 90% of the total amount invested. Other positions are mainly held in shares issued by financial institutions, while shares of small cap companies rarely appear.

Ultimately, the asset allocation of equity mutual funds is rather similar to the composition of principal benchmarks of the market, and it is completely biased towards large cap companies; interestingly, we found only one equity fund specialized in SMEs (Eurizon Azioni PMI Italia).

In sum, we can draw the following observations. The total AUM of open-end mutual funds that we considered in our database is 73.58 billion euros, accounting for only 9% of the financial resources invested by all open-end mutual funds across Italy (818,455 billion euros). On one hand, this means a large proportion of Italian household money is channelled abroad. This is not surprising if we consider dimensions of the Italian financial market, the fact that the industrial structure of the domestic economy is mainly composed of unlisted small and medium companies, and the obvious diversification logics of mutual funds.

On the other hand, dimensions of these financial resources are not trivial. As a comparison, the total number of credits of less than 250,000 euros provided by banks and other credit intermediaries (which can approximate SME financing) reached roughly 412 billion euros in June of 2015 according to Bank of Italy data (Bank of Italy 2015a). Financial resources invested in the funds examined thus account for roughly 18% of this value. Moreover, one must remember that the AUM of domestic

Table 11.3 Companies observable in the first ten positions of equity funds studied

Ranking	Companies	N. obs	Value invested (ml)	Cumulated	Cumulated (%)
1	Eni SpA	15	258.84	258.84	15.1
2	UniCredit SpA	15	188.38	447.22	26.0
3	Assicurazioni Generali	15	168.90	616.12	35.9
4	Intesa Sanpaolo	9	165.17	781.29	45.5
5	ENEL SPA	14	164.51	945.80	55.1
6	Ftse/Mib Idx Fut Sep15	6	126.92	1072.71	62.4
7	Atlantia	12	93.45	1166.16	67.9
8	Mediobanca	4	66.50	1232.66	71.8
9	Snam SpA	9	64.61	1297.27	75.5
10	Intesa Sanpaolo Risp	6	55.42	1352.69	78.7
11	Luxottica Group SpA	7	54.34	1407.03	81.9
12	Fiat Chrysler Automobiles NV	9	49.50	1456.53	84.8
13	Tod'S	5	46.69	1503.23	87.5
14	Telecom Italia SpA	5	37.30	1540.53	89.7
15	Italcementi SpA	4	21.25	1561.78	90.9
16	Finmeccanica SpA	1	15.71	1577.48	91.8
17	Telecom Italia SpA Risp	4	14.68	1592.16	92.7
18	Prysmian	1	14.63	1606.79	93.5
19	Interpump Group	3	11.81	1618.60	94.2
20	Brembo	3	10.38	1628.98	94.8
21	Banca Popolare di Sondrio	2	7.49	1636.47	95.3
22	Recordati	1	7.39	1643.85	95.7
23	Banca Generali	1	6.68	1650.53	96.1
24	Credito Valtellinese	2	6.53	1657.06	96.5
25	Anima Holding S.p.A.	1	6.52	1663.58	96.8
26	EI Towers SpA	2	6.43	1670.01	97.2
27	Banca Popolare di Milano	1	5.90	1675.91	97.6
28	FinecoBank S.p.A	2	5.73	1681.64	97.9
29	Marr SPA	2	5.30	1686.94	98.2
30	Hera SpA	1	5.30	1692.25	98.5
31	Industria Macchine Automatiche	2	5.27	1697.52	98.8
32	Amplifon	2	4.59	1702.11	99.1
33	Reply SPA	2	4.16	1706.27	99.3

(*continued*)

Table 11.3 (continued)

Ranking	Companies	N. obs	Value invested (ml)	Cumulated	Cumulated (%)
34	Esprinet	2	3.04	1709.31	99.5
35	Engineering	2	2.99	1712.31	99.7
36	Banco Popolare	2	1.24	1713.54	99.7
37	Banca Carige	2	1.18	1714.73	99.8
38	Banca Pop Emilia Romagna	1	0.79	1715.52	99.9
39	Mediaset	1	0.70	1716.22	99.9
40	Banco Desio Brianza	1	0.47	1716.68	99.9
41	Unipol Gruppo Finanziario Spa	1	0.42	1717.11	100.0
42	A2A SpA	1	0.40	1717.51	100.0
43	Aeffe	1	0.37	1717.88	100.0
	Total	**182**	**1717.88**		

open-end mutual funds chiefly invested in Italy could be greatly increased if other ‘Italy focused’ funds were created by Italian investment firms.

The majority of investments made through the examined funds are dedicated to government and bank bonds. Considering the very low returns granted today by government bonds and the diminished need and willingness of banks to issue debt instruments, these investments could be (at least partially) redirected to SME financing if the right vehicle were available in the market. However, for the moment, attempts to develop a specialized market for mini-bonds (i.e., bonds issued by SMEs) have produced meagre results. The total market for mini-bonds listed in the Extramot (a multilateral trading facility owned by the Italian Stock Exchange) is estimated to amount to only 5.5 billion euros.

With regards to investments in equity instruments, it is certainly necessary to increase the number of open-end mutual funds focused on domestic small-cap companies, and especially those engaged in innovative fields. This may allow retail investors to take advantage of a diversified portfolio invested in this type of firm while compensating for the sluggish private equity and venture capital market, which in 2014 was estimated to amount to roughly 30 billion euros (AIFI 2014).

11.5 Final Considerations

The Italian banking system has survived through a critical environment over the past few years; from the financial crisis of 2008 through to the government debt crisis of 2011, Italian banks have witnessed a tremendous increase in NPLs and a very strong decline in profitability. Many of these banks have been forced by authorities to recapitalize in order to respect minimum capital requirements imposed through CRD-IV regulations. Four banks (namely, Banca delle Marche, Banca Popolare Etruria-Lazio, Cassa Risparmio di Chieti and Cassa di Risparmio di Ferrara) were subjected to a sort of anticipated bail-in in November of 2015, only a few months before the introduction of the Bank Recovery and Resolution Directive (BRRD) on 1 January 2016.

In the meantime, some Italian academics have begun to develop a new way of thinking about the functioning of the domestic banking system and of different circuits of financial intermediation that could be implemented, especially to better finance SMEs. In 2014, for example, Forestieri (2014) proposed using more loan securitization and mini bonds as new channels for SMEs financing; subsequently, Aliano and Malavasi (2015) estimated the number of financial resources that could be freed up through the securitization of bank loans of between 50 and 100 billion euros.

The idea behind this reasoning is that banks could partially transform their business models by more intensively applying 'originate and distribute' approaches [i.e., by reducing the needs of regulation capital and earning more through commission-related activities (placement and advisory)].

The Italian legislature has taken steps in this direction by passing law 91/2014, which increases types of intermediaries that are permitted to grant loans. In fact, the law introduced the opportunity (under specific circumstances) for insurance companies, closed-end mutual funds established as AIFs, and special purpose vehicles normally used during the securitization process to extend credit to small companies. Even if this law has not yet produced important results, it can be recognized as a significant change in the structure of the banking sector. Nevertheless, it is correct to note that banks will likely remain as central players in the market, as they will act as servicing providers—that is, they will provide selection and monitoring services for third parties.

The analysis illustrated in the present chapter follows the same direction as previous studies, even if it is based on a different point of view. In fact, we tried to estimate how much of the financial resources currently invested by retail savers in open-end mutual funds (which are primarily distributed by banks) could be used to finance SMEs. We too anticipate that a change in traditional bank business models (which is actually under way) could allow the same banks to operate with fewer risk-weighted assets and then with less regulatory capital inasmuch as investor deposits could be directly invested in asset-managed products.

The starting point is the total AUM of open-end mutual funds that is equal to approximately 818 billion euros; this alone affirms that a reasonable source of SME funding could be obtained from this large sum of money if it were also partially used in this scope. Unfortunately, as we have demonstrated, only a relative percentage of the AUM of open-end mutual funds is controlled by investment firms domiciled in Italy, and an even smaller percentage is invested in domestic instruments (bonds and stocks). Moreover, the funds we studied are principally invested in government and bank bonds and in shares issued by large corporations.

In any case, by only considering funds domiciled in Italy that are managed by domestic investment houses, we estimated by defect that roughly 73 billion euros can in theory be dedicated to SME financing. It is reasonable to assume that half of these financial resources (roughly 35 billion euros) could be channelled toward the domestic micro-economy if adequate commercial 'propaganda' and the right investment instruments were used. In addition, the 50% assumption that we make here could even be considered conservative if one considers the fact that Italian savers (as noted in the introduction) maintain more than 500 billion euros parked in current accounts.

Two main investment vehicles can be used to increase SME financing through asset management products. On one hand, traditional open-end mutual funds specialized in Italian small cap companies, which could be rather appealing to retail investors, are practically absent among products offered by Italian investment firms. If more open-end mutual funds specialized in small cap instruments (bonds and stocks) were introduced by investment houses, we would likely witness an immediate increase in mini-bond issues and a subsequent increase in small companies listed in the domestic stock exchange.

On the other hand, high expectations could be placed on the future diffusion of ELTIFs: even if the creation and distribution of this new investment vehicle will take some time (as it may be considered somewhat unusual for the Italian market), a significant amount of money is currently available. Moreover, it is possible to assume that ELTIFs established in other European countries may be interested in investing in domestic SMEs.

Finally, it is correct to also consider the other side of the coin: the positions of SMEs. Indeed, it is easy to assume that SMEs could benefit if new instruments/intermediaries that can grant loans were introduced to the marketplace. However, SMEs are also called upon to change their modus operandi when they wish to be appealing to open-end mutual funds and ELTIFs. For example, they should become more inclined to issue mini-bonds, to present long-term projects to specialized investors, or to simply improve their image. In short, they are called upon to improve the efficiency of their financial management systems and to increase their relationship skills with regards to domestic and foreign institutional investors.

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