CAPITAL MARKETS

Sectoral Strategic Guidelines

CONTENTS

KEY MESSAGES

- Public and private capital market in Italy is not yet adequate to support the development of the national economy:
  - the public segment is **undersized compared to that of its main European peers, thus failing to fully play its role as a driver** of the competitiveness of Italian companies and the country in general;
  - **the private market, on the other hand, is too fragmentated, with a prevalence of small operators and an offer not covering the different stages of the life cycle of enterprises. As a result, companies with strong growth ambitions and significant potential struggle to find investors capable of supporting them, both financially and in the development of industrial projects, especially in the most sensitive stages of business growth**.
- **The business lending system** is still **largely reliant on bank loans** with only limited recourse to the capital market. This is due both to the underdevelopment of non-banking finance and to the low propensity of businesses for risk-capital segments and instruments. These factors hinder the further development of the production system.
- A more diversified financial system and a **more balanced mix of corporate financing sources** can help to boost the growth potential of the economy. Equity financing, which takes a long-term approach, can support long-term investments and development plans that entail higher risks. It can also cover investment in intangible assets, such as R&D or innovation, that are key drivers of market competitiveness and productivity.
- The **growth of public and private capital markets** in Italy **must proceed in parallel** to ensure companies are adequately supported at different stages of their life cycle. In particular, the **role of the private market** must be to help companies to **grow in size and strengthen their financial structure** also with a view to **listing**, a goal that only a few companies in Italy - smaller than of their international peers - currently manage to achieve.
- **Our overall aim is to help develop a broad and integrated capital market**. Italian companies are facing a lack of capital in four fundamental stages of their lives: a) in the start-up phase, where uncertainty is very high; b) in the scale-up phase, marked by the transition from early-stage to late-stage investments; c) in the growth phase, which requires significant financial outlay; and d) in the pre-listing phase. Both direct and indirect actions are needed to promote **funds that invest specifically at some of these turning points.**
- With this in mind, to promote the **development of the private capital market** towards a more comprehensive structure, able to support companies throughout their life stages, CDP has identified **two key priorities for action**:
  - **growing and developing the Venture Capital ecosystem** and providing sufficient capital to catch up with leading European peers;
  - **increase in the critical mass, range and size of Private Equity both for companies and for infrastructure projects, promoting the role of Private Equity as a catalyst of "third-party" resources for higher-impact initiatives.**
- In parallel, we will **support the main system infrastructure** through proactive governance of our equity investment in Euronext, helping to gear the company towards operating modes, boosting the effectiveness of Borsa Italiana as a capital-raising tool.
- In this context, CDP can step in, according to **additionality and complementarity criteria, helping to close the investment gaps** affecting specific stages in the life cycle of companies where market operators are unable to mobilise adequate resources.
- To ensure **transparency** and accountability of decision-making processes, CDP measures the quality and impact of the projects it supports. To do this, CDP uses a set of monitoring and assessment KPIs designed for each area of action.

1. Context

1.1 International reference framework for the capital market

1.2 Italy's positioning: strengths and gaps

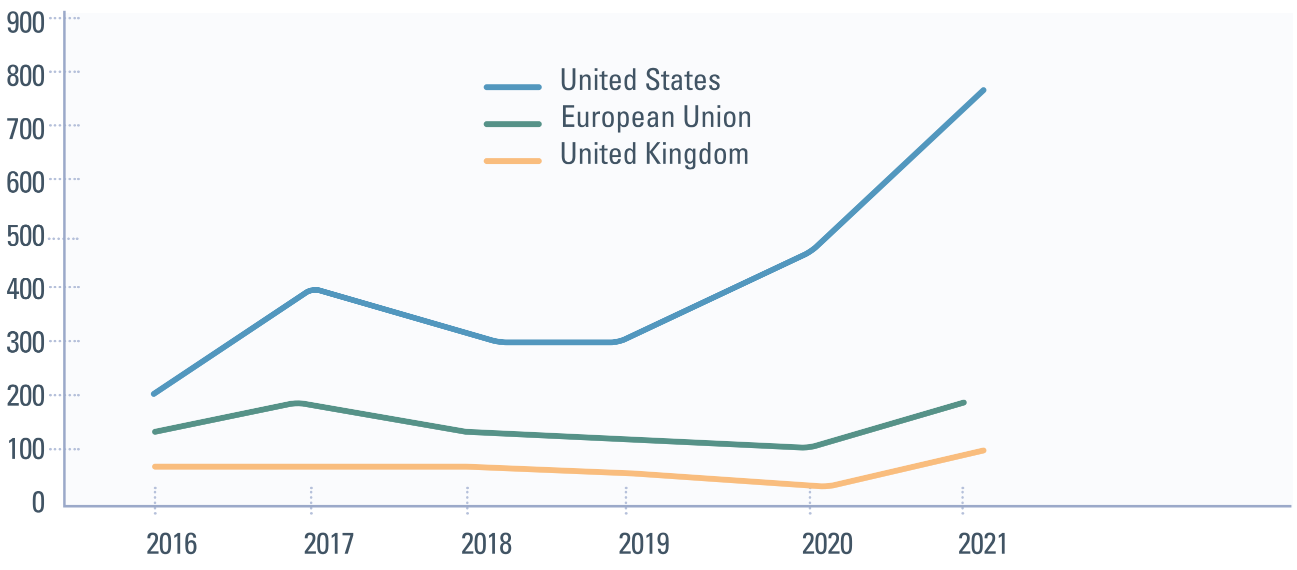
1. CONTEXT

1.1 INTERNATIONAL REFERENCE FRAMEWORK FOR THE CAPITAL MARKET

Since the outbreak of the pandemic crisis, **there has been significant growth in equity fundraising globally** both through IPOs[1] (Initial Public Offering) and through capital increases of listed companies (SPO - Secondary Public Offering)[2]. The increase was quite strong in the **US market** but less so **in the European Union**: over the past five years, the US market has recorded an average annual growth rate of equity financing of 26%, compared to 12% on the European market (Chart 1). These different speeds have widened the competitive gap between the two regions.

CHART 1 – PUBLIC EQUITY FINANCING (IPO AND SPO)

(USD billion)



Source: Bloomberg

Europe **is lagging** behind other world regions in terms of both **public market** and **private equity**. As to the former, the **size of the European public equity market** calculated as a share of GDP is smaller than that of the North American market: in 2021, in Europe it was around 60%, compared to almost 200% in the United States.

To reduce this competitiveness gap, **the European Commission** reiterated the need to **develop strong, well-integrated, more efficient and responsive capital markets at EU level** which, alongside recovery and resilience programmes, will be essential to support future economic growth in the area[3].

However, due to the fragmentation and incomplete creation of a single market for capitals, significant differences are also found between EU countries: specifically, the markets with a stronger international focus are more developed and offer a more favourable environment for company listing and corporate operations.

The European private capital market is similarly undersized compared with the US market: in Europe the share of **private equity investments** reached 0.8% in 2021, an all-time high, but far lower than in the US, where it was almost 7%[4]. Significant differences are recorded between European countries: the UK and Ireland have the most developed Private Equity market, accounting for 47% of the total Private Equity investments made in 2021 at European level, followed by France and Benelux (27%), the Central European countries (10%), the Nordic countries (9%) and, last, Mediterranean Europe (6%).[5].

[1] A company's first listing on the market is called an Initial Public Offering (IPO).
[2] When a company already listed on the stock exchange turns to the capital market to raise additional capital, this is referred to as a Secondary Public Offering (SPO).
[3] COM (2021) 720 final, "Capital Markets Union - Delivering one year after the Action Plan".
[4] EY, Economic contribution of the US private equity sector, 2021.
[5] Invest Europe, Industry Statistics, 2021. Central Europe includes Austria, Germany and Switzerland; Mediterranean Europe includes Greece, Italy, Portugal and Spain. The Nordic countries comprise Denmark, Finland, Norway and Sweden.

The gap in terms of **venture capital investments as a share of GDP** is likewise significant: 0.1% in Europe versus 1.4% in the US.

The factors making **international markets more competitive** than European ones are their more flexible arrangements for **access to the market** and **company law rules** that **can encourage the listing** of growth-type enterprises and **support the participation of SMEs.**[6].

In contrast, the factors discouraging businesses, especially **SMEs**, from accessing capital markets in Europe are: **high administrative burden, high costs of listing** and **excessively stringent requirements for compliance with listing rules.** To overcome these limitations, the **European Commission** has adopted a **new action plan**[7] that pursues three objectives: 1) supporting a green, digital, inclusive and resilient economic recovery by making **financing more accessible to companies, especially SMEs**; 2) making the EU **an even safer place for individuals to save and invest long-term**; 3) **integrating national capital markets into a genuine single market.**

1.2 ITALY'S POSITIONING: STRENGTHS AND GAPS

Strengths	Gaps
Highly diversified production	Small volumes of **invested capital**
Capabilities for **basic research** and presence of **high-profile Universities** and **Research Centres**	Limited **number and diversification of domestic operators**
High **potential attractiveness** for **international investors**	**Fragmentation and poor development of the financial ecosystem** throughout the life cycle of companies
Private savings among the highest globally	Limited participation of institutional investors in raising capital

To **boost the growth of the capital market**, Italy can build on a number of **strengths**, which include:

- a **manufacturing** base enjoying **long-established global leadership.** Italy ranks second in Europe and seventh globally in terms of manufacturing added value, and holds third place globally as to production diversification.[8];
- an **excellence in research**: where Italy is **second in Europe, after Germany**, in the ranking of funding awarded and disbursed by the European Research Council and **eighth worldwide as to number of scientific publications.**. Players such as Human Technopole, the Italian Institute of Technology and, in the coming years, the Innovation Infrastructures and National Research Centres financed with PNRR resources – such as, for example, the recently launched Agritech Hub – will act as generators of innovative ideas that, with the right financial and project planning, can originate successful start-ups;
- a **production system** characterised by the presence of specialised **industrial clusters with advanced know-how** across several sectors, including high-tech industries (e.g. aerospace, biomedicine, nanotechnology). The clusters are not geographically concentrated in the country's leading innovative areas, but are spread throughout the country and well placed to support the growth and development of start-ups. Campania, for example, is the third region in Italy in terms of number of innovative start-ups. Italy also has a high volume of exports as a share of GDP (30%), which makes it one of the leading global exporters and reflects a system that is strongly integrated in some major international value chains;
- **private savings among the highest in the world**: the **financial wealth of Italian households** amounted to about EUR 5

[6] Ministry of Economy and Finance, Consob and Bank of Italy, Green paper on the "Competitiveness of Italian Financial Markets in Support of Growth", 2022.
[7] COM(2020) 590 Final, A Capital Markets Union for people and businesses-new action plan.
[8] See the Sectoral Strategic Guidelines for Support to Strategic Value Chains.

trillion euro in 2021, of which about EUR 1,700 billion in deposits; **net wealth is 8.7 times the size of disposable income, compared to 6.8 in Germany, 7.7 in the UK and 7.5 in the US**. This wealth represents an extraordinary potential resource whose impact depends on the ability to channel these savings into long-term investments in the real economy.

To strengthen the role of the capital market as a complementary source of financing and improve the financial strength of enterprises, over the years Italy has implemented **major reforms**. Among the various measures taken, we can highlight the **Individual Savings Plans** (Piani Individuali di Risparmio - PIR), ad hoc financial instruments for smaller companies such as the **minibonds**, and the ELITE platform of Borsa Italiana. Aimed at assisting companies in accessing the capital and networks they need to grow, ELITE was launched on the initiative of the Ministry of Economy and Finance during the financial crisis and subsequently grew into a company in which CDP currently holds a stake.

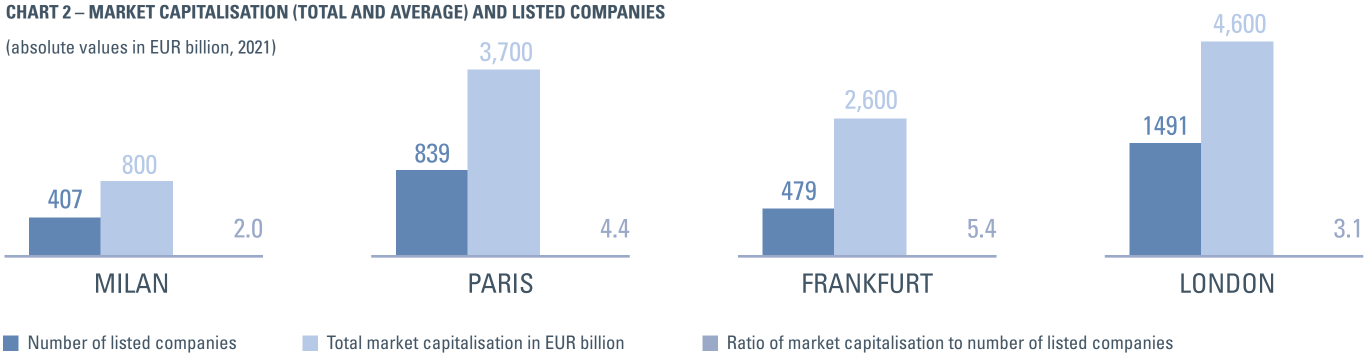
In spite of progress, however, Italy continues to face some significant delays that hold back the development of both public and private capital markets.

First of all, our country **has struggled to raise capital through listing processes**: over the last ten years, on average **less than four companies per year** have been listed on the regulated market of Borsa Italiana. Secondly, a **substantial number of delistings** have occurred: this signals that businesspeople perceive a disconnect between a company's actual value and its stock price.

The Italian stock exchange is one of the least developed in Europe in terms of number of listed companies and average and total capitalisation. As to average capitalisation, **Italian listed companies are worth about half of their French peers and less than a third of their German peers**. The London Stock Exchange leads by overall size (Chart 2). **Italy's market capitalisation as a percent of GDP is also lower** than in other countries: in 2021 it was 45% compared to 150% in Paris and 170% in London.

CHART 2 – MARKET CAPITALISATION (TOTAL AND AVERAGE) AND LISTED COMPANIES

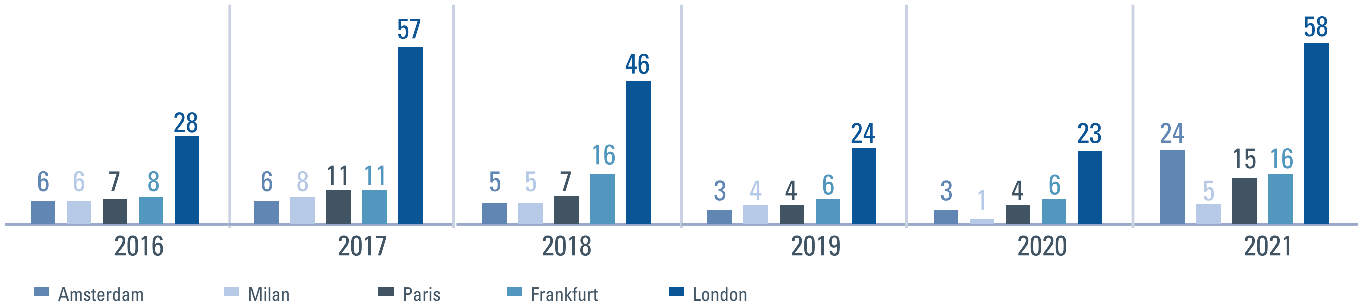
(absolute values in EUR billion, 2021)



Source: Euronext, Dealogic, FacSet GDP data, European Commission, SSB, ONS, SECO

Italy's lag is also evident when looking at the use of the public equity market by Italian companies through **IPOs and SPOs to raise equity capital**. In 2021, there were 5 IPOs in Milan compared to 15 in Paris and 58 in London (Chart 3). In general, with regard to listing, access to the main Milan Stock Exchange (MTA) is slow[9].

CHART 3 – NUMBER OF INITIAL PUBLIC OFFERINGS (IPOS) BY TRADING VENUE



Source: CDP calculations based on data

[9] Green Paper "La Competitività dei mercati finanziari italiani a supporto della crescita" (Competitiveness of Italian Financial Markets in Support of Growth), prepared by the Ministry of Economy and Finance, in coordination with Consob and the Bank of Italy.

A **similar gap is found in the raising of capital on the primary market**[10]; in 2021 it amounted to 1.45 billion euro in Italy, compared to 3.5 billion in Paris and 15 billion in London. Even on the **secondary market, in terms of volume of capital raised, Italy lags further behind** compared to the main European markets, which already show a significant gap compared to the most important international financial centres.

The companies listed on the Italian stock market are of **smaller average size** than those listed on the main European markets, and have a**limited free float**[11], which makes them particularly exposed to variations linked to a small number of buy and sell transactions in a small-sized market. The **low percentage of free float** also **negatively affects the inclusion of Italian shares in international indices**, thus limiting foreign capital inflows. In the MSCI Europe index, the weight of Italian stocks is only 3.6%; French stocks, by comparison, account for about 18% of the index.

The limited recourse to the public capital market is, to a large extent, a reflection of the **structure of the national production system** where relatively few companies are large enough to go public. Governance of Italian companies is **mostly family-based. While this ensures stability and continuity in the company's shareholder base, by the same token it limits the** openness to third-party capital, often necessary to make a leap in size and expand into new markets. As a consequence, bank lending, together with self-financing, remain the main channels for financing growth.

The **limited diversification of financing sources** holds back the development of companies because it limits their ability to invest in riskier projects or with long payback periods such as innovation or internationalisation projects. The limited availability of venture capital also makes companies **financially more vulnerable** to possible shocks. **Greater recourse to the capital market reduces the financial leverage** of companies and thus their riskiness, generating an immediate positive impact in terms of improved rating. This in turn gives companies **easier access to further financing and on better terms**, and supports a **virtuous circle** whereby better corporate ratings reduce the pressure on banks' regulatory capital, widening their options in supporting the economy[12]. The capital market and the banking system thus become more aligned, fostering the growth and overall competitiveness of the economic system.

To expand the capital market, it is not enough to increase demand, i.e. to encourage companies to use these instruments, it is also necessary to strengthen supply, by boosting the role of **institutional investors.**

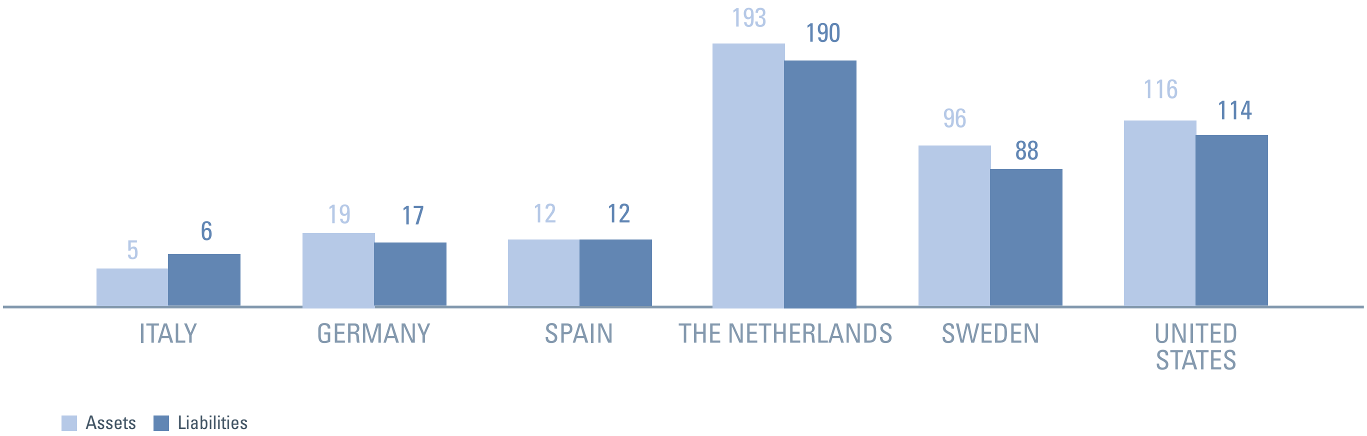
Despite being numerous, the **domestic institutional investors** – pension funds, insurance companies and occupational pensione schemes – are on average of **modest size** in terms of both **member numbers** and volumes of **assets managed**. Moreover, investments in alternative markets require skills and procedures that are not always available precisely because of the small financial size of these operators, so that **their levels of investment in Private Equity (PE), Venture Capital (VC) and Private Debt (PD) still remain small**.

In particular, with reference to **pension funds, among the global top 300 there is only one Italian fund**[13]**, in 185th place**[14] . The **small size** of Italian pension funds is also reflected by their financial assets and liabilities as a share of GDP: according to OECD statistics, **Italian funds have a much smaller share than in other major economies** (Chart 4).

[10] See footnote 3.
[11] Federation of European Securities Exchanges.
[12] For further details, see: Caselli S. Sironi A. (2015), Unione Bancaria: ambizioni, certezze e rischi, in Economia & Management, no. 3, 2015.
[13] The ENPAM Fund.
[14] Global top 300 pension funds, A Thinking Ahead Institute and Pensions & Investments joint study, 2021.

CHART 4 – FINANCIAL ASSETS AND LIABILITIES OF PENSION FUNDS

(% OF GDP, AVERAGE 2015-2020)



Source: OECD, Pension funds in figures, 2022

The value of **investments by pension funds in the Italian economy**[15] was **40 billion euro in 2021**[16]. Most of the assets under management (29.6 billion euro) are allocated to government bonds and other debt securities. The **investments in domestic corporate securities remain marginal (4.7 billion euro)**; of these, **3 billion euro are invested in bonds and 1.7 billion euro in equities. Real estate investments** are worth around 3 billion euro.

The total assets of **pension funds** amount to over 100 billion euro. While **the aggregate value has recorded a sustained growth trend** over the past decade[17], differences, some of them significant, remain in the **share of assets held by individual schemes**: around three quarters are held by the five largest schemes (with the top three accounting for 55% of the total). As to **composition**, the largest share of assets consists of **debt securities**, amounting to 36.4 billion euro (36.2% of the total), while **real estate investments**[18] amount to 19.6 billion euro. **Investments in the Italian real economy**[19] amount to 34.9 billion euro. Of these, investments in securities issued by Italian companies are still a small share: they are worth 5.2 billion euro (5.1% of total assets), of which around 800 million euro in debt securities and 4.4 billion euro in equities.

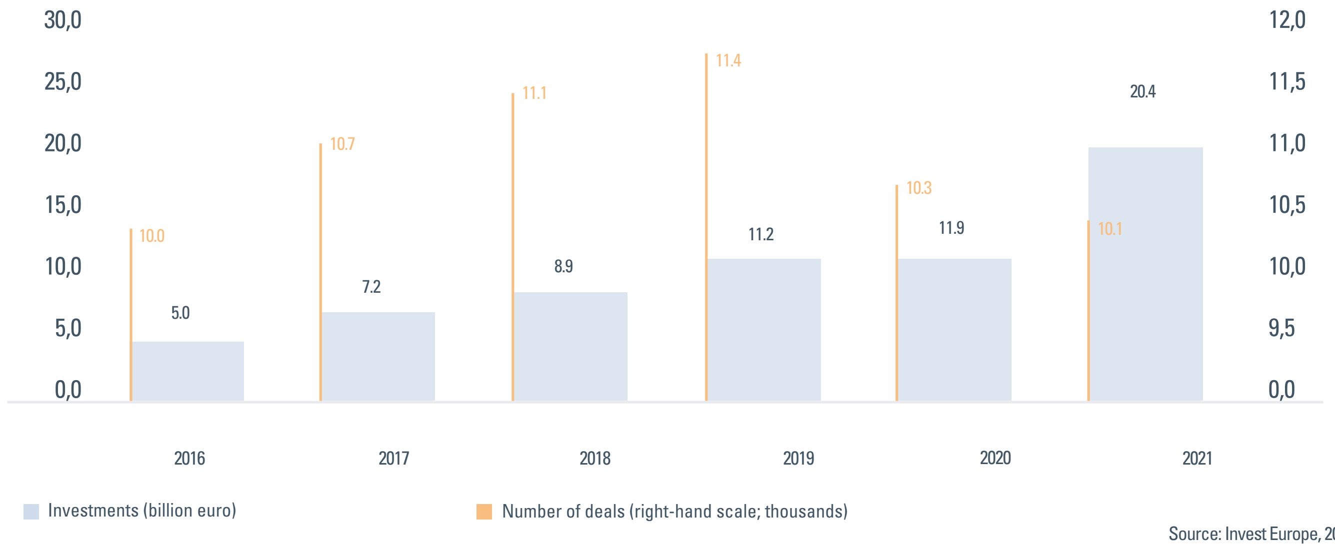
The **effort to strengthen the connection between the large amount of available private capital and the national business system** can also be assisted by **expanding the role of Venture capital and Private Equity**. By developing fully, reaching an adequate size and diversifying their toolbox, these markets can become **enabling factors promoting the growth and consolidation of enterprises throughout their life cycle of enterprises**.

1.2.1 The Venture Capital Market

The **European Venture Capital** market has **expanded significantly in recent years**. In 2021, despite a highly uncertain and volatile macroeconomic environment, it performed very well, with investments exceeding 20 billion euro (+70% year-on-year), in more than 10,000 companies (Chart 5).

[15] In this document, the funds' investments in the Italian economy are understood to mean investments in securities issued by Italian entities and in real estate.
[16] COVIP, 2021 Annual Report, 2021.
[17] In ten years, assets have increased by 45 billion euro.
[18] This figure includes owned assets, real estate funds and equity investments in real estate companies controlled by the occupational pension schemes.
[19] These are securities issued by Italian entities and real estate.

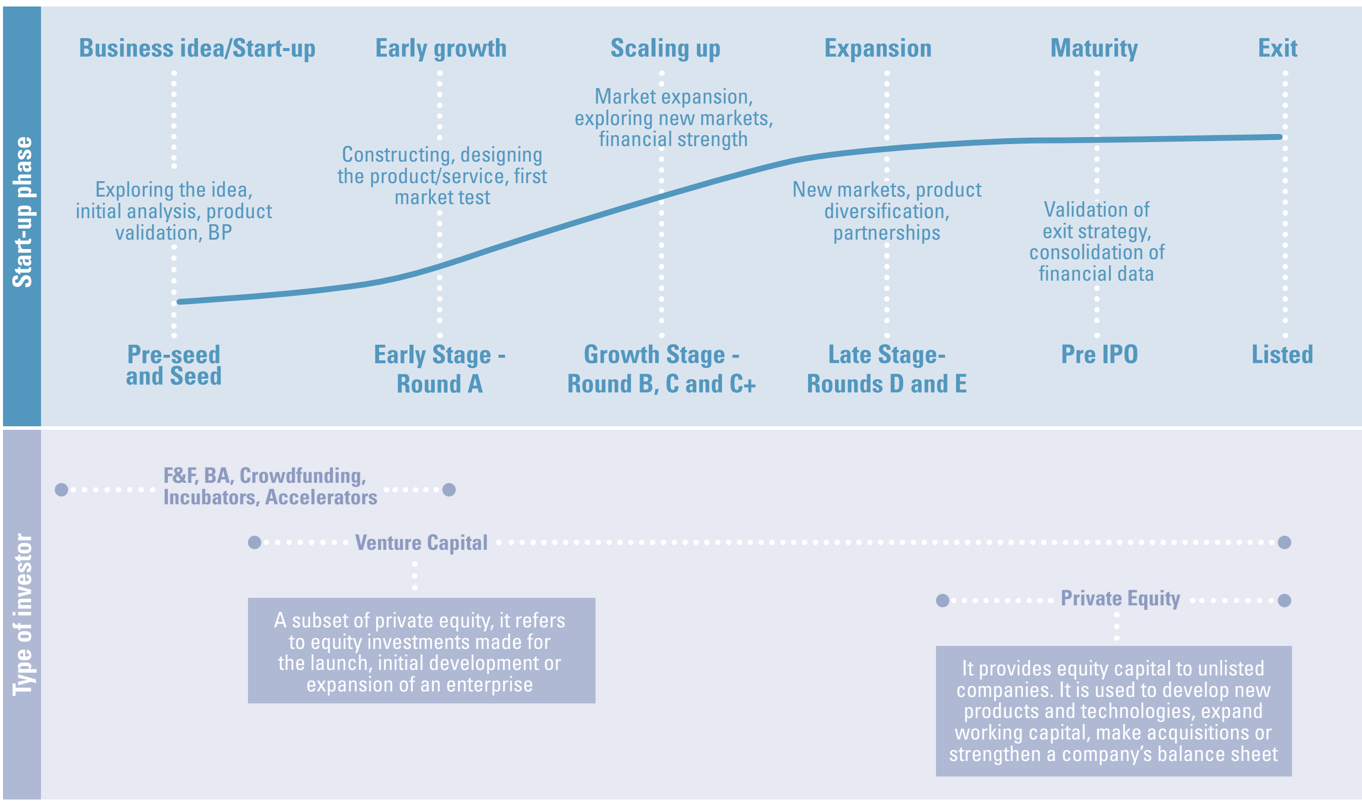
CHART 5 – THE VENTURE CAPITAL MARKET IN EUROPE



Source: Invest Europe, 2022

Globally, the venture capital market is characterised by the presence of **a diverse mix of players investing in equity** of unlisted start-ups with high development potential and **different risk-return combinations** from the Pre-Seed, Seed and Early-Stage phases (involving players such as Business Angels, Accelerators, CVCs and VC Funds) to the Growth and Late-Stage phases (which see the increasing participation of PE Funds alongside VC Funds, Chart 6).

CHART 6 - STAGES IN THE LIFE CYCLE OF ENTERPRISES AND THEIR SOURCES OF FINANCING



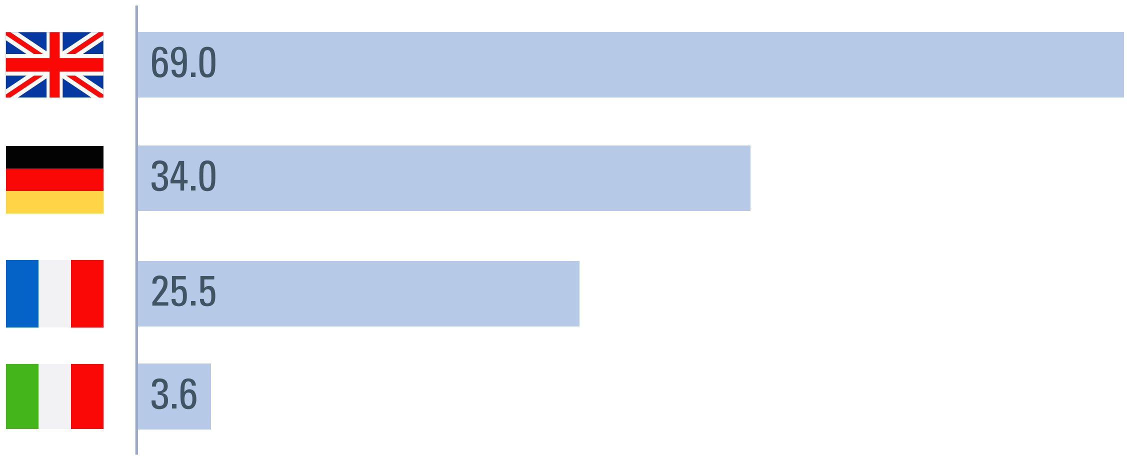
Source: CDP calculations

To complement the financial support provided by venture capital, start-ups are helped to build their skills by a range of players such as incubators, technology transfer hubs, universities, accelerators and corporations, which make up the "infrastructure" of the innovation ecosystem and create synergies between various players.

Hence, to be robust, effective and adequate, an innovative ecosystem **must feature a full set of players, connected seamlessly and synergistically**, accompanied by an equally solid connection to the allied Private Equity sector.

In Italy, the venture capital market is still underdeveloped compared to European peers such as France and Germany, and the number of domestic managers **is still insufficient to form a fully-fledged "system"** able to provide seamless, comprehensive and coherent support throughout all phases of the life cycle of businesses. To date, there are 35 active VC managers registered with the Bank of Italy, with 75 VC funds, compared to an average of about 150 in the main European countries, and with a smaller size of funds under management compared to European peers (Chart 7)[20] .

CHART 7 – VC INVESTMENTS IN ITALY AND MAIN PEERS (€ BILLION, CUMULATED 2018-2021)



Source: CDP calculations based on data from France Invest, BVK, ASCRI (latest available for 2020), AIFI and LIUC Business School
Note: Investments in companies that are in the post-start-up phase and hence not strictly belonging to the VC category are excluded (i.e. investments in expansion/growth, buy-out, replacement and turnaround). For the Italian market, only deals carried out by VC operators or by syndicates of VC operators and Business Angels were taken into account; transactions carried out solely by BA were therefore excluded.

In comparison with the most developed European market, France, Italy still shows a small number of funds, which moreover are of modest size: **1 VC fund for every 203 start-ups, with average assets under management of 63 million euro, compared to 1 for every 150 in France, with an average size of 80 million euro**. Thus, the current domestic VC ecosystem falls short of the capital needs of start-ups.

However, despite the obvious gap, over the past few years **the domestic VC market has picked up momentum**, especially in 2021:

1. investments increased by 221% compared to 2020 (with an average annual growth rate of 54% from 2018 to 2021); currently, the Italian ecosystem features more than 14,000 active start-ups. In the first nine months of 2022, the market size grew further, reaching a value of 1.7 billion euro (+109% compared to the first nine months of 2021)[21];

2. there were 317 transactions (+35% over 2020) concerning 302 targets (+31%, +47% annual average since 2018).

Among the drivers of this result was the start of full operation of **CDP Venture Capital SGR**, a player of systemic importance on the Italian market, set up in 2020 to promote the growth of the Italian VC ecosystem and align it, in terms of size of invested capital and number and quality of operators, with the best European countries and the main comparable economies.

Other tools to be deployed to create a true innovation ecosystem include **business accelerators, technology transfer and venture debt.**

Business accelerators are schemes that boost the development of start-ups by offering them strategic and operational advice, networking activities and physical work spaces. As a rule, these programmes have a duration of less than twelve months. Today there are about 200 business accelerators in Italy (compared to 287 in France), 15% of which are public (19%

[20] AIFI and LIUC Business School, Venture Capital Monitor (VeM), Rapporto Italia 2021, 2022.
[21] See footnote 16.

in France). Most Italian business accelerators have a low degree of professional know-how and limited connection to the start-up ecosystem, as shown by the fact that only 20% of Italian start-ups go through an acceleration programme.

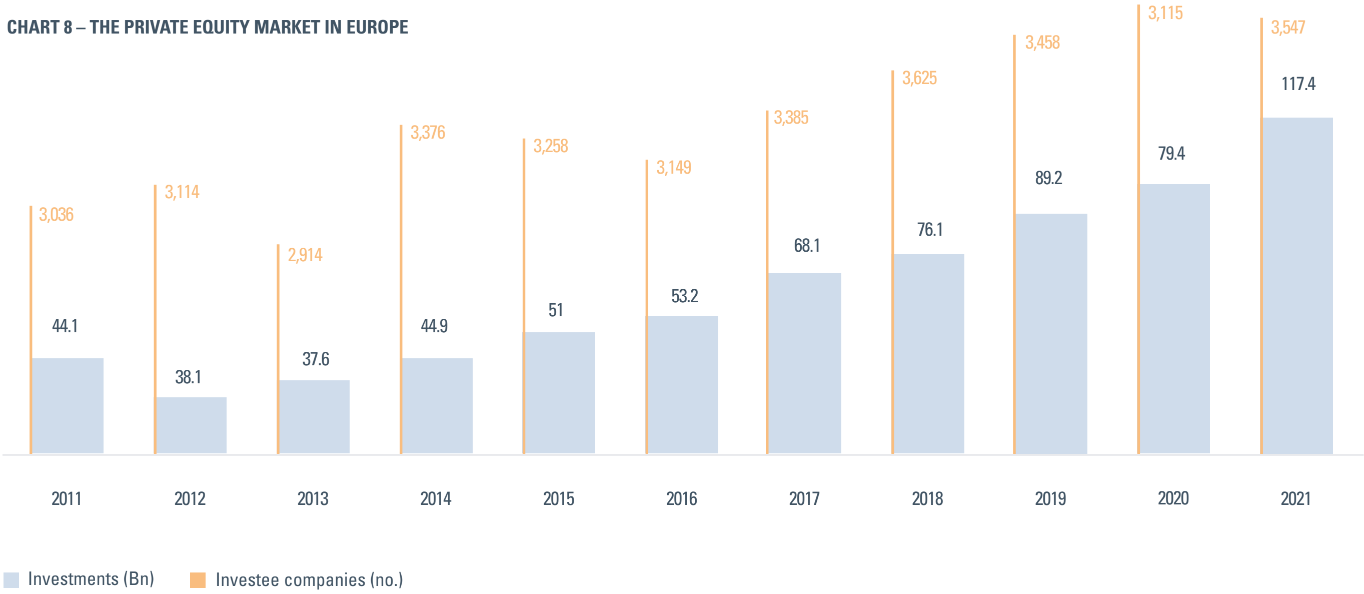
Technology Transfer (TT) aims to **identify potential innovations generated by universities and research centres and turn them into products and services** offering attractive returns to investors. TT consists of creating a network infrastructure spread throughout the territory – similar to that existing in other countries (e.g. the Fraunhofer system in Germany) – built by linking together complementary players (e.g. universities, enterprises) to accelerate the industrial application of university research in strategic sectors (e.g. robotics, sustainability technology, etc.), thus helping to strengthen the innovative high-tech industries. In Europe, the UK is among the most developed countries in this field, while globally the leading players are Israel and the USA[22] .

Venture Debt (VD) is a complementary instrument to equity investments, aimed especially at **innovative start-ups with significant growth potential** lacking enough cash flow or collateral to obtain traditional (bank) debt in the first 18-24 months and needing additional funding to cover immediate liquidity needs. VD offers more flexibility than equity in the structuring phase and can offer useful support particularly during transitions between different stages (e.g. from early stage to growth). VD still has a small footprint, mainly due to the limited take-up by investors and the lack of awareness of this tool on the part of start-ups. In Europe, it accounts for less than 5% of VC transactions, with about 13 billion euro and 941 completed transactions[23] compared to 15% in the United States[24] with 26.5 billion and over 3,000 transactions. **In Italy this market is almost non-existent**: to date, the EIB is the only player providing venture loans to innovative start-ups that have already closed one or two equity investment rounds. Since December 2016, the EIB has used the guarantee of the European Fund for Strategic Investments (EFSI) to expand its VD operations, providing start-ups with loans of between 5 and 50 million euro. The EIB programme will also benefit from the InvestEU Guarantee.

1.2.2 Private Equity Market

The European **Private Equity Market** has grown significantly over the last decade. The year 2021 saw significant momentum in terms of capital invested and the number of deals completed, with growth of around 50% compared to 2020. The value of investments made is estimated to have been close to 120 billion euro, almost three times the value of the PE sector in 2011 (Chart 8).

CHART 8 – THE PRIVATE EQUITY MARKET IN EUROPE

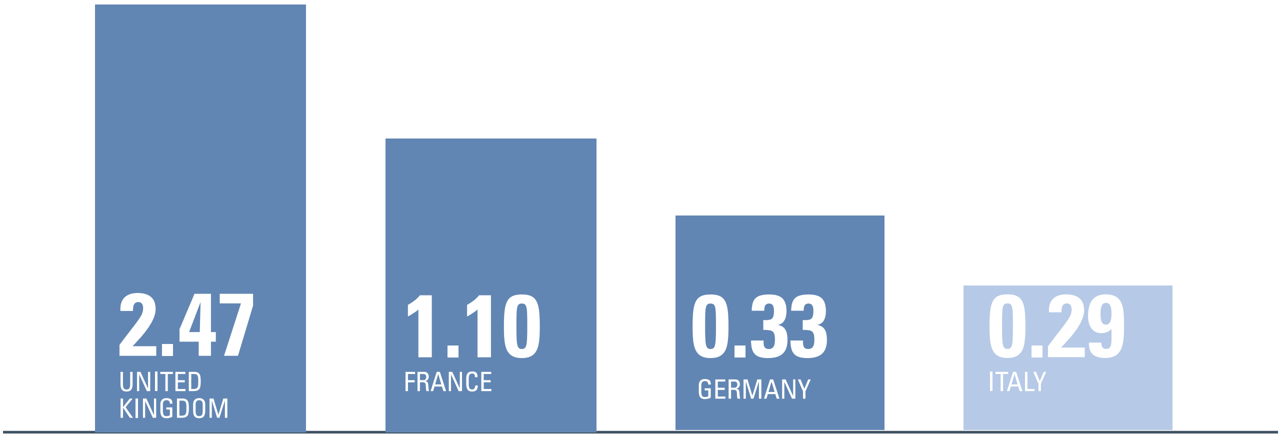


Source: Invest Europe, 2022

[22] Netval Report, 2021. For more details on technology transfer, see the Sectoral Strategic Guidelines on Technological Innovation.
[23] In Europe, the main players are the EIB, Kreos Capital and Boost&Co.
[24] https://www.eib.org/en/stories/what-is-venture-debt

This dynamic reflects **the increasing attractiveness of the Italian market for PE investors**, including international investors as well: 2021 saw the highest level of PE investments, with a total amount of around 6.4 billion euro. However, Italy is still lagging significantly behind its main peers: the latest comparable data, referring to 2021, show that Western European markets are significantly larger than the Italian PE market (Chart 9).

CHART 9 – PE INVESTMENTS IN THE MAIN EU COUNTRIES, 2021 (AS A PERCENTAGE OF GDP)

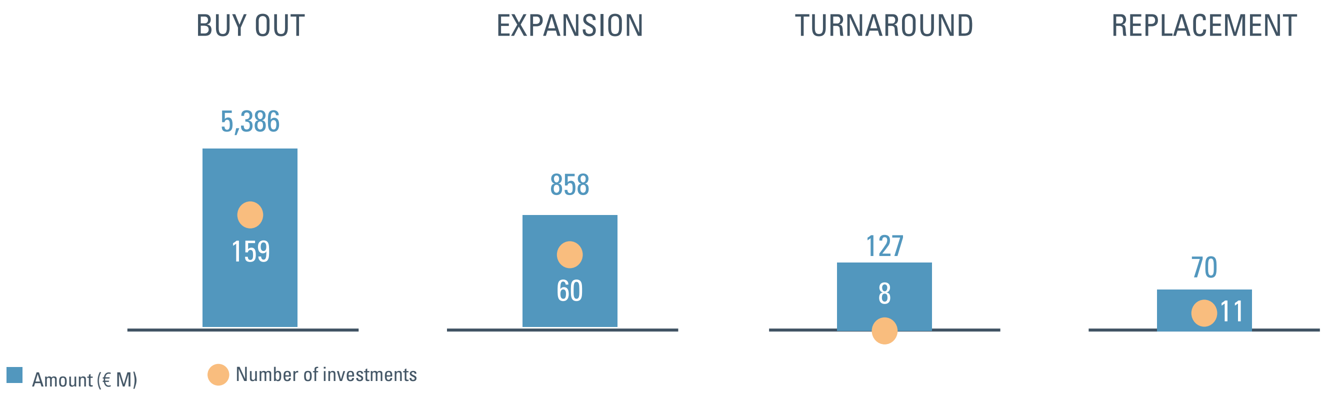


Source: CDP calculations based on Invest Europe data; AIFI, 2022

The main reason for this gap is **the limited range and diversification of PE operators** (239 active in 2021), with a large share of the market controlled by foreign funds, which accounted for **54% of total activity**, with an upward trend compared to the last three years[25]. **Approximately 80% of investments go to companies with a turnover of less than 60 million euro**. However, a sizeable share goes to larger companies, particularly in the 101-300 million euro turnover range. A total of 238 deals were concluded, few compared to the performance of the main peers (582 in France, 536 in Germany and 753 in the UK)[26].

The low number of transactions is accompanied by an excessive concentration of investment strategies, mainly targeting majority stakes and buy-outs, which are easier to manage in the exit phases (Chart 10).

CHART 10 – DISTRIBUTION OF INVESTMENTS IN THE ITALIAN PE MARKET BY TYPE, 2021



Source: CDP calculations based on AIFI data, 2022

Against this background, it is necessary to promote the growth of other segments of the PE market. Some of the main ones include:

- **turnaround**, a niche featuring highly specialised operators with a marked propensity for risk-taking in the financial restructuring of ailing companies. This sector is still underdeveloped in Italy, with a small number of specialised operators.

[25] LIUC Business School, Private Equity Monitor Report 2021, 2022.
[26] PwC, Private Equity Trend Report 2022, 2022.

Possible reasons for the low development of this segment include the excessive rigidity of corporate restructuring and crisis management procedures and the complex institutional framework governing labour and trade union relations. In 2021, despite the significant number of Italian companies experiencing financial problems – ideal targets for this type of investment – the segment continued to play a marginal role in terms of both volume and number of deals, with 8 investments compared to 9 in 2020, for an invested amount that dropped to 127 million euro from 172 million euro in the previous year[27]. Moving forward, the importance of this market segment could grow as a result of a possible increase in the number of companies at risk of bankruptcy, both due to the difficult economic situation and as a consequence of the expiry of the moratorium on bankruptcies[28].

- **Impact investing**, i.e. investments that focus not only on the pursuit of profit, but also on the achievement of measurable social, environmental and cultural objectives, which finance is increasingly looking at with a view to the long-term sustainability of asset allocation. The criteria for identifying impact investment are: 1) **intentionality**, seen as the explicit intention of the entrepreneur to meet social, environmental or cultural needs; 2) the **measurability** of the investment's social, environmental and cultural impacts by means of qualitative and quantitative indicators; 3) **additionality**, i.e. the capacity of the investment to act in areas that are undercapitalised and often unattractive to traditional market operators; 4) **minimum return** of the invested capital, at times even below the market average. Impact investing has increased since the pandemic, reflecting heightened sensitivity to climate change and social inequalities. However, it still remains an underdeveloped market niche: it accounted for just 2% of global AUM (or 2,300 billion dollars) investments in 2020[29]. **In Italy this segment is still tiny**, even though the "strictly impact" market has grown in recent years[30]: **the capital allocated** to impact investment **reached 204 million euro in 2021 from 46 million euro in 2017** and the **number of operators has doubled (from 3 to 6)**. In 2021 there were **37 investment deals**, from 9 four years earlier, **for a total amount of 16.3 million euro** (6.2 million euro in 2017, +163%). **Significant room for growth remains**: by way of comparison, in **France social and environmental impact investments totalled more than 47 million euro**, three times the figure for Italy[31].

- **Infrastructure**: this type of investment is worth 17% (around 7.5 billion euro) of the capital managed by Italian alternative asset investors and represents a key instrument to help bridge the huge infrastructure gap that has widened in the country in recent decades and which cannot be filled by public funding alone. Compared to peers, however, **the size of the infrastructure funds market is still very small** (in Germany, infrastructure AUM amount to 17.4 billion euro, in France to 49.6 billion euro, in the UK to 105.7 billion euro) and mostly features recently established management teams. Consolidating asset managers and infrastructure funds is crucial, in particular, to attract the resources of large institutional investors, such as pension funds, contributing to risk mitigation and facilitating the aggregation of smaller infrastructure projects in order to reach investment scales attractive to private operators.

[27] AIFI, PwC, 2021 "Il mercato italiano del private equity e venture capital" (The Italian Private Equity and Venture Capital Market), 2022.
[28] The Bank of Italy estimates that "another 3,700 "missing" bankruptcies that did not materialise due to the temporary effects of the loan repayment moratorium and support measures could be added" to the bankruptcies that occurred in 2020-2021. See: Note Covid-19, Fallimenti d'impresa in epoca Covid, edited by S. Giacomelli S. Mocetti, G. Rodano.
[29] IFC, World Bank Group, Investing for impact, The Global Impact Investing Market 2020.
[30] Fondazione Social Venture Giordano Dell'Amore, Impact Report, 2021.
[31] Mirova, Accompagner les entreprises créatrices d'emploi en France, 2020.

2. Areas of focus and strategic priorities

2.1
Growth and development of the Venture Capital ecosystem

2.2
Increase in the critical mass, range and size of Private Equity

2. AREAS OF FOCUS AND STRATEGIC PRIORITIES

1

GROWTH AND DEVELOPMENT OF THE VENTURE CAPITAL ECOSYSTEM

2

INCREASE IN THE CRITICAL MASS, RANGE AND SIZE OF PRIVATE EQUITY

- **The phased structure** of the life cycle of enterprises means that the most suitable capital should be made available at each of the different stages they go through: **seed capital** in the initial phase and **growth capital** when they are closer to listing. Moreover, the presence of suitable and experienced investors for each stage facilitates not only the development of companies, but also their transition from one stage to the next, making them sufficiently robust to face public markets. Financially more solid companies that have gradually gone through the process of development from family capital to widespread capital ownership through listing will be able to attract private savings.

- On the basis of these considerations, **CDP has identified two priority action lines** which have the potential to trigger a virtuous circle in support of Italian businesses and their competitiveness, and are **key enablers for achieving many of the objectives of CDP's 2022-2024 Strategic Plan**. Specifically, these action lines address:

  - **the growth and development of the venture capital ecosystem** by providing sufficient capital to catch up with leading European peers;

  - **the increase in the critical mass, range and size of Private Equity** also by attracting "third-party" resources to deals with greater positive externalities.

2.1 GROWTH AND DEVELOPMENT OF THE VENTURE CAPITAL ECOSYSTEM

- **Three key actions** to bridge the gaps and boost the development of the VC ecosystem in Italy have been identified:

  - **attracting capital and promoting the crowding-in of domestic and foreign private resources**;

  - increasing investment in the VC market in **strategic sectors and technologies for the country and throughout the life cycle of start-ups** from the pre-seed/seed stage to the Late-Stage/Pre-IPO stage, to support the growth of innovative and quality companies and enhance the competitiveness of strategic supply chains (e.g. Aerospace, Life Science, etc.);

  - **encouraging growth in the number and size of VC operators and the variety of targets by:**

    – **developing an infrastructure** that fosters the creation and growth of innovative high-tech start-ups, through indirect targeted investments in the financial sector and in key strategic areas and technologies;
    – **supporting the industrialisation of intellectual property through technology transfer**, to encourage the leading scientific research players to develop and patent technologies to be launched on the market through start-ups. Indeed, Italy has many strengths in scientific research, but struggles to consistently spin out its results through start-ups (only 13% of Italian start-ups come from scientific research, compared to 25% worldwide);
    – **supporting the development of quality acceleration programmes** to support the professionalisation and growth of existing start-ups also through training, business development support and investments in the pre-seed and seed stages [32];
    – **supporting the growth of cross-cutting and enabling areas of the production system** such as female entrepreneurship,

[32] Only 20% of Italian start-ups go through an acceleration programme.

entrepreneurship in southern Italy, responsible investment (ESG) and the involvement of innovative SMEs, also by building connections between key players through a matching approach. This would help strengthen the economic fabric of the country given that: i) female entrepreneurship lags significantly behind in Europe and Italy[33] and this leads to fewer investment and growth opportunities; ii) start-ups in Southern Italy struggle to attract VC investment, which hinders the expansion of an innovative business ecosystem in the area[34]iii) sustainability is a key issue in Italy's economic development, placing increasing emphasis on responsible investment and ESG considerations; and iv) Italian SMEs are not yet systematically involved in the innovation ecosystem, with negative impacts on long-term competitiveness.

2.2 INCREASE IN THE CRITICAL MASS, RANGE AND SIZE OF PRIVATE EQUITY

- Four priorities for action have been identified in the Private Equity market, which could draw on the support of **Fondo Italiano d'Investimento (FII)**, an asset management company in which Cassa Depositi e Prestiti holds a 55% stake, and of CDP Real Asset for infrastructure. The priorities identified are:

  - **increasing the size of PE operators, by attracting foreign capital and crowding in private resources**. Through its activity as a **Fund of Funds**, FII could, for example, identify funds already operating in Italy or foreign funds intending to open a stable base in Italy, which have the potential to **raise at least 1 billion euro** and thus become pan-European funds capable of supporting companies in subsequent growth rounds and potentially up to listing on the stock exchange. Moreover, Funds of Funds can also operate proactively to promote **consolidation initiatives among existing asset management companies;**

  - **steer the market towards deals with greater positive externalities**. Direct operations on the PE market should focus on **consolidation deals in strategic sectors for the country** where CDP's equity investment is geared not only to maximising the return on capital, but also to creating **companies capable of becoming leaders in their sectors**. Indirect operations should also include **growth capital funds**, which should operate with limited leverage and have clear non-financial impact objectives. In this regard, Funds invested using CDP resources should build, whenever possible, a carried interest system based – for one component – on the achievement of ESG and other impact investing objectives;

  - **create new management teams specialised in the strategic production chains identified by CDP**. The market needs vertical industrial expertise to be able to invest in companies operating in highly discontinuous production areas in terms of technology and markets. Investing in a "first-time team/fund" is very challenging for the market, which prefers fund managers with a strong track record and therefore does not facilitate the launch of new initiatives;

  - **support the opening of new markets** in particular for **turnaround, impact investing and infrastructure**. More specifically:

    - for **turnaround funds** it is possible to foster the emergence of new specialised operators;

    - for **impact investing**, the objective is to promote initiatives that, in addition to financial return, aim to promote the achievement of measurable social and environmental impacts for the wider community[35];

    - for **infrastructure**, CDP aims to support funds not only to raise more capital, but also direct their strategy towards a larger share of greenfield operations and promote more digital and sustainable infrastructure.

[33] In Europe, in 2021 only 1.1% of VC-backed start-ups were founded by women alone and only 6% were founded by mixed teams; moreover, women account for only 18% of directors in European VC funds. In Italy, only 13% of start-ups were founded by women-only teams, and only 3% of Italian companies' CEOs are women.
[34] Approximately 25% of Italian start-ups are based in the South, but only 2% of the total investment for 34 deals in 2021 went to start-ups in the South.
[35] For a definition of Impact Investing and descriptions of the various practices, see Vecchi V., Balbo L., Brusoni M. and Caselli S., Principles and Practice of Impact Investing, Greenleaf, 2016.

3. Enabling factors and CDP’s role

3. ENABLING FACTORS AND CDP'S ROLE

3.1 ENABLING FACTORS

- Overcoming market gaps and the obstacles that hinder the development of risk capital in its various forms throughout the life cycle of enterprises requires coordinated action across **several action plans**. In particular, action on a number of aspects is required: a) **improving the taxation framework**, to support structurally the entire ecosystem of development capital; b) **updating the legal framework for companies to access and stay in the market** c) **launching initiatives to stimulate and encourage greater participation by Italian institutional investors** in the private capital market, **with particular attention to both VC and PE**; d) **securing the support of foreign investors and capital**, to favour **internationalisation of the market and the ecosystem**.

- In particular, **taxation** can play a **key role for growth and for strengthening the link with the capital market**. In a delicate phase for the country, the use of public resources becomes crucial, especially if said resources are channelled into permanent stimuli that steer business choices towards virtuous practices. If the goal is to stimulate growth and strengthen companies, corporate taxation must increasingly incentivise this policy direction. This includes encouraging companies to raise venture capital to lessen their dependence on the banking system and to lay the ground for growth, and creating a stable framework able to attract investors by making venture capital competitive with other investment options.

- In parallel with **taxation issues**, it becomes essential **to improve the legal framework** governing **the listing process** and **boost access to and permanence in the markets,** also with a view to the progressive digitisation of processes, e.g. those for issuing and managing securities. The recent "Green Paper on the competitiveness of Italian financial markets in support of growth" of the Ministry of Economy and Finance clearly highlights the key steps of this process, largely implementing the recommendations made both by the OECD in its "Italy Capital Market Review" of 2020[36] and by the High-Level Forum on the Capital Markets Union[37] by the TESG – Technical Expert Stakeholder Group on SMEs[38] and the recent European consultation on the "Listing Act"[39] .

- With reference to the **listing process and permanence in the market**, at the heart of the above recommendations lie the rules on **prospectuses**, relating to both their content and the approval process, one issue being that the excessive length of prospectuses can affect the clarity of the information provided.

- In this context, with a view to **simplifying the processes of access to the listing market**, in August 2022 Consob (the Italian securities regulator) announced **two main amendments to the Issuers' Regulation**: **simplified procedures** for the approval of prospectuses by Consob and the **possibility of drafting the documentation in English**. Specifically, one of the main innovations is **the alignment of the deadlines for administrative requirements with the provisions of the European Regulation**.

- With reference to **conditions for market participation by retail and institutional investors**, public-private measures or initiatives are needed to pursue two objectives: **help to connect retail investors with investment opportunities** and **incentivise the presence on the market of traditional institutional investors** (e.g. pension funds and insurance companies) and **alternative investors** (e.g. private equity and venture capital funds).

- Finally, since competition between countries is at present also influenced by the rules governing the stock market and financial capital, to attract **investors** and **foreign capital** and **increase** the **confidence in the Italian market** it is essential to bring the rules in line with international best practices and streamline processes.

[36] OECD, OECD Capital Market Review of Italy, 2020.
[37] European Commission, Final report of the High Level Forum on the Capital Markets Union – A new vision for Europe's capital markets, 2020.
[38] Technical Expert Stakeholder Group on SMEs, Empowering EU Capital Markets, 2021.
[39] European Commission, Targeted consultation on the listing act, 2022.

3.2 CDP'S ROLE

- In this regard, **CDP can help to narrow the current gaps** by taking into account the weaknesses affecting the capital market – in particular in the areas of the **strengthening, cohesion and continuity of financial support to companies**, namely:

  - **limited attraction of foreign capital and insufficient crowding-in of private resources**, compounded by even lower attraction of institutional capital and consequent difficulties in the exit phase;

  - **small size of operators**, many of which are just starting out;

  - **small number of operators specialising in specific stages of the financial cycle of companies.** In Italy, companies have difficulties securing funding in four key phases of their life cycle: a) **in the initial seed capital stage**, the riskiest phase in which the business idea and the potential for a new business activity develop; b) **in the transition stage** between early-stage and late-stage investments; c) **in the post-late stage** where large investments are needed for the company to scale up in size and dynamism; d) and in the last phase prior to listing, **the pre-listing stage**, where final funding is needed for the company to go public and raise public investment. In addition to these, there are the public market investors, who help reduce the risks of failure to stay on the market and thus of delisting;

  - **need to open up to new markets** particularly by providing incentives for impact investing and promoting specialised funds targeting still underserved strategic value chains or development stages.

- In particular, **CDP can take action** – also depending on the degree of autonomy it enjoys in the various markets/sectors and on the specific characteristics of the different counterparties – in order to:

  - **grow and develop the VC ecosystem** by intervening in sectors, territories and technologies where market players have failed to mobilise adequate resources or play a marginal role also due to the absence of favourable exit conditions;

  - **increase in the critical mass, range and size of PE** by offering seamless support to companies with clear growth potential and crucially linking the pipeline developed by the VC market to that of growth capital;

  - **help to attract foreign capital and the crowding-in of private resources** also by leveraging and further developing business matching platforms and international fundraising initiatives.

- In addition, **to facilitate the access of SMEs and mid-caps to the capital market**, CDP can act as an **anchor investor** by developing **innovative asset classes** such as minibond securitisation transactions (so-called **Basket Bonds**), or "diversified" loan funds (**Diversified Loan Funds, DLF**) – in partnership with the European Investment Fund (EIF) – characterised by a high level of portfolio granularity. Finally, **CDP can invest in medium-sized minibonds**, issued to support both internal and external growth plans and investment plans in RDI and the green economy by companies in the mid-corporate segment.

- To effectively support the **development of the public capital market**, CDP can act through **its equity investment in Euronext** contributing, through active governance, to steering that company's operations in ways strengthening Borsa Italiana's effectiveness role as a capital raising instrument, both from the demand side of companies and from the capital supply side, including savers and institutional investors.

- To specifically assess the relevance, priority and strategic coherence of actions in the areas of focus identified, CDP applies **additionality and complementarity** criteria, picking the most appropriate operational tools according to counterparty characteristics (type, geographical location, etc.) and market features (e.g. degree of maturity, profitability).

4. Recommenda-tions

4. RECOMMENDATIONS

For each area of focus, we provide below a non-exhaustive summary of the **strategic guidelines** spelling out CDP's priorities for **Capital market** actions.

AREAS OF FOCUS	GROWTH AND DEVELOPMENT OF THE VENTURE CAPITAL ECOSYSTEM
STRATEGIC PRIORITIES	**A.1** **Attracting capital and promoting the crowding-in** of domestic and foreign private resources
	A.2 **Increasing investments in the Venture Capital market**
	A.3 **Increasing the size and relevance of operators** in the venture capital markets, **encouraging an increase in the number of operators** in particular in less developed market segments, and **increasing the diversity of targets** (innovative SMEs, investments in southern Italy, female entrepreneurship, ESG)

AREAS OF FOCUS	INCREASE IN THE CRITICAL MASS, RANGE AND SIZE OF PRIVATE EQUITY
STRATEGIC PRIORITIES	**B.1** **Supporting the attraction of foreign capital and promoting the crowding-in** of private resources, including through fund-of-funds action focused on the venture capital to private equity transition stage
	B.2 **Supporting the market towards deals that generate greater positive externalities**
	B.3 **Supporting new teams of excellence** identifying successful medium-sized companies and accompanying them in their growth
	B.4 **Supporting the development of new markets** including, in particular, **impact investing**, **turnaround** and **infrastructure** funds, through a fund-of-funds action

To fine tune the priority ranking and strategic coherence of actions in the areas of focus identified, CDP applies the **additionality and complementarity** criteria set out in Tables 2-3 of Section 3.2.

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