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## Inarcassa CIO Seeks to Manage Returns and Expectations

After enjoying the Italian bond rally, Alfredo Granata is diversifying into foreign stocks, real estate and currencies.

By Tom Buerkle



ITALY WINNER: ALFREDO GRANATA, INARCASSA

Buying Italian Treasury paper at 7 percent was nice while it lasted, notes Alfredo Granata, CIO at **Inarcassa**, an €8.6 billion (\$9.4 billion) pension fund for 170,000 self-employed engineers and architects in Italy. The collapse in yield spreads over the past three years helped the fund deliver annualized returns of 7.1 percent over that period.

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Now Granata, 48, has to find new ways of reaching his 4.5 percent real return target. He and his 12-person team have nearly halved the fund’s allocation to euro zone government bonds, to 11 percent, and put more money into Asian and emerging-markets equities (9.6 percent and 8.9 percent weightings, respectively) and alternatives (7.5 percent). “We think that for the next several years the main risk will be rising interest rates,” he says.

The CIO is looking to tilt Inarcassa’s big real estate exposure to foreign markets. He’s aiming for a 4 percent weighting in real estate outside Italy, up from 1.6 percent at the end of 2014. He has been turning increasingly to currencies, particularly the dollar, to generate returns. Almost 40 percent of the portfolio is based in foreign currencies, and Inarcassa currently leaves half of that exposure open. Until about three or four years ago, it hedged all of its currency exposure.

As if generating returns wasn’t enough of a challenge, Granata also has to manage the expectations of the fund’s members. Italy ran relatively high inflation rates until recent years, and people grew accustomed to nominal returns in the high single or double digits, he notes, but in an environment where inflation is virtually zero that’s no longer realistic. “We have to be aware that nominal returns of 3 or 4 percent have the same value as 7 to 8 percent” when inflation was higher, the CIO says.

An economics graduate of Milan’s Bocconi University who entered finance as an analyst at Banca di Roma in 1992 before moving into asset management, Granata sees a few green shoots in the Italian economy — which has suffered three recessions in the past six years — but nothing like a boom. “I’m not too optimistic,” he says.

*This profile is one of 12 written for our [2015 European Investment Management Awards](#), which honors some of the best investors in the business. See also profiles of Lifetime Achievement Award winner [Henrik Gade Jepsen](#), Centrica’s [Chetan Ghosh](#), Lancashire County Pension Fund’s [Michael Jensen](#), ABN AMRO’s [Geraldine Leegwater](#), Varma’s [Reima Rytsölä](#), AP4’s [Magnus Eriksson](#), CERN’s [Elena Manola-Bonthond](#) and ERAFP’s [Philippe Desfossés](#). Check back tomorrow to read about VBV’s [Günther Schiendl](#).*

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