Independent private banking

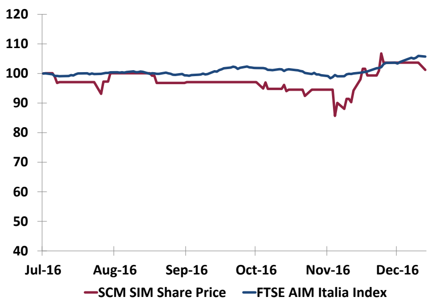
We initiate coverage of SCM with a NEUTRAL rating, based on a Target Price of €12.32 per share.

NEUTRAL

Current Share Price (€): 10.74

Target Price (€): 12.32

SCM SIM – Performance since IPO



Note: 28/07/2016=100

Company data

Bloomberg code	SCM IM
Reuters code	SCM.MI
Share Price (€)	10.74
Date of Price	09/01/2017
Shares Outstanding (m)	1.9
Market Cap (€m)	20.5
Market Float (%)	11.0%
Daily Volume	240
Avg Daily Volume YTD	n.m.
Target Price (€)	12.32
Upside (%)	15%
Recommendation	NEUTRAL

Share price performance

	1M	3M	1Y
SCM SIM - Absolute (%)	7.4%	4.3%	n.a.
FTSE AIM Italia (%)	5.7%	5.1%	n.a.
1Y Range H/L (€)		11.33	9.09
YTD Change (€)/%		n.a.	n.a.

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SCM, listed on AIM Italia in July 2016, is a Private Banking firm that provides bespoke portfolio management and investment advice services, without custody of assets. We see SCM as a growth stock, well positioned to fully capture the growth trend of financial assets flowing into the domain of all-embracing advisory wealth managers.

SCM will benefit from the expected switch from fixed income instruments and mutual funds to personalized asset management

Italian household wealth, despite the lasting economic downturn, is still one of the most sizeable amongst industrialized countries. Declining yields in fixed income and in financial markets in general are creating the ground for a shift away from mutual funds and government bonds holdings. The consequent growing need for more comprehensive professional advice will perfectly fall in the sweet spot of SCM's selling proposition.

Double-digit earnings growth

According to our estimates, SCM's fee income is expected to grow at a 18% 2015-2021 CAGR. Earnings will grow faster 2021 on 2015, thanks to a boost in operational leverage, based on the lean structure contributing to optimize the Company's Cost/Income ratio. Such metric is expected to move towards standards equal or better than industry peers. Net Income is forecasted to reach €1m in 2018 and nearly €3m in 2021, with high net cash generation, versus the current level still limited by investment efforts.

A growth stock to look for

SCM is a newcomer in the industry and has immediately shown substantial growth potential. We deem this as impressive, given the absence of a business partner promoting its financial products or referring clients. Despite its size being in the low side with respect to peers, the Company is already a decent cash generator with room for improvement thanks to its lean and effective cost structure.

Key financials and estimates

	2015A	2016E	2017E	2018E	2019E	2020E	2021E
Assets Under Management (AUM)	947	1,150	1,450	1,750	2,100	2,500	3,000
Private bankers (units)	23	30	35	40	45	50	60
Brokerage Margin	3.9	3.5	4.5	5.9	7.3	8.7	10.4
EBT	0.4	0.2	0.9	1.9	2.9	4.1	5.5
Net Income	0.2	0.1	0.4	1.0	1.5	2.1	2.8
Net (Debt) / Cash	1.3	3.7	4.4	5.7	7.1	9.0	11.7
Equity	2.1	4.4	4.9	5.8	7.3	9.4	12.2
Cost/Income	-90%	-95%	-82%	-69%	-59%	-53%	-47%
Net fees/AUM (bps)	41	30	31	34	35	35	35
ROE	9%	3%	9%	16%	20%	22%	23%

Source: Company data and EnVent Research

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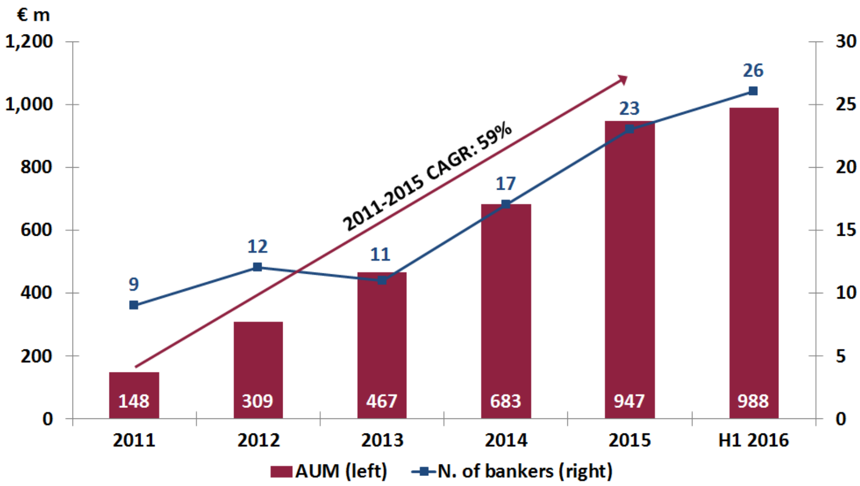
1. INVESTMENT CASE

Company

S.C.M. SIM – Società di Intermediazione Mobiliare – (SCM) is a Private Banking and Wealth Management firm that operates with a *Multi-Family Office* logic and a business model, unique in Italy, based on independence, transparency and attractive pricing. SCM provides bespoke portfolio management and investment advice services on the client's all-embracing wealth and assets, without having custody of clients' assets. It does not produce or distributes financial products. The Wealth Management division is the flagship service provided by the Company and is organized according to the model of a Family Office services firm: main clients are high net worth families, entrepreneurs and institutional entities. Operations started in 2010. Assets Under Management (AUM), that in 2011 were €150m, were nearly €950bn at 2015 year-end (59% 2011-2015 CAGR), with 23 private bankers and over 500 clients. Bankers as of end of June 2016 were 26, for a total AUM of nearly €990m. Current bankers as of September 2016 were 31.

SCM SIM – AUM and Bankers, 2011-H1 2016



Source: Company data

Drivers and Challenges

Industry drivers

Italian private worth is significant and financial assets continue to gain ground. Italian household net worth is significant: financial assets accounted for €3.8tn in 2013, according to Bank of Italy (2.5x the amount of GDP at €1.5tn). To compare Italy with the main European economies (2011 - Eurostat latest available data), Italian households financial assets were 2.3x GDP, 1.8x GDP for Germany, 2.0x GDP for France, 2.8x GDP for the UK. Financial assets represented 43% of total net worth in 2013. Real assets (67%), including residential properties (85% of total real assets), and financial liabilities (-10%) made up the rest of the wealth. Real assets have been decreasing since 2012, while financial assets are experiencing growth again, after a decline in the financial crisis years. Italian investors look to be embracing the shift from real assets to financial investments.

Yields on Italian treasuries are low and not expected to increase. The historical lowest yield on Italian government bonds (currently 1.9% on 10-year treasury bonds – Source: Bloomberg, December 2016) further addresses investors towards alternative investment solutions. As a result, the amount of debt securities held by Italian investors has halved over the past five years (Source: Assogestioni).

Room to improve the mix. Italian financial assets, traditionally government bonds for the most part, show a lower portion of assets professionally managed in comparison to other countries: 29% in 2014 (31% in 2015), versus 40% to 60% of France, UK, Germany and USA. However, financial assets (and, within this category, managed assets) have been experiencing stable growth since 2011, with 3.5% 2011-2014 CAGR (Source: Bank of Italy). After years of super low interest rates and a similar outlook for the mid-term, a continuing shift of funds from low income bonds to professionally managed assets is expected. Total net inflow into managed products was €141bn in 2015, +6% vs 2014 (Source: Assogestioni). As a consequence, advisory services are increasing their stake within Italian households' investment portfolios, aligning them with those of other developed economies.

Stable growth for Private Banking since 2011. Private Banking potentially managed assets in Italy had a size of nearly €1tn in 2014 and have been continuously growing since 2012, when the size was €900bn. However, the assets actually managed are roughly just a half of such amount. Nonetheless, good news comes from the recognition of an increasing trend in AUM for the Private Banking sector: +7% 2012-2014 CAGR and an increase, as a percentage of total potential private banking market, from 49% in 2012 to 51% in 2014 (Source: AIPB).

The Private Banking sector confirms the rise of portfolio advisory. Following the trend registered by the reference market, Private Banking portfolios are experiencing a significant growth of alternative managed financial products and services versus other categories of investments. Concurrently, stocks and bonds are losing ground.

Company drivers

Unique private banking and personal advisory services. After only five years of operation, SCM has an extraordinary track record in attracting High Net Worth and Affluent clients. These have appreciated the close-to-client service and highly personalized advisory approach, uncontaminated by other disguised conflicting interests. A key pillar of SCM's service is its proactivity in advising and coaching clients, with a dedicated team whose mission is to care and preserve the clients' wealth and help them plan for future events.

Independent, transparent, conflict-free. Regardless of market conditions, SCM is positioned to outperform competitors in attracting and retaining HNW clients, thanks to its differentiating strengths that meet key needs: independence from financial institutions or services firms; genuine alignment of interest with clients thanks to a flat fee structure and a MiFID II-ready transparency on clients' costs; no direct holding of assets; sourcing of fees exclusively from clients, without rebates coming from asset managers or from fund sales and distribution activity. In Italy, a unique business model.

No asset custody, no fund production, nor distribution, means no conflicts of interest. Independence is guaranteed: all fees charged are earned from client advisory and are not sourced from rebates coming from asset managers or from fund sales and distribution activity; aside from its compliance to the MiFID II regulation already in place, clients are secure as their holdings are held on separate, ring-fenced, depository accounts which are outside of the scope of the property of the Company. In addition, SCM's shareholding composition unarguably lacks financial institutions, wealth managers or financial services firms.

Attractive flat fee structure. SCM offers its services characterized by an alignment of interest with its clients thanks to flat fees, no direct holding of assets on its own accounts, and sourcing of its fees exclusively from its clients. The flat fee structure, together with modest performance fees, leave nearly all performance to the client, with no hidden fees.

Business model MiFID II-ready. SCM's business model is MiFID II-compliant from day 1 of its commencement, as the Company implemented a transparent, flat fee asset management service where clients know exactly how much advisory services and asset management cost. The major amendments which will be introduced by MiFID II concern the level of transparency brokers need to respect: they will have to explicitly distinguish between distribution costs and commissions, since referring to an all-embracing fee will not be allowed anymore. This means that a pricing and transparency competitive advantage is soon to emerge in SCM's business model and selling proposition, when compared to its major competitors whose clients will realize how much they have been historically charged through hidden fees.

Strong client growth outlook. The entry of new bankers in 2016, the competitive business model based on independence, service reputation and transparency of flat fees are an excellent base to position SCM to increase its market share, amidst the market need to shift from mere financial product placement to customized advice.

Historical, and forecasted, double-digit earnings growth. Over the past five years SCM posted double-digit growth in net inflows (27% CAGR 2011-2015) and consequently AUM (59% CAGR 2011-2015) nearly reached €1bn at 2015 year-end. Accordingly, fee income grew from €1.2m in 2011 to €6.2m in 2015 (50% CAGR 2011-2015).

Visibility of future revenues. The strong client loyalty, given the high client retention rate, implies a recurring revenue stream and high quality of operating earnings.

Operational gearing to push up profitability soon. The significant AUM growth registered across the last three years and expected to last until 2021 is expected to drive a sound net fee YoY increase. As a consequence, as AUM increases, SCM will benefit of its lean overhead structure and reach a Cost/Income ratio among the best in the industry. Our model assumes that a 3 times growth in net fees would generate growth in earnings of over 15 times, directly linked to an expected Cost/Income ratio of 46%.

High cash flow generation means room to create value. SCM had a net cash position of €0.8m at H1 2016 and, according to our projection model, could generate net cash flow of at least €1m a year on a normalized basis. IPO proceeds and cash flow from operations are foreseen to accelerate growth through its banker network expansion and possible acquisitions.

Management and Shareholders - partnership attitude. Key managers are also shareholders, Board members and operating partners. As a consequence, the main investment decisions are made by Partners who invested in the Company's equity and this should discourage opportunistic behaviors. In addition, each banker is also a shareholder, thus reinforcing a widespread partnership culture.

Highly skilled and experienced team. SCM excels in securing its key service offering: financial wealth advisory services provided by a fully operating team of seasoned experts having served in high standing responsibilities in other domestic and international industry operators. Knowledge empowerment aimed at meticulously trained and technologically supported private advisors allows the field force to be continuously updated and enriched.

Challenges

Market dependence. Cyclical market phases might have several consequences, such as a slowdown in net inflows, although not necessarily accompanied by capital outflows, especially in case of an economic downturn. In a financial market slowdown phase, like that of 2016, AUM are likely to decrease in value, with lower management fees and performance fees, given the predictable drop in asset performance.

Increasing bankers' effectiveness without carrying excessive risk. Bankers' activity should be observed in two dimensions: number of clients and AUM in portfolio. A diversification of portfolios spread out on more clients would reduce the risk of being dependent on a small number of individual large clients.

Concentration on private bankers. The situation where large portfolios are managed by individual advisors increases the Company's risk, as their bargaining power would be much stronger in case of dispute (four bankers produce approximately 50% of total revenues).

Reputation of the network. To drive profitability, SCM largely relies on its network of private bankers. Therefore, poor performance or reputational damage can strongly impact the Company's revenues. Conversely, a good reputation of SCM's network might increase competitors' willingness to attract its best bankers with generous offers. SCM's bankers are not restricted by any covenant with regard to the possibility of carrying out a similar competitive activity once their contract with the Company expires.

Exposure to Italy. SCM is only active in Italy and its bankers all operate on the domestic territory. As a consequence, any event affecting the Italian economic scenario would likely impact the Company and, of course, its net income. Main concerns are the instable Italian market and the fear of a return of a sovereign-debt crisis. Unstable political outlook is also a matter of potential concern. Furthermore, the Italian tax system has historically experienced frequent changes and could get more stringent over time on families' wealth, thus penalizing asset managers and private banking revenues and profitability.

Regulatory environment. The Company operates in a highly regulated market, where its products are strongly impacted by changes in the current legislation. Risk of non-compliance with the existing regulations is potential, with the related possibility to incur inspections and penalties should the Company not comply with rules concerning transparency, conflict of interest, anti-money laundering, market abuse and consumer protection.

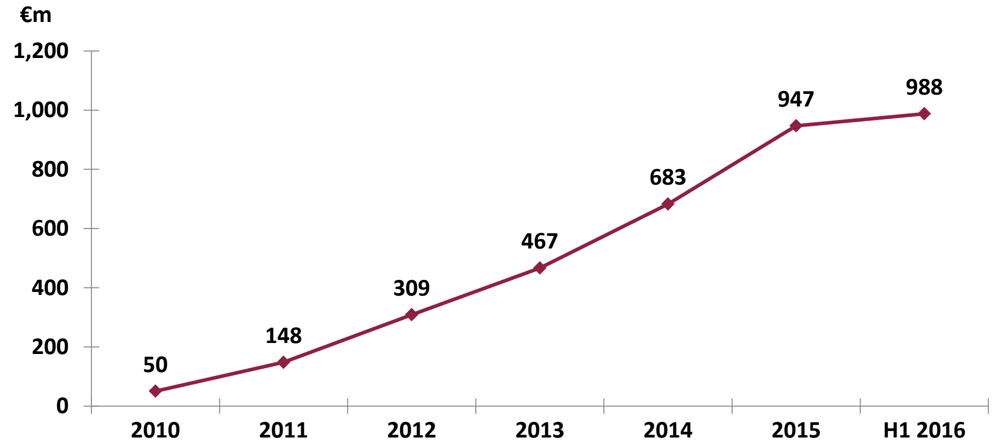
2. PROFILE

The independent wealth management firm

Innovative, sustainable business model, unique in Italy for Affluent and HNW clients

SCM is a Private Banking and Wealth Management firm targeting the Affluent and HNW client segments. Total Assets Under Management were nearly €1bn at the end of June 2016, for over 500 clients. Differently from most competitors and large industry players, SCM does not directly hold funds on behalf its clients.

Assets Under Management



Source: Company data

The Company is headquartered in Milan with 15 employees and provides its services through a network of 31 bankers as of September 2016.
In the provision of investment services, SCM, as Società di Intermediazione Mobiliare (SIM), is primarily regulated by the Italian Law on Finance (TUF – Testo Unico della Finanza) and by the regulations issued by Bank of Italy and CONSOB (Italian Securities and Exchange Commission). Within the investment services for which SIMs may apply for, SCM is allowed to provide the following services:

- portfolio management
- investment advisory
- placement and underwriting

History and key developments

Operations start in 2010

SCM SIM was founded in 2009 and its operations started in 2010. The first office was opened in Milan in 2010 and, from that moment on, SCM experienced continuous expansion thanks to the entrance of bankers with significant client portfolios.

2014 break-even

Operational break-even was reached in 2014.

SCM SIM's IPO and stock market performance on AIM Italia

SCM SIM goes public in 2016

Through its IPO on the AIM Italia market on July 28th, 2016, SCM sold 209,880 shares at €10.59 per share for a total raising of approximately €2.2m. The initial market cap was €20.2m.

According to the Company, the IPO proceeds will be mainly used to:

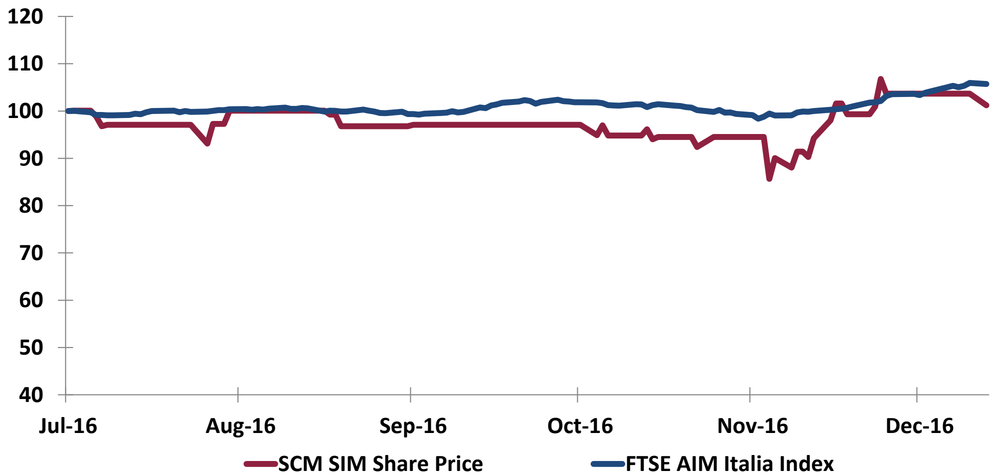
- Pursue growth through acquisitions of wealth advisory companies and networks of bankers
- Develop and implement a state-of-the-art CRM system

SCM aims to become a pivotal figure in the Italian wealth management industry, attracting managerial talent and expertise, and extending its market coverage.

SCM on AIM Italia	
Stock market	AIM Italia - MAC
ISIN code	IT0005200248
Bloomberg code	SCM IM
Reuters code	SCM.MI
IPO date	28/07/2016
Offer Price (€)	10.59
Money raised (€m)	2.2
Market Cap at IPO (€m)	20.2
Shares outstanding	1,909,880
Current Share Price (€)	10.74
Market Cap (€m)	20.5

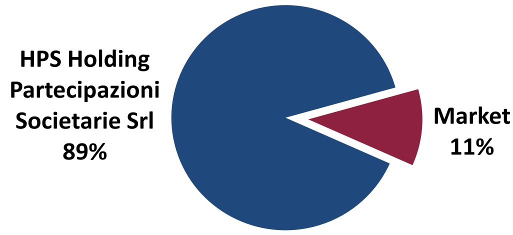
Source: Company data and S&P Capital IQ, update: 09/01/2017

Share price performance since IPO



Source: S&P Capital IQ, update: 09/01/2017 - Note: 28/07/2016=100

Shareholders



Source: Company data

The control stake of SCM SIM's share capital is held by HPS - Holding di Partecipazioni Societarie Srl, its founding shareholder. HPS' shareholders are families and private investors that partly operate as SCM's management (Sergio Valsecchi 12.2%, Antonello Sanna 6.5%, Roberto Santoro 5.2%, Francesco Barbato 4.5%, 63 shareholders with a stake <4% 71.6%).

Key people

Name		Role	Background
Maria Leddi		Chairman	• 2014: Chairman at SCM • Previously: Secretary-General of Fondazione CRT, Director at Regione Piemonte, Professor at University of Turin, Senator of the Italian Republic, Secretary of Finance and Treasury Committee
Antonello Sanna		Founder and CEO	• 2009: CEO at SCM • 1998-2009: Head of sales at Banca Sara (former Banca della Rete), Altinia SIM and Prime SIM (both later acquired by Banca Generali) • Previously: Sales and HR training at Banca Generali
Corrado Morana		CFO	• 2016: CFO at SCM SIM • Previously: Financial Controller at Banca Sistema and Coordinator of Data Warehouse Project, Head of Planning and Control at Banca Sara
Gino Bellotto		Vice Chairman	• 2015: Vice Chairman at SCM • 1986-2015: Chairman at Iren Mercato and Energheia Italia, Operational Director at Sviluppo Italia, Deputy COO at Banca Fineco, Board member at Fideuram Vita and Sales Manager at Banca Fideuram
Giuseppe Semerano		Chief Investment Officer	• 2016: CIO and Financial Advisor for Institutional Clients at SCM • Previously: Proprietary Trader and Financial Advisor at IWBank, Managing Director at Banca Monte dei Paschi di Siena and Antonveneta ABN Amro Bank
Lorenzo Guidotti		Partner Head of Wealth Management	• 2010: Head of Wealth Management and Family Office at SCM • 2005-2010: Director at UBS and Vice President at Merrill Lynch • Previously: Head of Institutional Clients at ABN Amro and Intesa Bci, Fixed Income Sales at Cantor Fitzgerald, Relationship Manager at Schroders
Francesco Barbato		Partner Head of Sales	• 2009: Head of Sales, Board member and co-founder at SCM • Previously: Financial advisor at Banca Sara and Sanpaolo IMI
Alessandro Bernazzani		Investor relator Head of Marketing & Communication	• 2015: Head of Marketing & Communication at SCM • Previously: Head of sales and Board member at Blue Financial Communication, Marketing & Communication at Integrated Asset Management, JD Farrods Group and Banca Fideuram
Alberto Vercellati		Head of Compliance and AML	• 2015: Head of Compliance and Anti Money Laundering (AML) at SCM • Previously: Compliance at Consultinvest and Banca Network

Source: Company data

3. BUSINESS MODEL

Unique, innovative, conflict-free, sustainable business model

Mission and values

Wealth and life coach

Acting side by side with its clients, providing strategy, solutions and tools able to help them manage and preserve their wealth, creating a common path to address:

- Risk and cost levels within wealth management
- Family needs and business succession issues
- Asset management and potential disposal

Value proposition

Pure advisory and asset management services, transparency and safety

No reselling of products or placement, no connections with product makers, no standardized services

SCM structures its offer around five pillars, which differentiate the Company's value proposition and make it unique compared to its competitors:

- **Independence**: SCM is completely untied from banks and other financial groups
- **Flat fee**: the fee clients pay does not depend on asset allocation or specific product selection
- **Transparency**: the cost structure is transparent and clients know how much they pay and what their portfolio comprises at any time in the investment process
- **Safety**: SCM does not hold any cash from clients, who use independent depositary bank accounts. SCM does not have the right to transfer/withdraw any amount. It is only allowed, if previously authorized, to negotiate securities and other financial instruments.
- **No rebates**: SCM does not earn any fee from issuers of the products clients invest in, in order to avoid any conflict of interest. The only fee SCM receives comes from its clients.

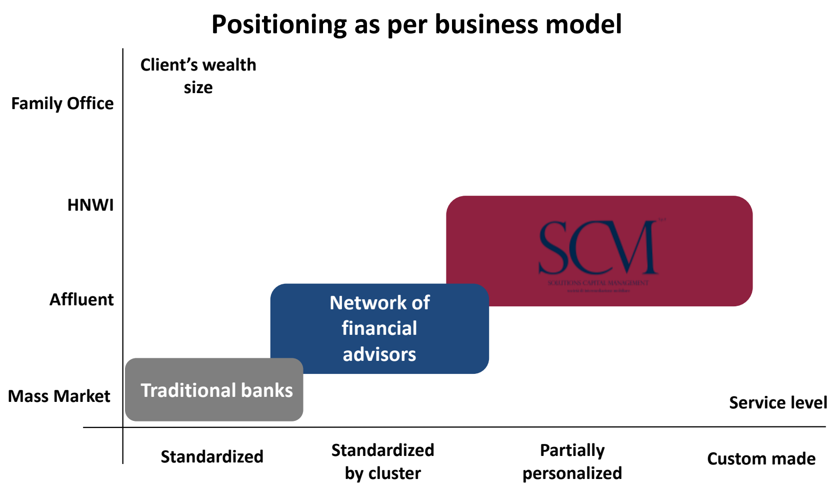
Service offering

- **Portfolio management:** SCM is authorized for the negotiation of financial assets on behalf of its clients
- **Investment advice:** consulting services on all, or part, of the client's savings. The portfolio can be managed by other advisors, leaving SCM to merely provide recommendations, with no access to the client's liquidity.
- **General advisory:** risk management, value at risk calculation and asset allocation assessment
- **Insurance services:** placement of "Ramo I" insurance policies

Client base

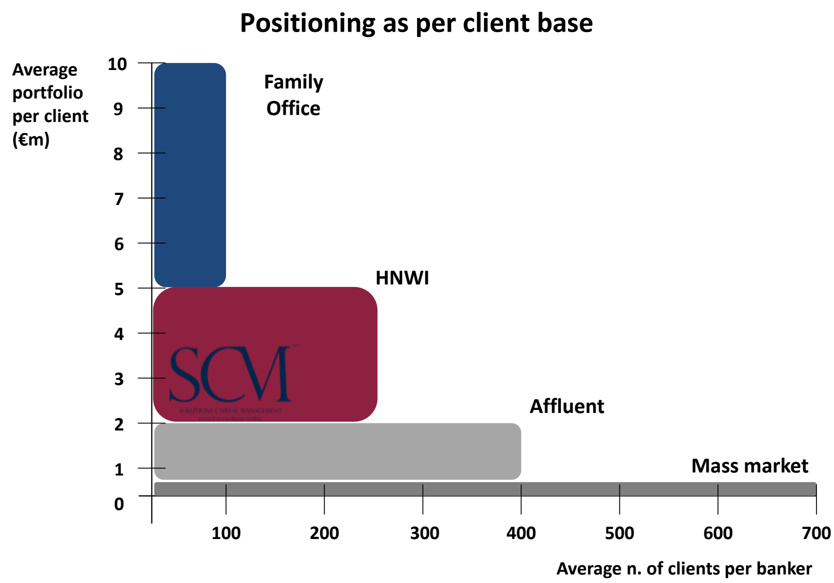
SCM targets High Net Worth (HNW) clients, on the assumption that they more highly appreciate tailored services and the personalized advisory approach, versus traditional asset management services which market standard products. In the industry as a whole, customers are commonly classified in three plus one major segments: Mass Market, Affluent and HNW (referring to individuals) and Family Office (for families). For the purposes of our analysis, we consider Mass Market clients those under €500k AUM, Affluent those with assets between €500k-€2m and HNWI over €2m. Family Office refers to families with assets of over €5m.

Exhibit 3.1



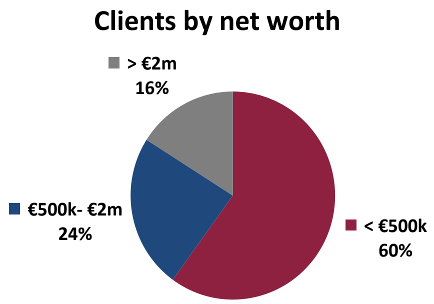
Source: Company data

Exhibit 3.2



Source: Company data

Exhibit 3.3



Source: Company data

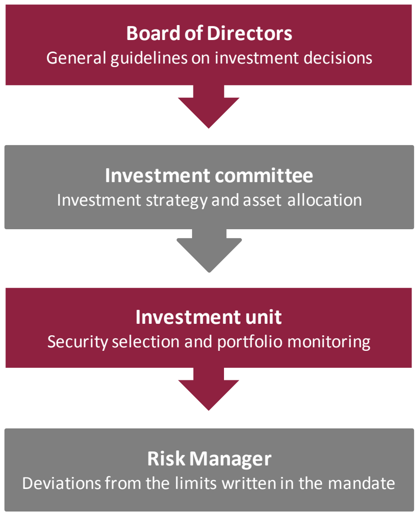
Targeting the Affluent and HNW client segments

Asset allocation and investment approach

The asset allocation process is steered by way of a top-down approach:

- Board of Directors: decides on the strategic objectives, risk profile and potential strategic asset allocation. The Board oversees the overall investment process, decides on tactical asset allocation and other changes in the asset management strategy.
- Investment committee: analyzes the performances and the risk levels of each investment direction, submitting proposals to the Board.
- Investment unit: prepares reporting material, builds portfolios according to the Board's decisions and oversees the correct execution of orders in accordance with the guidelines adopted.
- Risk Manager: monitors investments and risk-level limits as decided by the Board. Interacts with Investment committee to ensure compliance with such limits.

Exhibit 3.4



Source: Company data

SCM invests in a broad range of financial products: equities, options, bonds and other debt securities (convertibles, drop-lock, Eurobond, structured bonds, reverse convertible, unit linked, step-up/step-down), liquidity, OICR (mutual funds, SICAV

Broad investment range

and ETFs), ETC and ETN, complex products. The offering to clients includes the following investment product lines with different time horizons and risk profiles: Euro Coupon, Ladder, Moderate, Revaluation, Flexible, Dynamic, Aggressive, Eurostoxx600 Quant, Target Strategy, High Yield Premium.

Fees

Clients know exactly what they will pay

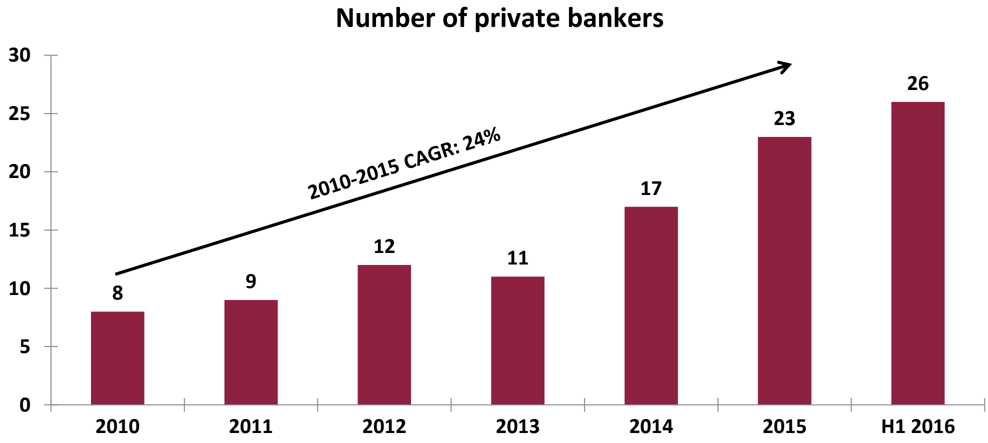
SCM's services are charged to clients with a basic flat fee, complemented by performance fees. Flat fees do not depend on asset allocation or product selection, while performance fees are linked to the effective value creation in the client's portfolio. Over the three years 2013-2015, performance fees have accounted for an average 28% of total net fees. The 2016 figure is expected to be significantly lower, given the market troubles that began at end 2015.

Private bankers' network

Average portfolio per banker €40m

SCM operates through a network of financial advisors, that has grown from 8 in 2010 to 31 at September 2016.
The average portfolio per banker was around €40m in 2015 vs. the industry average of around €20m (Source: Assoreti, the national association of financial advisors networks). SCM's clients have an average portfolio per client equal to around €2m (vs. the industry average of around €120k, according to Assoreti).
Each banker has an average number of clients of around 20 (vs. the industry average of around 170, according to Assoreti).

Exhibit 3.5



Source: Company data

Main operations and businesses are in Milan, where the headquarter is located. Other offices are located in Rome, Bergamo, Padua, Verona and Latina. Bankers are concentrated in Northern regions, especially Lombardy, which are overall wealthier.

Bankers are rewarded on the basis of AUM and performance:

- Recurring fees on portfolio management and investment advice: calculated as a percentage (40% - up to 65% - according to individual agreements and actual gross fees earned)

Incentives to new bankers

- Performance fees: calculated as a percentage (10%) of the performance fees paid by clients to SCM on the basis of the return achieved
- One shot fees: 40% of the revenues generated from the advisory service (such as portfolio analysis, search of potential investors, financial/strategic advisory to corporates)
- Entry bonus: additional payments during the first 24-48 months in order to incentivize their switch to SCM

Recruitment of bankers with a minimum portfolio of €20m

Recruitment is carried out by SCM's staff (sales team) by targeting experienced professionals with a portfolio of at least €20m. SCM organizes training courses for bankers on a regular basis.

4. REGULATORY FRAMEWORK

Key domestic legislation governing brokerage firms

Bank of Italy and CONSOB: the primary regulators

Bank of Italy and CONSOB supervise on the financial markets and on financial institutions, banks, asset managers and investment firms. The Bank of Italy regulates on issues linked to the limitation of risk and financial stability. CONSOB has the mission of promoting transparency and the correct application of the rules of business conduct by banks and investment firms, in the provision of investment services and activities.

The source of primary legislation governing the Italian regulatory regime applicable to SIMs is contained in Legislative Decree n. 385 of 01/09/1993 (TUB – Testo Unico Bancario – Italian Law on Banking) and Legislative Decree n. 58 of 24/02/ 1998 (TUF). Secondary legislation has also been enacted by Bank of Italy and CONSOB.

Accordingly, SIMs, the accredited Italian investment firms authorized to carry out investment services, have to comply with the Italian relevant law and are subject to supervision by the Bank of Italy and by CONSOB, also holder of the register of Italian investment firms.

Winds of change: MiFID II

In Europe MiFID I has been regulating the markets since 2007

Increasing complexity of financial products and markets brought out the need for stronger regulation in order to safeguard investors' interests, while, at the same time, growing globalization made it necessary to harmonize European markets.
Since November 2007, MiFID (Markets in Financial Instruments Directive - 2004/39/EC) has been the cornerstone of the EU's regulation of financial markets. MiFID regulates the provision of financial instruments and establishes the role of national authorities that supervise them.

In 2011, the European Commission decided a revision of MiFID to take into account the developments of the trading environment and, in light of the 2008 financial crisis, to improve functioning of the financial markets making them more efficient, resilient and transparent. The Regulation on Markets in Financial Instruments, MiFID II, was adopted by the European Parliament in 2014, and its application within Member States is foreseen from 2017-2018 on.
The major amendments to the previous regulation concern the level of transparency brokers need to respect: they will have to explicitly distinguish between distribution costs and commissions, needing to drop the previous all-in fee schemes. Reporting requirements will be widened in scope, while traders' identity and certain algorithms will need to be made public.

A shield to protect investors

Presently, distribution costs are only partially disclosed, as mutual funds commissions are charged directly on the product. Therefore, the client is not in the condition to understand the full remuneration of advisors and intermediaries related to the funds it is investing in. The underlying intent of MiFID II is to introduce more transparency that generates a better awareness for the client, who, under the present regulation, does not have a clear picture of how much the product and the commission costs are. Consequently, many clients will suddenly become aware that the pricing of their financial products was much higher than they might have imagined, at times even unreasonable if compared to the actual returns of investment.

No longer hidden costs, transparency is mandatory

In order to comply with MiFID II, companies will need to readapt their businesses in the following areas:

- Strategy, assessing new opportunities arising from the new regulatory framework
- Revenue model, understanding how revenue streams will be modified
- Planning, defining timelines, priorities and costs of implementation
- Regulations, understanding how the new scenario works, coordinating change
- Company policy, analyzing how the new regulatory framework will impact investors
- Training, teaching employees how to best tackle the new framework

SCM is already MiFID II-compliant

5. MARKET

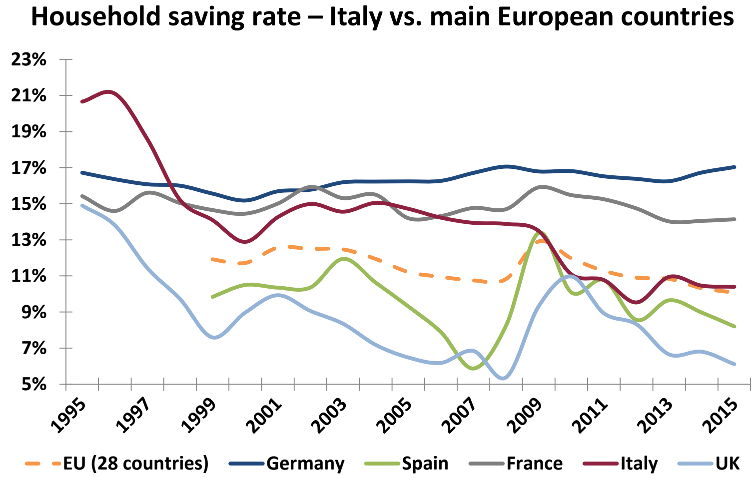
What's driving wealth? What's driving investment decisions?

Resilient saving rate despite financial troubles

Italian household saving rate high regardless of economic downturn. Italian households historically recorded a strong propensity to save and this allowed them to build, despite financial downturns and difficult periods, wealth that is relatively higher in Italy than in other developed countries.

The Italian saving rate was above 20% of disposable income in the middle of the nineties. The crisis of the new millennium brought down such a figure and the sub-prime crisis made it plunge, bottoming at 9% in 2012. Since 2013, early signs of recovery pushed the saving rate up again, allowing it to be over 10% in 2013-2015.

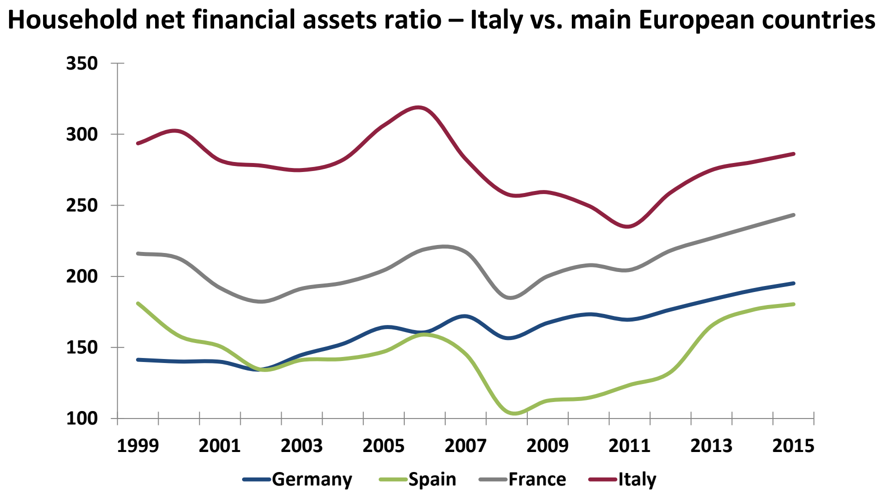
Exhibit 5.1



Source: Eurostat, Gross household saving rate, data updated in November 2016

Exhibit 5.2 shows that Italian household financial net worth was above 2.5x the net disposable income in 2015, with this trend growing since 2012. Italy reported one of the highest net financial assets ratio among the major EU countries in 2015.

Exhibit 5.2



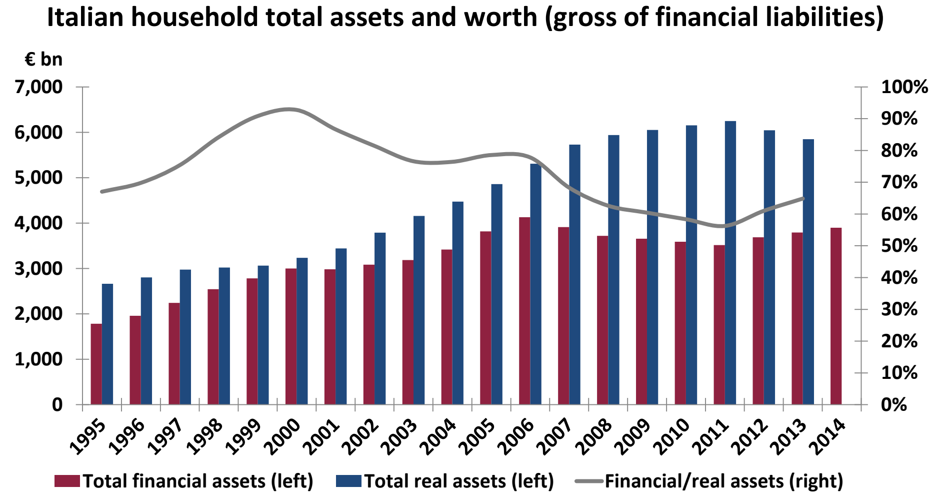
Source: Eurostat, Household net financial assets ratio, data updated in November 2016

Net worth is substantial. With financial assets gaining ground in the overall household portfolio, these still represent a minor portion of the pie. Data from the Bank of Italy shows household net worth was €8.7tn in 2013, slightly lower than in 2012 (-1%), but still in line with other post-crisis annual figures. Financial assets (€3.8tn) accounted for 43% of the total net wealth, while the remaining part was represented by real assets (67%) and financial liabilities (-10%).

Real assets owned by Italian investors showed stable growth until 2012; from the following year, their weight within household portfolios started decreasing. At the same time, financial assets stepped up until 2006, with their popularity falling due to the economic downturn. However, the post-crisis recovery borne its fruits with financial assets experiencing positive growth once again from 2012 onwards, highlighting a preference for this kind of investments as compared to the past predilection for real estate and other durable goods.

The likely reasons for the slowing of illiquid assets are the unfavorable tax environment and the fact that a vast portion of real assets are properties where families reside, thus representing non-disposable investments.

Exhibit 5.3

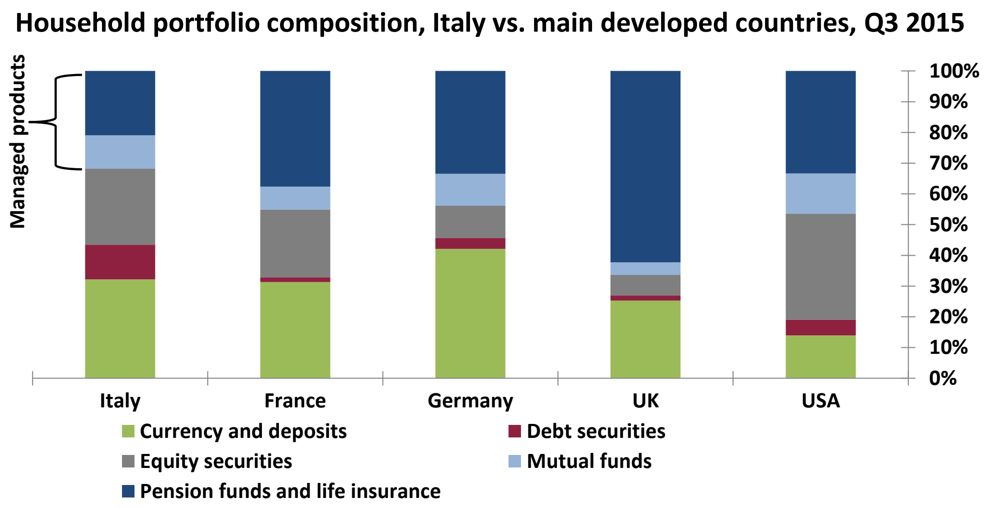


Source: Bank of Italy, *La ricchezza delle famiglie italiane - year 2014*, n. 69, 2015

Managed assets show continuous growth, but Italy still falls behind other developed countries. In 2014, financial assets increased to €3.9tn, with only 29% of them invested in mutual and pension funds and life insurance products (commonly referred to as "managed assets" or "managed products"), according to Assogestioni, the association representing most of the Italian and foreign investment management companies operating in Italy, as well as banks and insurance companies. In Q3 2015, the amount of managed products rose to 31%, still lower than main developed countries, which show, at the least, managed wealth of 41% of total financial assets.

30% of assets invested in managed products in Italy, vs. minimum 40% benchmark

Exhibit 5.4

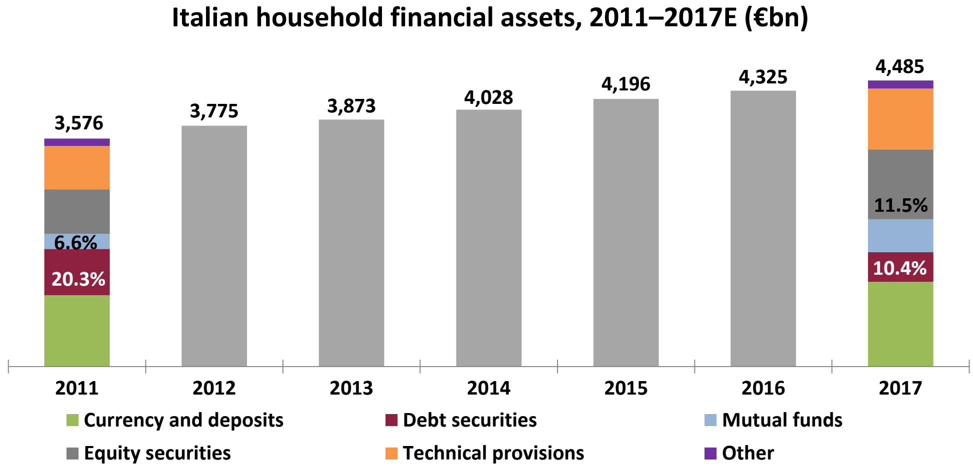


Source: Assogestioni, *L'industria del risparmio gestito*, Salone del Risparmio, April 2016

Room to improve the mix

A research by Prometeia, an Italian consultancy and research firm specialized in wealth management and financial advisory, confirms the upward trend in Italian managed assets, forecasting strong growth mainly driven by the rise of mutual funds as investment alternatives (11.5% in 2017 vs. 6.6% in 2011). Concurrently, the analysis of the same period highlights a fall for debt securities, with an amount in 2017 (10.4%) which is nearly a half of that of 2011 (20.3%).

Exhibit 5.5



Source: Prometeia, *Osservatorio risparmi delle famiglie*, July 2015

Strong uptrend foreseen in the short-term

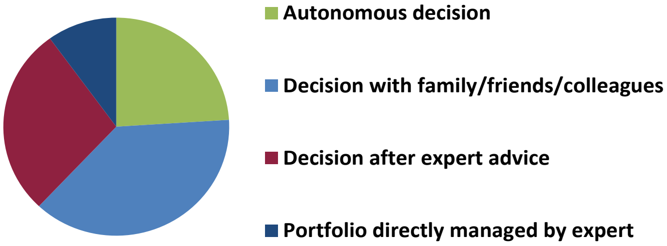
More than half of investors still do not seek professional advice. According to a survey by GFK Eurisko, a global market research firm, reported by CONSOB, around 60% of investors generally rely on non-professional advice: hence, only less than a half use advisory services, highlighting, on the one hand, the current low popularity of the domestic financial advisory market and, on the other hand, the significant growth potential for the industry.

Hidden need of professional advice

DIY: an attitude that sooner or later will change

Exhibit 5.6

Sources of household investment decisions in Italy



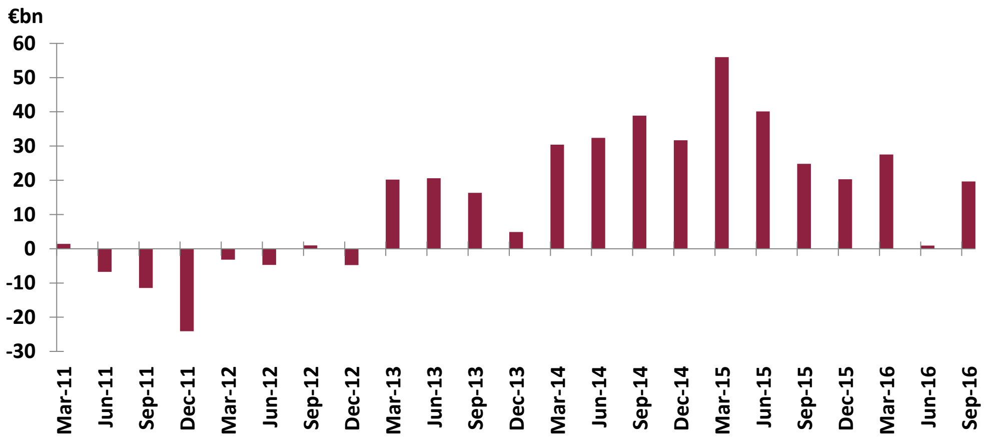
Source: CONSOB, *2015 Annual Report*, based on GFK Eurisko surveys

The Italian market for managed products

Although Italy still lags behind its peers, the managed product market has recently experienced inflows every single quarter from 2013. After a strong decline in the amount of new money entrusted to asset managers in Q2 2016, Q3 shows recovery and an increasing trend with total net inflows of nearly €19bn. The years before 2013 showed capital outflows as a consequence of the subprime and sovereign debt crises.

Exhibit 5.7

Managed assets in Italy – Net inflows, Q1 2011-Q1 2016



Source: Italian Fund Hub – Assogestioni, Cubodata, data extracted in November 2016

As a result of recent continuous inflows (€133bn in 2014 and €141bn in 2015) and positive market effect, the stock of assets managed on the Italian market nearly doubled between 2011 and 2015. Funds and insurance products are the categories that experienced the greatest increase.

EnVent Research & Analysis

Managed assets doubled in five years

Exhibit 5.8

Managed assets in Italy – AUM 2011-Q3 2016 (€bn)

	2011	2012	2013	2014	2015	Q3 16
Funds	461	525	599	731	899	931
Individual portfolios	100	93	98	114	128	128
Retirement schemes	38	49	63	75	81	84
Insurance products	268	466	499	591	640	700
Other	70	62	71	78	87	83
Total	**938**	**1,195**	**1,330**	**1,588**	**1,835**	**1,927**

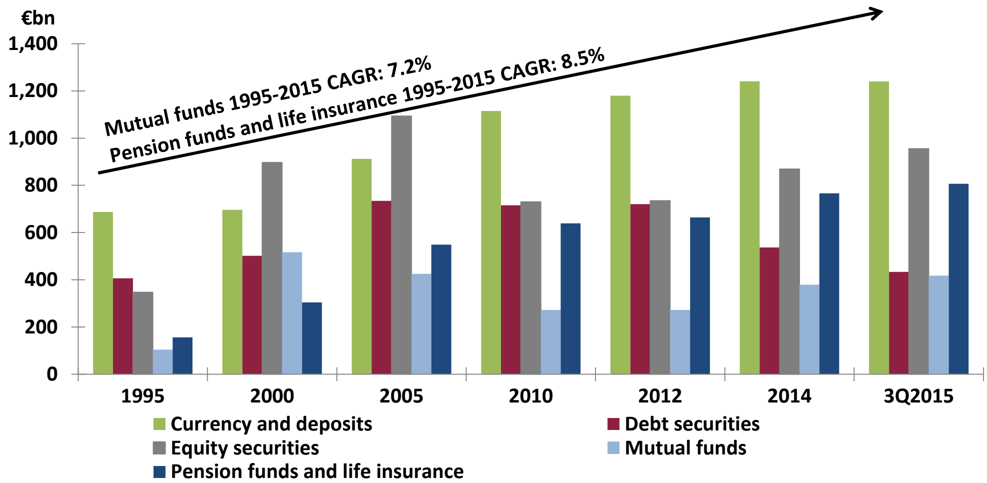
Source: Italian Fund Hub – Assogestioni, Cubodata, data extracted in November 2016

Based on this scenario, an increasing inflow into financial assets and, among these, into managed products, is to be expected over the next few years. This assumption is strengthened by the sound – although below the pre-crisis levels – Italian household saving rate of over 10% of disposable income in 2015. Concurrently, the historical lowest yield recently recorded on Italian government bonds (currently 1.9% on 10-year treasury bonds) further addresses investors towards alternative investment solutions, like managed products. This resulted in a strong reduction in the amount of debt securities held (11% of total portfolio composition in Q3 2015, as compared to 20% in 2010). As Exhibit 5.4 indicates, however, the percentage of debt securities on Italian investment portfolios is still well above that of other developed countries (11% versus a maximum of 5% in the USA).

Expected further inflow into managed products in the next years

Exhibit 5.9

Italian household investment portfolio composition, 1995-Q3 2015



Source: Assogestioni, *L'industria del risparmio gestito*, Salone del Risparmio, April 2016

6. INDUSTRY ANALYSIS AND OUTLOOK

An increasingly attractive industry

Network of financial advisors

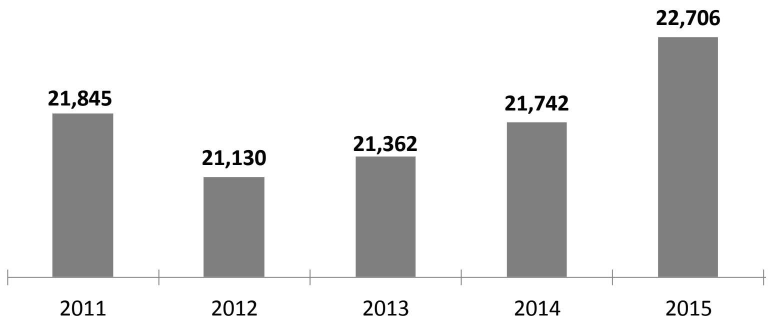
22,000 financial advisors contribute inflows of €33bn

Financial advisors (in Italian “Consulenti finanziari” or “Promotori finanziari”) are fee-based agents who provide advice and guidance to clients and offer investment products or investment strategies. Financial advisors are authorized to distribute financial products outside the office (“door-to-door”).

At the end of 2015, there were over 22,700 authorized financial advisors in Italy, according to Assoreti, of which around 22,000 active. Financial advisors networks contributed net inflows of €33.4bn in 2015 (+41% vs. prior year), of which €29.4bn coming from managed assets (equal to 88% of total inflows).

Exhibit 6.1

Number of authorized financial advisors in Italy, 2011-2015



Source: Assoreti, *2015 Annual report*, 2016

Financial advisors have historically been a powerful mean of asset sourcing, contributing to around 22% of total net AUM invested in Italy in 2015.

Exhibit 6.2

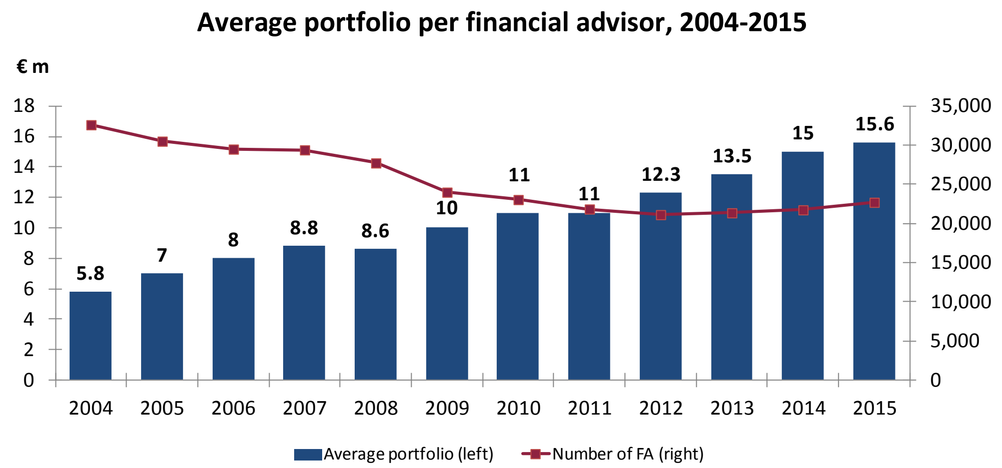
Financial Advisors network AUM (€bn)

	2015
OICR	899
Retail asset management	128
Pension funds	138
Life insurance	574
Total	1.739
Total (net of overlaps)	**1.442**
Financial Advisors network AUM	318
% of net total	**22%**

Source: Assoreti, *2015 Annual report*, 2016

Between 2004 and 2015 the average portfolio of Italian financial advisors nearly tripled (from €5.8m to €15.6m), according to Assoreti. Concurrently, the number of advisors declined to 22,700 professionals (from 33,000 in 2004), which in turn contributed to the growth in the average portfolio.

Exhibit 6.3

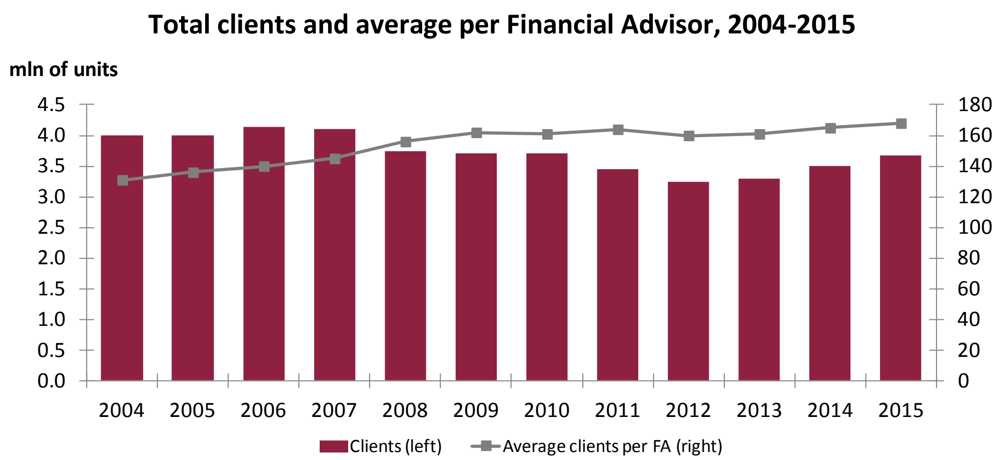


Source: Assoreti, *Statistical information 2014*, *2008-2015 Annual reports*

Average portfolio of €15m per financial advisor

The 2008 financial crisis affected the asset management industry, worrying the investor community and bringing the client universe down around 10% in one year. Clients started rising again in 2013 and with them the average number of clients per financial advisor.

Exhibit 6.4



Source: Assoreti, *Statistical information 2014*, *2008-2015 Annual reports*

Even in the mass market the average portfolio per client has doubled

By relating the size of the average portfolio to the average number of clients per advisor, there is evidence of the strong increase (70%) in the average single client's worth, in the last eight years. According to Assoreti, the average client's portfolio was €55k in 2008, while the same figure in 2015 is over €92k.

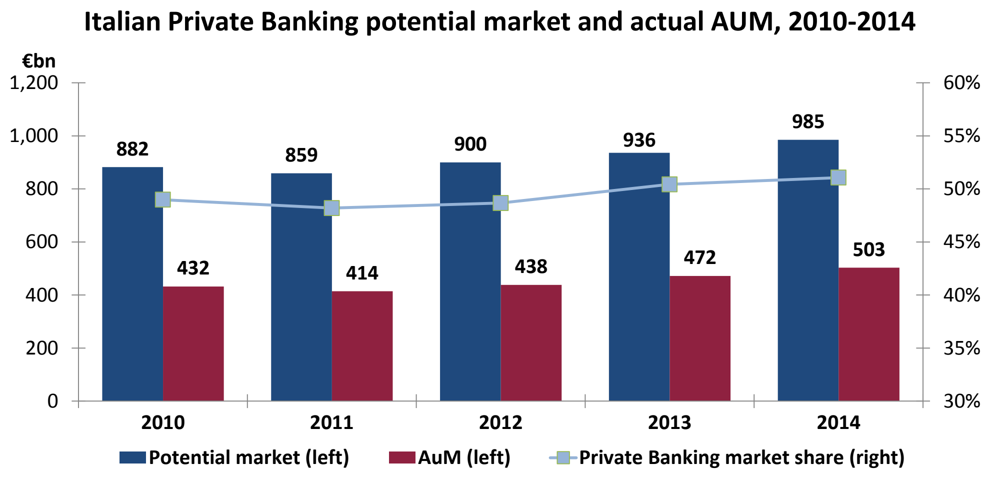
Private Banking is here to stay

The potential Private Banking market (which serves clients with a minimum worth of €500k) has been growing steadily since 2011, reaching €985bn in 2014. The portion of the market actually advised is expanding since 2011, and increasing as

Private banking shows relentless growth

percentage of the total potential market (51% in 2014, versus 48% in 2011). This suggests that the upward trend is tangible, and here to stay: tailored solutions and ad-hoc asset management services will be more and in demand in the near future.

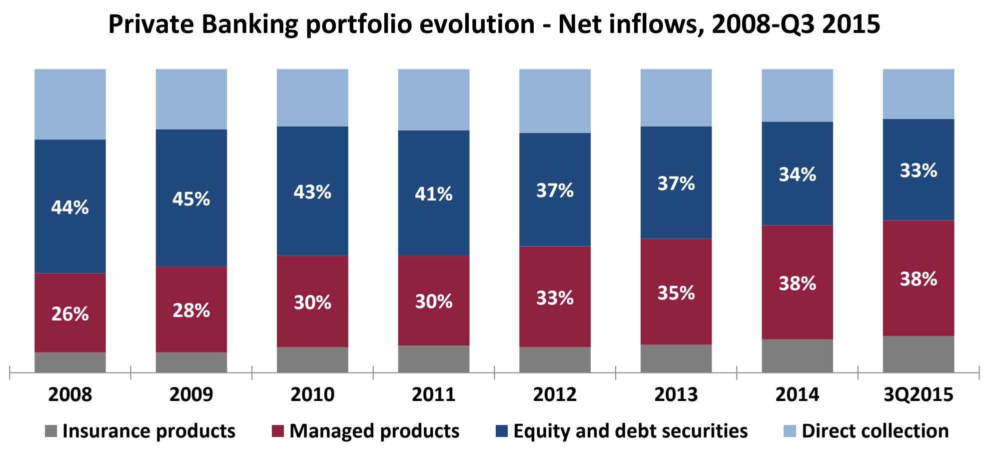
Exhibit 6.5



Source: AIPB, *Private Banking e regole del gioco*, April 2015

Representing a portion of the broader managed assets sector, the Private Banking segment shows similarities in terms of portfolio composition. Managed products within Private Banking portfolios show a continuous growth trend since 2011, increasing from 30% to 38% in less than four years. At the same time, direct investment alternatives such as stocks and bonds seem to lose ground, falling from 41% in 2011 to 33% in Q3 2015. Insurance products also experience a positive trend, while a decrease occurred for direct bank collection (mainly represented by the issuance of own debt instruments and deposits).

Exhibit 6.6



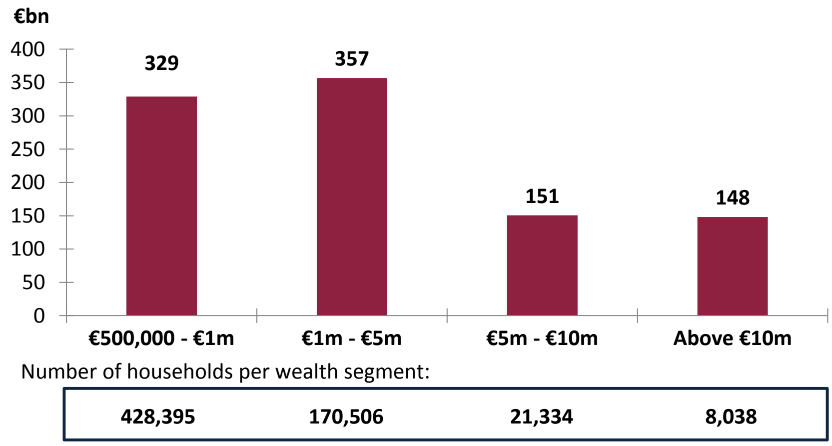
Source: AIPB, *Analisi del mercato servito dal Private Banking*, September 2015

Client segmentation by net worth indicates that the largest part (70%) of assets potentially manageable by Private Bankers belongs to HNW families at the bottom of the worth level (just over €500k and up to €5m). The same is more evident when looking at the number of families: nearly 600.000 (95% of the total) have a net worth between €500k and €5m.

600,000 families have net worth between €0.5-5m

Exhibit 6.7

Private Banking clients and wealth distribution - potential market, 2014



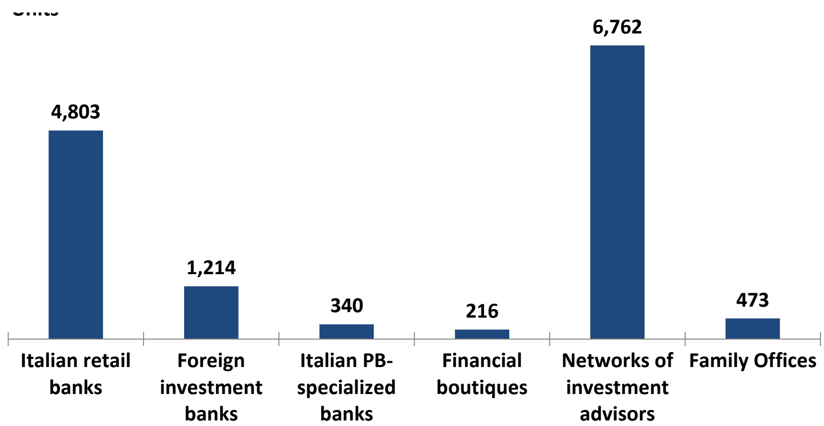
Source: AIPB, *La gestione della relazione con la clientela Private*, May 2015

As of December 2015, the number of Private Bankers operating on the Italian market was 13,800. The majority of them are employed by Italian retail banks or are part of the networks of investment advisors active on the Italian market.

Private bankers actually giving specialized advice are those of family offices, investment banks and independent boutiques

Exhibit 6.8

Number of Private Bankers by player type



Source: Magstat, *Il punto sul mercato*, Magazine del Private banking, December 2015

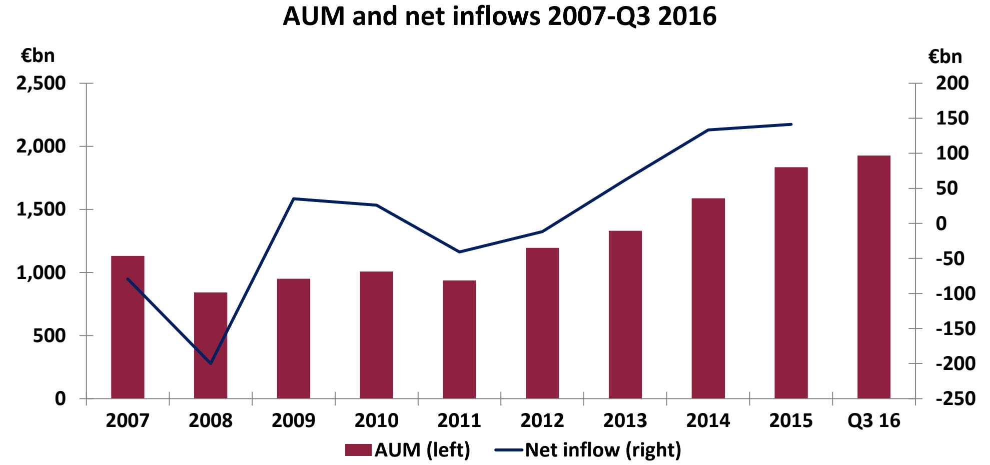
Outlook

Yesterday from treasuries to mutual funds, tomorrow from mutual funds to asset management

The Italian asset management industry is quite recent. Until the early nineties, Italian households used to invest most of their savings in Italian government bonds, bank accounts and deposits, or, alternatively, post office deposits. Italian Treasuries offered highly attractive yields (the 10y rate was above 10% in the early nineties), thus, demand for other saving products was weak. The gradual shift towards the

European Economic and Monetary Union during the nineties helped Italian Treasury yields to come down to 5% in 2000 and marked a strong increase in the mutual funds industry. The European sovereign debt crisis at the end of 2009 created additional funding needs for banks, which then chose to re-direct their customers' savings into their deposit accounts or issued bonds, in an attempt to offset the rising cost of funding.

Exhibit 6.9



Source: Italian Fund Hub – Assogestioni, Cubodata, data extracted in November 2016

Recovery after the financial crisis

In 2012, after the change of sentiment following the European Central Bank's statement in support of the European Economic and Monetary Union, industry inflows returned to grow again, delivering €62bn in 2013. Recovery continued in 2014, with €133bn net inflows. This trend is strongly supported by banks, which control a large part of financial products' distribution (Banca Generali, Intesa Sanpaolo and UniCredit together manage 52% of Italian assets at the end of 2015. Source: Assogestioni) and are more likely to sell their own products (bonds and deposits) for funding needs.

Exhibit 6.10

Italian households portfolios – shift from debt securities to managed assets

€bn	Total	Currency and deposits	Debt securities	Equity securities	Mutual funds	Pension funds and life insurance
Italy						
1995	1.799	38,2%	22,6%	19,3%	5,8%	8,7%
2000	3.041	22,9%	16,5%	29,5%	17,0%	10,0%
2005	3.864	23,6%	19,0%	28,3%	11,0%	14,2%
2010	3.633	30,7%	19,7%	20,1%	7,5%	17,6%
2012	3.732	31,6%	19,3%	19,7%	7,3%	17,8%
2014	3.951	31,4%	13,6%	22,0%	9,6%	19,4%
3Q2015	4.014	30,9%	10,8%	23,8%	10,4%	20,1%
3Q2015						
Italy	4.014	30,9%	10,8%	23,8%	10,4%	20,1%
France	4.804	28,5%	1,4%	20,1%	6,8%	34,3%
Germany	5.373	39,3%	3,3%	9,8%	9,7%	31,2%
UK	8.126	24,2%	1,6%	6,4%	3,9%	59,6%
USA	61.523	13,7%	5,0%	33,8%	12,9%	32,7%

Source: Assogestioni, *L'industria del risparmio gestito*, Salone del Risparmio, April 2016

As long as there is no resurgence of a European sovereign debt crisis and a persistence of a low return on traditional products such as government bonds and term deposits, we expect managed assets to continue growing in the next future.

MiFID II is expected to impact heavily in the industry

What investors want

According to a recent research by GfK Eurisko, financial instability has changed households' attitudes towards their financial asset management. They require a more personalized financial advisory: not only mere asset allocation, but a series of ancillary services. Households ask for an all-round advisory service of high quality and with the possibility to talk to experts in the field, as indicated in the findings of the survey:

A definitive new portfolio paradigm

- Full advisory – 54%
- More competent personal advisor – 47%
- Higher quality – 30%

(Source: GfK Eurisko, Presentation at the conference "III Forum Internazionale della Consulenza ed Educazione Finanziaria", November 2015)

MiFID II will introduce mandatory disclosure to clients of all costs charged in their service offering.

A turning point for the industry

One of the most innovating rules is that asset managers will be obliged to disclose the distribution cost of financial products suggested to or acquired by their client. Presently those costs are only in part disclosed, so that the client is not in the condition to understand the full remuneration of brokers and advisors. The underlying intent is to introduce transparency, that, in turn, generates more awareness of how much the product costs as opposed to the commissions. Consequently, many clients could suddenly realize that the pricing they are were unaware of was much higher than they might imagine.

More competition, quality first for the industry

MiFID II, a turning point: risk for the largest traditional players, opportunity for the "pure" advisors

A challenge for the large funds factories and resellers

The consequences that will follow for the industry can turn out to be substantial, in some cases disrupting. Given the general low yield environment, client-awareness could reveal net losses after commission costs. This could be translated in downward pressure distribution costs through increased competition, with a potential effect on revenues for the entire industry, coupled with erosion of market share even for the most profitable asset managers.

On the cost side, the MiFID II calls for increases in the cost of reporting systems and in the training of back-office and network personnel.

The largest part of mass market asset managers' revenues comes from management and performance fees: as a consequence, changes in the current regulatory framework may deeply impact asset managers' profitability, if the way they charge clients will be modified. Additionally, financial advisors would be put

under even greater pressure, given the new clear specification of what clients pay for the product and what they pay for the consultancy.
The final outcome is easily predictable: competition will intensify and quality will gain importance and become more expensive.

Private Banking is ready to benefit

Within this framework, Private Banking is the biggest beneficiary of the prospected higher consciousness of *Affluent* clients that still lie within the mass market asset managers. Additionally, Private Banking's higher quality consultancy services are generally more specific and already more transparent, as compared to other kinds of financial advisory.

For its part, SCM will not experience such dramatic changes, since its business model is designed to be MiFID II-ready since the very start: flat fees, no rebates and a distinctive transparency are at the core of its activity.

Short-term outlook

The last months of 2015 and the entire 2016 give signs of changing trends, since most stock markets are volatile and show several ups and downs. On the other hand, liquidity continues to be abundant and industry inflows are restless. The sum of these facts and other industry trends bring us to envisage a number of issues and opportunities in the short and midterm for the industry:

- Growth rates will be driven more by inflows than by markets performance, both affected by political issues and oil price
- MiFID II introduction is expected to put competitive pressures on product pricing, thus reducing fee income
- Private bankers are likely to suffer less from these pressures, being already set on a flat fee, more transparent model
- The persistence of a low yield environment (mainly fixed income products and bonds) is foreseen to move large amounts of financial assets toward a more articulated mix of investments, that in turn require closer professional assistance
- The improvement of general client awareness and consciousness of the hidden cost of mutual funds is likely to stimulate a migration of the lower layers of high net worth individuals towards private banking advisors

Going forward, we see 2015 as the year signaling the end of a cycle, with the next 3-5 years marking a time in which the asset management industry will encounter significant change. If MiFID II will display its effects as they are envisaged, the European marketplace will become more selective, for the benefit of the more sophisticated services providers.

7. COMPETITION

Evolving business models in a fairly concentrated industry

Networks of financial advisors at the heart of private banking

The competitive landscape can be segmented as follows:

- International banks focused on HNWI and UHNWI clients (UBS, Deutsche Bank, Credit Suisse)
- Domestic universal banks with specialized private banking offering: dedicated service model with different levels of specialization, from a business unit to a separate private bank (Intesa Sanpaolo, UniCredit)
- Domestic retail banks: usually clients are served in the retail bank
- Financial advisory networks dedicated to private banking focused on the HNWI segment (Banca Generali, Banca Fideuram, Azimut, Banca Mediolanum)
- Niche players: boutiques of financial advisors specialized in tailor-made investment consulting and portfolio management (Banca Esperia, Banca Euromobiliare, Banca Intermobiliare, Cassa Lombarda, Albertini SYZ, Banca Profilo)

Assoreti, the Italian industry association, provides data on the network-driven wealth managers, such as the ranking of FA networks with AUM above €1bn as at September 2016.

Exhibit 7.1

Private banking networks - Assoreti

Company	AUM (€bn)	Number of FA	AUM/FA (€m)
Intesa Sanpaolo Private Banking (including Fideuram)	187.0	5,818	32.1
Banca Mediolanum	61.2	4,316	14.2
FinecoBank (Gruppo UniCredit)	49.2	2,626	18.8
Banca Generali	45.3	1,797	25.2
Allianz Bank	39.2	1,985	19.7
Azimut	34.3	1,639	20.9
Finanza e Futuro (Gruppo Deutsche Bank)	13.9	1,423	9.8
IW Bank (Gruppo UBI)	8.2	808	10.1
Banca Widiba (Gruppo MPS)	5.9	618	9.5
Credem	5.1	549	9.2
Consultinvest Investimenti	1.1	383	2.9
Sub-total - Companies with AUM > €1bn	**450.4**	**21,962**	**20.5**
Other companies	0.7	100	
Total	**451.0**	**22,062**	**20.4**

Source: Assoreti, *Comunicati flussi e stock*, September 2016

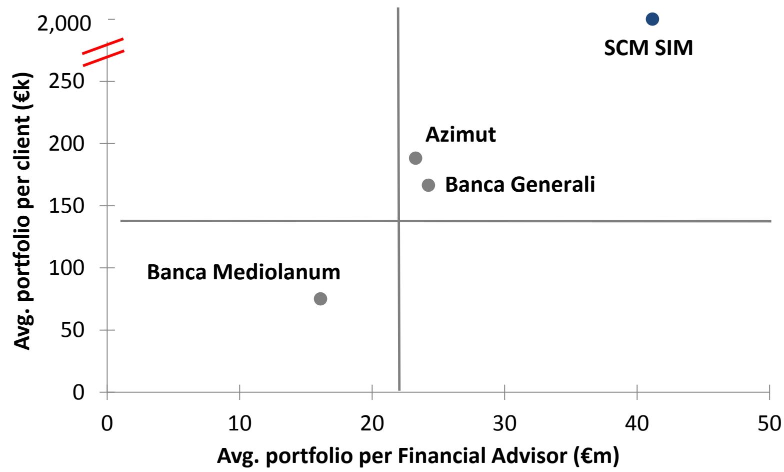
The largest network of financial advisors at September 2016 was operated by Intesa Sanpaolo PB (5,800), followed by Banca Mediolanum (4,300) and FinecoBank (2,600).

In terms of average portfolio per Financial Advisor, Intesa Sanpaolo PB, Banca Generali and Azimut were above the industry average, but are still far from SCM, whose AUM per banker is higher (around €40m) being concentrated on HNWI and affluent clients. The following graph compares SCM's base indicators to the Italian listed peers. SCM's efficient control of AUM is function of its average portfolio per client (€2m) and number of clients per banker (around 20). Accordingly, SCM is closer to a private banking boutique rather than an asset manager.

SCM average AUM per banker twice the industry average

Exhibit 7.2

Average portfolio per Financial Advisor and per Client – SCM vs listed competitors



Source: EnVent Research on 2015 Companies' Financial Statements and public data

AIPB, the Italian Private Banking Association, collects data on its 120 members. Data on AUM and number of financial advisors, refer to year-end of 2015 or, in some cases, to Q3 2015.

Private banking average AUM per banker €140m

Exhibit 7.3

Private banking networks - AIPB

Company	AuM (€bn)	Number of FA	AUM/FA (€m)	PB threshold
Banca Aletti	31.4	197	159.4	€1m
Banca Esperia	16.6	89	186.5	n.a.
Banca Euromobiliare	9.7	75	129.1	€500k
Banca Intermobiliare	12.3	144	85.4	n.a.
Banca Leonardo	8.0	84	95.2	€500k
Banca Profilo	4.6	42	109.5	n.a.
BSI Europe	1.0	11	90.9	€200k
Cassa Lombarda	4.5	53	84.8	€500k
Credit Suisse	15.0	100	150.0	€1m
Credito Valtellinese	8.6	62	139.4	€500k
Deutsche Bank	19.3	145	133.1	€250k
UBS	28.7	162	176.9	€500k
Total	**159.7**	**1,164**	**137.2**	

Source: AIPB website – data extracted in May 2016

Based on the above player segmentation, SCM's main competitors are:

- Financial advisor networks dedicated to private banking: Banca Generali, Banca Fideuram, Azimut, Banca Mediolanum
- Niche players: Albertini SYZ, Banca Akros, Banca Esperia, Banca Euromobiliare, Banca Ifigest, Banca Intermobiliare, Banca Profilo, Banca Leonardo, Cassa Lombarda

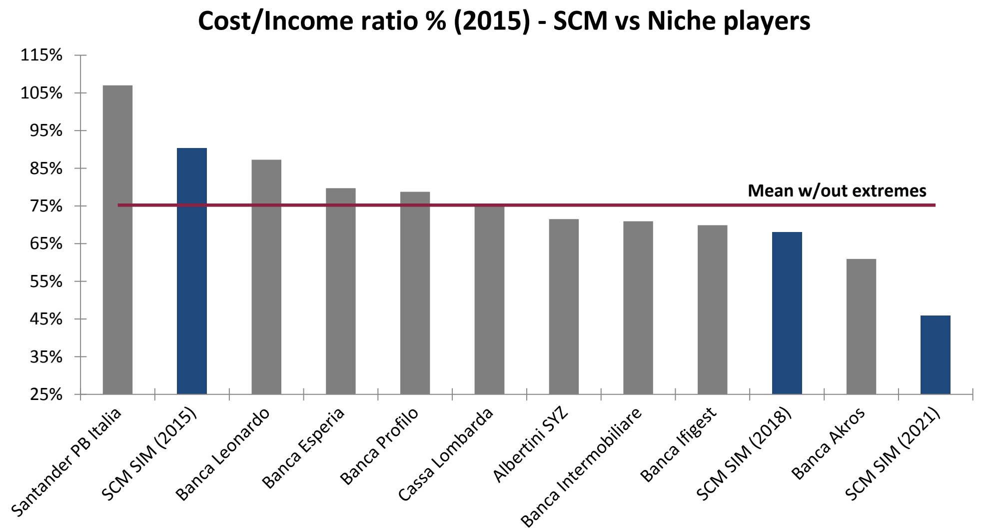
Our analysis also includes Santander Private Banking Italia, whose private banking business, with AUM of €2.7m, was acquired by UBS Italia in December 2015.

The key financial metrics considered to analyze the industry are:

Net fees and Cost/Income key financial indicators

- Gross fees/AUM – pricing policy and sales proxy
- Net fees/Gross fees – network remuneration and net revenues proxy
- Cost/Income ratio – operational leverage
- Tier 1 capital ratio – Capital adequacy requirements
- ROE

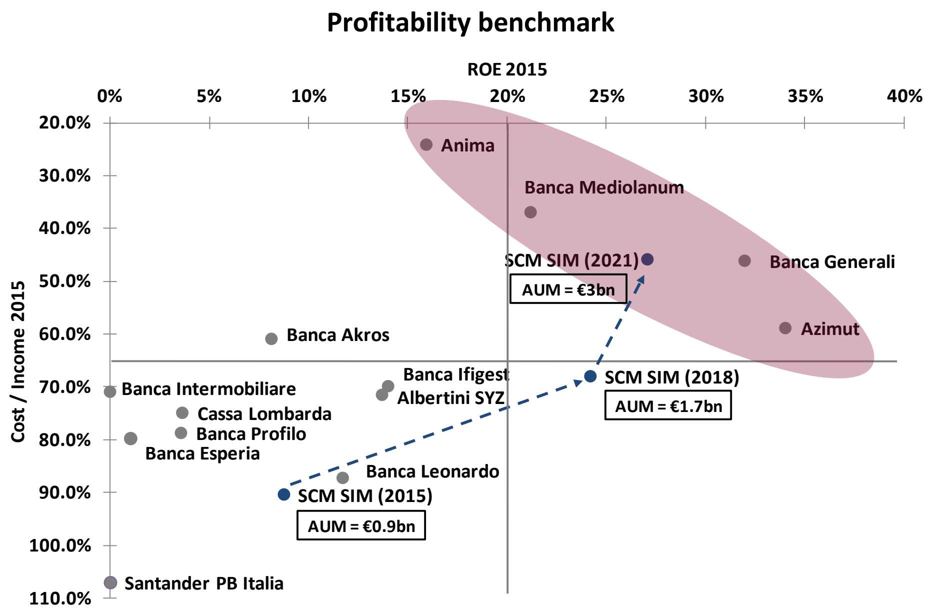
Exhibit 7.4



Source: EnVent Research on Companies' Financial Statements and public data - – For Santander PB Italia, Banca Esperia, Cassa Lombarda, Albertini SYZ and Banca Ifigest, 2014 figures, being 2015 figures not available publicly

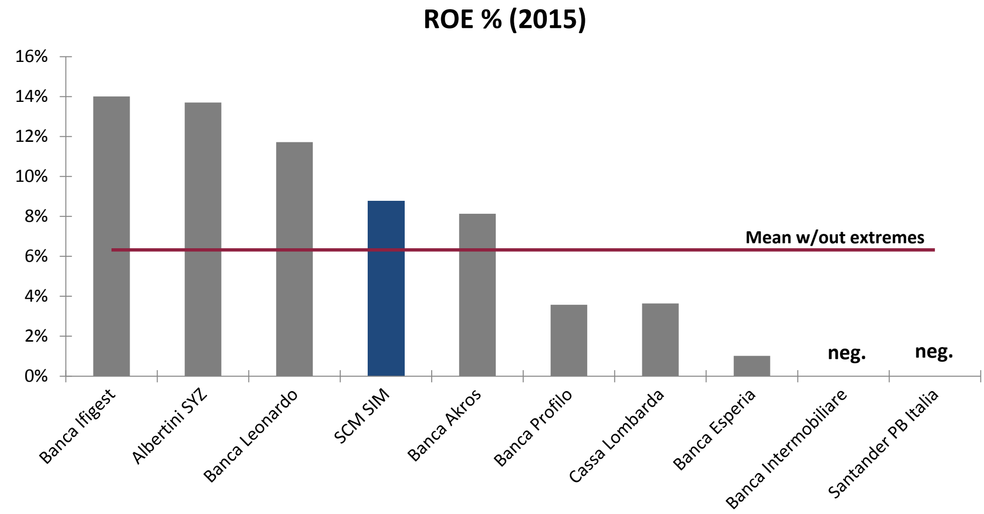
The milky way to the stars

Exhibit 7.5



Source: EnVent Research on Companies' Financial Statements and public data – For Santander PB Italia, Banca Esperia, Cassa Lombarda, Albertini SYZ and Banca Ifigest, 2014 figures, being 2015 figures not available publicly

Exhibit 7.6



Return on Equity ready to take-off

Source: EnVent Research on Companies' Financial Statements and public data - – For Santander PB Italia, Banca Esperia, Cassa Lombarda, Albertini SYZ and Banca Ifigest, 2014 figures, being 2015 figures not available publicly

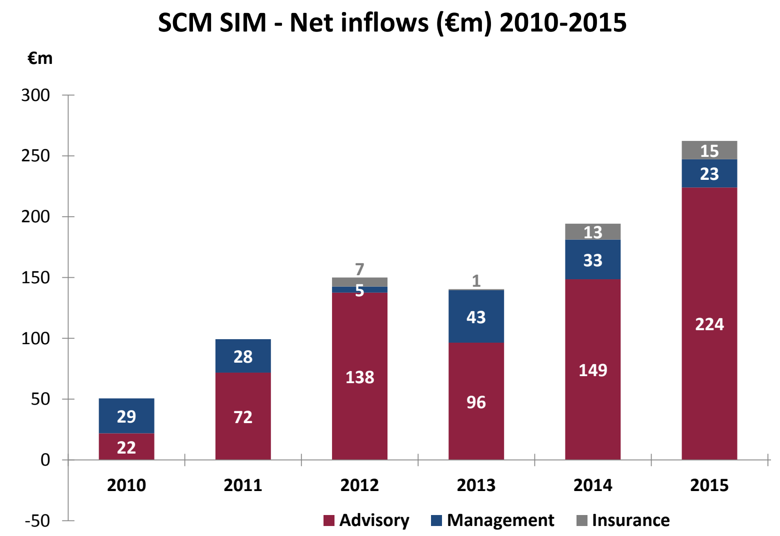
8. FINANCIAL ANALYSIS

Steady growth until 2015, slowdown in 2016

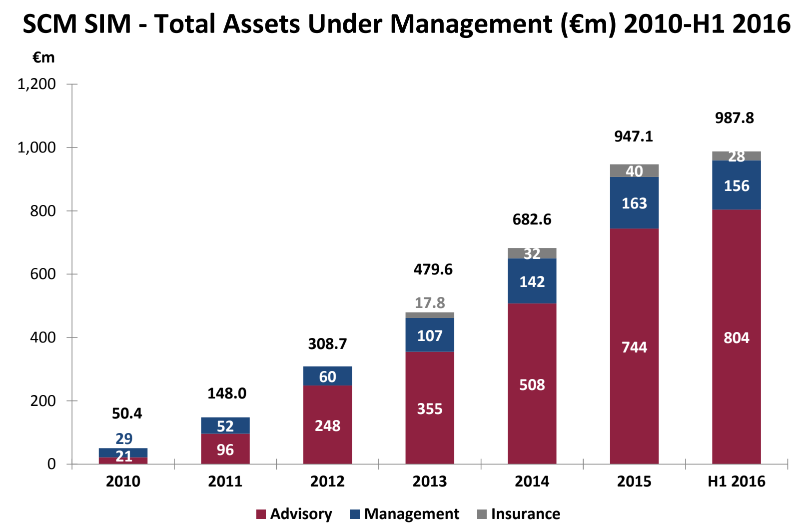
SCM has had an excellent performance in its first years following foundation, despite having entered a hypercompetitive environment where domestic and international prestigious names already had a strong presence.

Net inflows and AUM growing despite the unfavorable market cycle

SCM has reported steady growing net inflows over the period 2010-2015 (39% CAGR), from around €51m in 2010 to €260m in 2015, mainly coming from the financial advisory business (representing 85% of total inflows). Net inflows in H1 2016 had a slowdown due to the financial markets' instability and were €47.5m, driven by advisory inflows (€50.5m); insurance inflows were €1.9m, while managed assets decreased by €5m. As a result, total assets have been growing at an 80% 2010-2015 CAGR, reaching around €950m at year-end 2015 and nearly €990m at June 30th, 2016.



Source: Company data

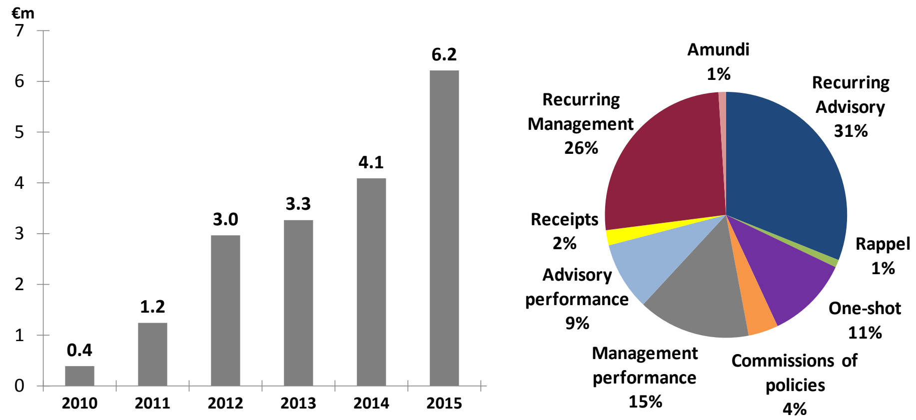


Source: Company data

Top line build-up

Revenues are fee-based: recurring and performance advisory and management fees, insurance fees and other non-recurring fees. Total fee income has grown at a 74% 2010-2015 CAGR, driven by recurring fees. In H1 2016 fee income was €2.8m, a decrease of 18% vs H1 2015, mainly attributable to the fall of performance fees (-98%) due to financial markets' troubles. Recurring fees from advisory and management grew by 14%, from €1.6m in H1 2015 to €1.8m in H1 2016.

SCM SIM - Fee income (€m) 2010-2015 and 2015 breakdown



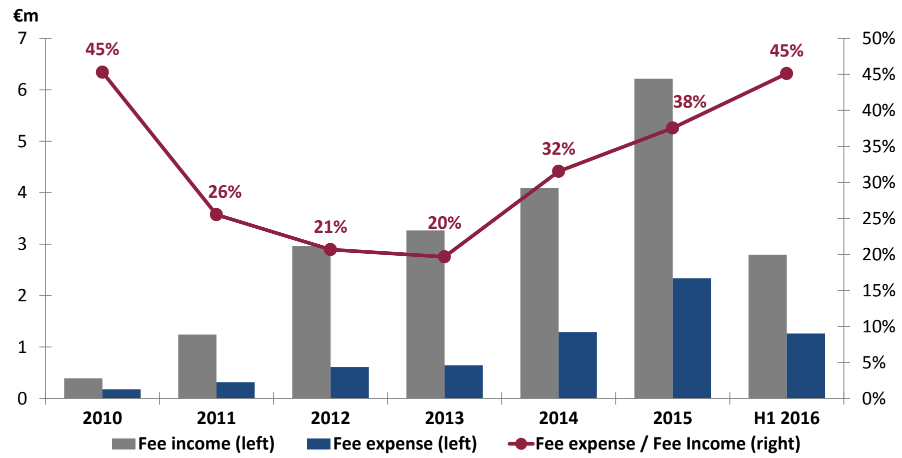
Source: Company data

Fee expense and network fees

Fee expense in the past has been around 50% of recurring fee income and performance fee expense in the region of 15% of the related performance fees. Overall, fee expense was historically 40% of fee income. Network fees include payments to bankers (60% entry fees and 40% fixed management fees), loyalty payments (bankers receive an additional payment of 0.1% for 10 years after 10 years). Network fees also include recruitment, bankers infrastructure and advertising costs. Fee expense in 2015 was €2.3m and in H1 2016 €1.3m.

Fee expenses reflect the investment cycle

SCM SIM - Fee income and expense (€m) 2010-H1 2016



Source: Company data

Net fees in 2015 were nearly €4m and in H1 2016 €1.5m. Trading fees, dividends and interest income/expense have been historically negligible, thus brokerage margin is overall equal to net fees.

Cost/Income

In the first five years of SCM's history, fixed costs and overheads (mainly personnel and G&A) have exceeded or offset net revenues. The accelerated growth in 2015 has marked a turning point for generating the first returns on the investment made. Cost/Income, which measures the operational leverage and the profitability potential of wealth management, was around 90% in 2015 and 120% in H1 2016. The increase in G&A and overheads in H1 2016, which has also caused a higher Cost/Income, is attributable to IPO costs.

Net earnings

2013 and 2014 were break-even years, as a consequence of the investment cycle. Earnings before taxes were €0.4m in 2015, with net income of €0.2m. As a result of lower net fees and slightly higher G&A costs, in H1 2016, EBT and net result were a loss of €0.3m.

SCM SIM - Profit and Loss

€m	2013A	2014A	2015A	H1 2015	H1 2016
Assets Under Management (AUM)	**466.6**	**682.6**	**947.1**	**n.a.**	**987.8**
Fee income	3.3	4.1	6.2	3.4	2.8
Fee expense	(0.6)	(1.3)	(2.3)	(1.1)	(1.3)
Net fees	**2.6**	**2.8**	**3.9**	**2.3**	**1.5**
Interest income/expense	0.00	0.01	0.01	0.00	0.00
Net Income (loss) from trading & dividends	0.0	(0.0)	(0.0)	(0.0)	(0.0)
Brokerage Margin	**2.6**	**2.8**	**3.9**	**2.3**	**1.5**
Personnel	(1.6)	(1.3)	(1.6)	(0.9)	(0.8)
G&A	(1.2)	(1.4)	(1.9)	(0.9)	(1.0)
Writedown/writeup on financial assets	(0.0)	(0.0)	(0.1)	(0.0)	(0.0)
D&A	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Other income/expense	(0.0)	0.1	0.1	0.1	0.0
EBT	**(0.2)**	**0.1**	**0.4**	**0.6**	**(0.3)**
EBT/Brokerage margin	*-8%*	*2%*	*9%*	*24%*	*-20%*
Income taxes	(0.0)	(0.1)	(0.2)	(0.2)	0.0
Net Income (Loss)	**(0.2)**	**(0.0)**	**0.2**	**0.3**	**(0.3)**

Source: Company data

Light balance sheet

On the balance sheet side, net working capital was €0.8m in 2015 and net cash €1.3m. In H1 2016, net working capital was €0.9m and net cash was €0.8m. Tax assets for €0.7m in 2015 and H1 2016, included in NWC, are mainly deferred taxes. Other items are negligible. In 2015, SCM reported a Tier 1 capital ratio of 12% (vs. 15% in 2014).

SCM SIM - Balance Sheet

€m	2013A	2014A	2015A	H1 2016
Net Working Capital	**1.4**	**1.5**	**0.8**	**0.9**
Fixed assets	0.1	0.1	0.1	0.1
Non-current assets	**0.1**	**0.1**	**0.1**	**0.1**
Provisions	**(0.1)**	**(0.1)**	**(0.1)**	**(0.1)**
Net Invested Capital	**1.5**	**1.5**	**0.8**	**0.9**
Cash and securities	(0.5)	(0.4)	(1.3)	(0.8)
Net Debt / (Cash)	**(0.5)**	**(0.4)**	**(1.3)**	**(0.8)**
Equity	**1.9**	**1.9**	**2.1**	**1.8**
Sources	**1.5**	**1.5**	**0.8**	**0.9**

Source: Company data

SCM SIM - Cash Flow

€m	2014A	2015A	H1 2016
EBT	**0.1**	**0.4**	**(0.3)**
Current taxes	(0.1)	(0.2)	0.0
D&A	0.0	0.0	0.0
Net Working Capital	(0.0)	0.7	(0.1)
Provisions	0.00	0.03	(0.03)
Cash flow from operations	**(0.1)**	**0.9**	**(0.4)**
Capex	(0.03)	(0.03)	(0.01)
Cash flow from investing	**(0.0)**	**(0.0)**	**(0.0)**
Net cash flow	**(0.1)**	**0.9**	**(0.4)**
Net (Debt) / Cash - Beginning	0.5	0.4	1.3
Net (Debt) / Cash - End	0.4	1.3	0.8
Change in Net (Debt) / Cash	**(0.1)**	**0.9**	**(0.4)**

Source: Company data

SCM SIM - Ratio analysis

KPIs	**2013A**	**2014A**	**2015A**	**H1 2016**
Assets Under Management (€m)	466.6	682.6	947.1	987.8
Cost/Income	*105.6%*	*97.5%*	*90.4%*	*120.6%*
Fee income (€m)	3.3	4.1	6.2	2.8
Fee income/AUM	*0.7%*	*0.6%*	*0.7%*	*0.6%*
Net fees (€m)	2.6	2.8	3.9	1.5
Net fees/AUM (bps)	56.3	41.0	41.0	31.1
Net inflows (€m)	150.0	194.3	262.3	47.5
Private bankers (units)	11	17	23	26
Avg. Portfolio per Banker (€m)	42	40	41	38
ROE	*-12%*	*-2%*	*9%*	*-16%*

Source: Company data

9. OUR ESTIMATES

Strong future potential and recurring revenue

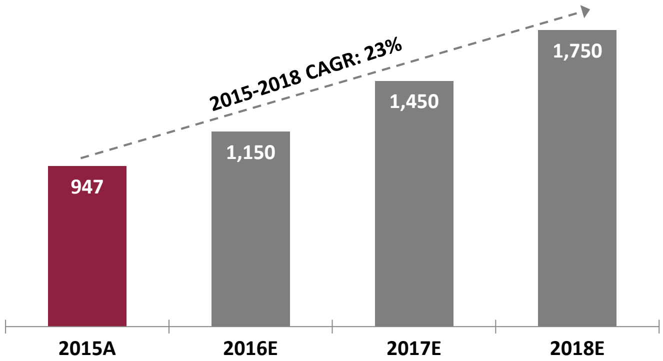
SCM has been successful in being an attractive hub for qualified bankers, consistently through the years, with its service proposition, reputation of integrity and customized service. Growth is expected based on the Company's continuing ability of capturing expected market shifts towards its more independent and customer focused service, highlighted by moderate and transparent fees.

Market trend assumptions

Our general assumption, as reviewed in the market section, is that the potential of the asset management market is huge and subject to changing trends, after decades of clients' casual reliance on retail banks' advice or referrals, or personal relationships. In the short/mid-term we assume the Company's recent growth rate as sustainable, if not conservative. We also believe that SCM's continuous additions of new bankers and new clients, could underpin growth rates higher than the industry average, leading to higher level of recurring revenues.

Looking ahead, we expect the growth in net inflows to continue: 2016-2018E net inflows in the range of €200-300m per year, with 2016 net inflows lower than 2015, due to current financial instability, and 2017 net inflows aligned to 2015. Overall, we expect SCM to almost double current AUM by 2018, reaching nearly €1.8bn.
We are thus assuming AUM growing at a 23% 2015-2018 CAGR, due to expectations of additions of new bankers and increase in effectiveness.

SCM SIM - Assets Under Management (€m) 2015-2018E



Source: Company data and EnVent Research

We expect total AUM to continue to be composed of AUM from advisory services for over 80% of total and AUM from management services for the remaining part.
We also expect fee income to continue to be composed for over 60% by recurring fees and the remaining part equally distributed between performance fees, one-shot fees and insurance fees.

The level of fee expense in a competitive banker recruiting framework is assumed significant, thus net fees should be normalized in estimating valuation metrics.

According to the industry sample that we have analyzed in the Competition chapter, average Cost/Income in the industry is around 75% for niche players and 40% for financial advisor networks dedicated to private banking. Considering the current level of fixed costs and expenses and that the team is structured to manage larger individual portfolios, we estimate that the SCM's landing point of a sustainable operational leverage level might be set at €3bn AUM. At this threshold, Cost/Income would go under 50% and beyond that SCM would enjoy a significant increase of its profitability and value. For these reasons, our estimates have been prepared until 2021, in order to have visibility of normalized operations (and financials) after the Company's launch phase.

Our projection model indicates how, before reaching the operational turning point, EBT/Net Fees would progress from 9% in 2015 to over 30% in 2018, while in 2021 it would pass the 50% threshold, becoming a typical value indicator.

In our projections from 2016E onwards, tax assets are linked to current income taxes, impacting 2016-2018 cash flow from operations.

Key growth drivers

We consider the Company to be able to fulfil its full potential as a growth stock. Growth is expected to derive from a combination of:

- Growing Italian private banking market
- Organic client base expansion
- Acquisition of new bankers and teams
- Significant room for market share growth
- Competitive commissions
- Better geographical coverage

Assumptions

AUM	• New assets from new bankers €100m in 2016, +30% yoy in 2017, +50% yoy in 2018, based on hiring of 4/5 new bankers per year with portfolio of €20m • New assets from existing bankers around €150m per year in 2016-2018 • AUM breakdown: investment advice 80%; portfolio management 20% • '15-18 CAGR 23% - +20% yoy in 2019-2021 • Rounding to €50m
Fee income	• Recurring fees from investment advice: 0.2% of AUM, in line with 2015 • Recurring fees from portfolio management: 1% of AUM, in line with 2015 • Performance fees: normalized performance fees from 2018 onwards of 1.5% on 20% of assets under management and 1% on 7% of assets under investment advice; reduced fees in 2016-2017 to take into account the financial instability • One shot fees: around €600k per year in 2016-2018 coming from generic advisory • Insurance fees: around €700k per year in 2016-2018

Fee expense	• 47% of fee income from investment advice, portfolio management and insurance • 40% of one shot fees • 15% of performance fees
Personnel	• Headcount of 15 people, in line with current level; no assumptions of new hires • Increasing 10% yoy in 2016-2018 and 5% yoy in 2019-2021 • Includes a 10% bonus on performance fees • Average Board of Directors and Statutory Auditors cost around €450k per year
G&A	• Increasing 10% yoy in 2016-2018 and 6.5% yoy in 2019-2021

Source: EnVent Research

SCM SIM - Profit and Loss

€m	2015A	2016E	2017E	2018E	2019E	2020E	2021E
Assets Under Management (AUM)	**947**	**1,150**	**1,450**	**1,750**	**2,100**	**2,500**	**3,000**
Fee income	6.2	6.1	7.7	9.9	11.6	13.8	16.5
Fee expense	(2.3)	(2.6)	(3.2)	(4.0)	(4.3)	(5.1)	(6.1)
Net fees	**3.9**	**3.5**	**4.5**	**5.9**	**7.3**	**8.7**	**10.4**
Interest income/expense	0.01	0.01	0.02	0.02	0.00	0.00	0.00
Net income (loss) from trading & dividends	(0.0)	(0.0)	(0.0)	(0.0)	0.0	0.0	0.0
Brokerage Margin	**3.9**	**3.5**	**4.5**	**5.9**	**7.3**	**8.7**	**10.4**
Personnel	(1.6)	(1.4)	(1.6)	(1.8)	(1.9)	(2.0)	(2.1)
G&A	(1.9)	(1.9)	(2.1)	(2.3)	(2.4)	(2.6)	(2.7)
Writedown/writeup on financial assets	(0.1)	(0.0)	(0.0)	(0.0)	0.0	0.0	0.0
D&A	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Other income/expense	0.1	0.1	0.1	0.1	0.0	0.0	0.0
EBT	**0.4**	**0.2**	**0.9**	**1.9**	**2.9**	**4.1**	**5.5**
EBT/Brokerage margin	*9%*	*6%*	*19%*	*32%*	*40%*	*47%*	*53%*
Income taxes	(0.2)	(0.1)	(0.4)	(0.9)	(1.4)	(2.0)	(2.7)
Net Income (Loss)	**0.2**	**0.1**	**0.4**	**1.0**	**1.5**	**2.1**	**2.8**

Source: Company data for 2015A – EnVent Research for 2016-2021E

SCM SIM - Balance Sheet

€m	2015A	2016E	2017E	2018E	2019E	2020E	2021E
Net Working Capital	**0.8**	**0.7**	**0.5**	**0.2**	**0.3**	**0.3**	**0.4**
Fixed assets	0.1	0.1	0.1	0.1	0.1	0.2	0.2
Non-current assets	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.2**	**0.2**
Provisions	**(0.1)**	**(0.1)**	**(0.1)**	**(0.2)**	**(0.2)**	**(0.2)**	**(0.2)**
Net Invested Capital	**0.8**	**0.7**	**0.4**	**0.1**	**0.2**	**0.3**	**0.5**
Net Debt / (Cash)	**(1.3)**	**(3.7)**	**(4.4)**	**(5.7)**	**(7.1)**	**(9.0)**	**(11.7)**
Equity	**2.1**	**4.4**	**4.9**	**5.8**	**7.3**	**9.4**	**12.2**
Sources	**0.8**	**0.7**	**0.4**	**0.1**	**0.2**	**0.3**	**0.5**

Source: Company data for 2015A – EnVent Research for 2016-2021E

SCM SIM - Cash Flow

€m	2015A	2016E	2017E	2018E	2019E	2020E	2021E
EBT	**0.4**	**0.2**	**0.9**	**1.9**	**2.9**	**4.1**	**5.5**
Current taxes	(0.2)	(0.1)	(0.4)	(0.9)	(1.4)	(2.0)	(2.7)
D&A	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Working Capital	0.7	0.1	0.3	0.2	(0.0)	(0.1)	(0.1)
Provisions	0.03	0.02	0.03	0.03	0.00	0.00	0.00
Cash flow from operations	**0.9**	**0.2**	**0.8**	**1.3**	**1.5**	**2.0**	**2.8**
Capex	(0.03)	(0.03)	(0.03)	(0.03)	(0.08)	(0.08)	(0.1)
Cash flow investing	**(0.0)**	**(0.0)**	**(0.0)**	**(0.0)**	**(0.1)**	**(0.1)**	**(0.1)**
IPO proceeds	0.0	2.2	0.0	0.0	0.0	0.0	0.0
Net cash flow	**0.9**	**2.4**	**0.7**	**1.2**	**1.4**	**2.0**	**2.7**
Net (Debt) / Cash - Beginning	0.4	1.3	3.7	4.4	5.7	7.1	9.0
Net (Debt) / Cash - End	1.3	3.7	4.4	5.7	7.1	9.0	11.7
Change in Net (Debt) / Cash	**0.9**	**2.4**	**0.7**	**1.2**	**1.4**	**2.0**	**2.7**

Source: Company data for 2015A – EnVent Research for 2016-2021E

SCM SIM - Ratio analysis

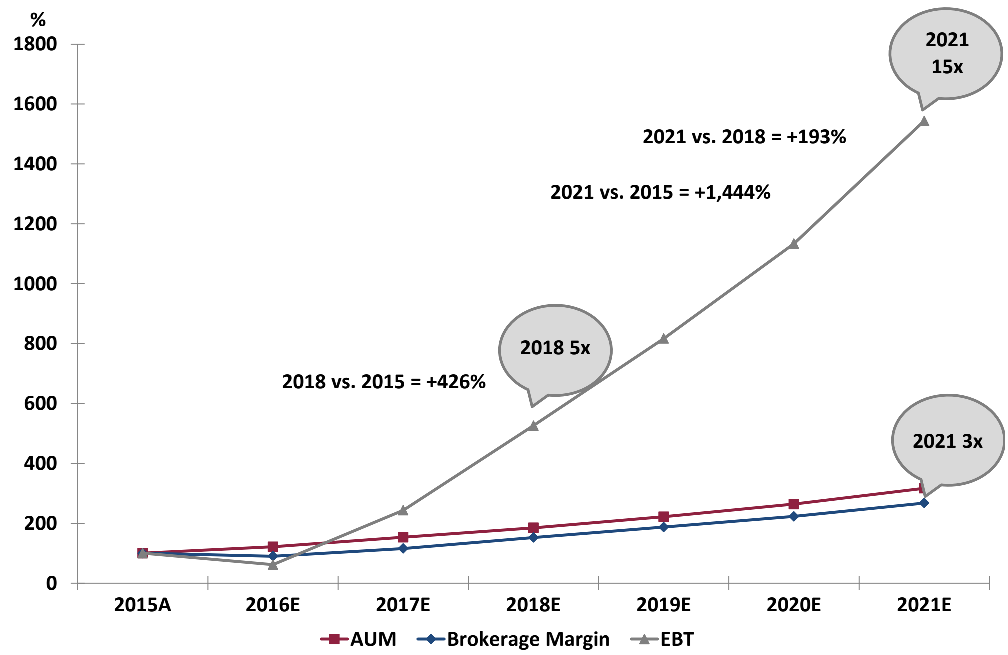
KPIs	2015A	2016E	2017E	2018E	2019E	2020E	2021E
Assets Under Management (€m)	947.1	1,150.1	1,450.1	1,750.1	2,100.1	2,500.1	3,000.1
Cost/Income	*90.4%*	*94.8%*	*81.6%*	*69.0%*	*59.5%*	*52.9%*	*46.6%*
Fee income (€m)	6.2	6.1	7.7	9.9	11.6	13.8	16.5
Fee income/AUM	*0.7%*	*0.5%*	*0.5%*	*0.6%*	*0.6%*	*0.6%*	*0.6%*
Net fees (€m)	3.9	3.5	4.5	5.9	7.3	8.7	10.4
Net fees/AUM (bps)	41.0	30.3	30.9	33.8	34.7	34.7	34.7
Net inflows (€m)	262.3	203.0	300.0	300.0	350.0	400.0	500.0
Private bankers (units)	23	30	35	40	45	50	60
Avg. Portfolio per Banker (€m)	41	40	41	44	47	50	50
ROE	*9%*	*3%*	*9%*	*16%*	*20%*	*22%*	*23%*

Source: Company data for 2015A – EnVent Research for 2016-2021E

Operational gearing

One of the fundamental principles laying behind the asset management and private banking industry – in general behind the whole banking industry – is that when a significant portion of the cost structure is fixed, then, growing fee income as a consequence of increasing AUM, will generate positive operating gearing. SCM's major cost component is represented by personnel and G&A costs, which can be classified as a mix of fixed items and items whose variability is not proportional to revenues. The significant AUM growth registered across the last three years and expected to last until 2021 should drive a sound net fee yoy increase. As per our assumptions, net fees will grow at a 18% CAGR between 2015-2021 and EBT would grow at a 58% CAGR, with a Cost/Income ratio of over 46% expected for 2021. As a consequence, as AUM increases, SCM will achieve higher operational gearing.

SCM SIM – AUM, Brokerage Margin and EBT comparison, 2016E-2021E



Source: Company data for 2015A – EnVent Research for 2016-2021E – Note: 2016 = 100

10. MARKET METRICS

Selection criteria of industry peers

In the absence of fully comparable public companies in the private banking market, we believe that the Italian and European asset managers are the best companies to look at to understand the key market metrics and value drivers, given that:

- Their businesses are driven by the same sector drivers
- They all distribute investment products
- They share similar distribution logics (through financial advisor networks)

We have clustered the companies in two groups: 1) Italian and 2) European asset managers. Italian asset managers are a good benchmark since they operate in the same business environment and are exposed to the same industry trends. Among asset managers, SCM would be better compared to private banking operators, seeking the same HNWI target clients.

Italian asset managers

Among listed Italian asset managers, we have selected as industry peers for SCM: Anima Holding, Azimut, Banca Generali and Banca Mediolanum. We have excluded from the peer group FinecoBank, since almost half of its revenues come from the banking and brokerage activity. The short profiles of selected Italian peers point out the main similarities and differences in business models compared to SCM.

Banca Generali. 1st asset manager in the 2015 ranking (Source: Assogestioni) – Asset management and wealth management services, targeting Upper-Affluent clients through its own financial advisors network. Also distributes life insurance products of the parent company Assicurazioni Generali.
AUM: €42bn (2015 year-end)
National network: 1,715 financial advisors
Average portfolio per FA: €24m
Comparability: Average

Anima Holding. 6th asset manager in the 2015 ranking (Source: Assogestioni) - Anima is a fund promotor and producer, but does not have its own financial advisor network. It relies on sales agreements with retail banks for the distribution of its products (MPS, BPM, CreVal – also Anima's shareholders). Since 2015 Anima has a 10y distribution agreement with Poste Italiane – 5th asset manager in the 2015 ranking (Source: Assogestioni) – to cooperate with BancoPosta Fondi SGR, targeting the Poste retail client base and training and supporting the distribution network. The mutual funds managed on behalf of Poste Italiane were around €2.2bn at the end of 2015.
AUM: €67bn (2015 year-end)
National network: n.a. (sales agreements with retail banks)

Comparability: Low

Banca Mediolanum. 9th asset manager in the 2015 ranking (Source: Assogestioni) - Conglomerate operating in three businesses: banking, asset management, insurance. Investment products are distributed through its own network of financial advisors, composed by over 4,300 family bankers in 2015, who mainly target mass clients. The network also includes around 450 private bankers who mainly deal with Affluent & HNW clients.
Banca Mediolanum owns a 50% stake in Banca Esperia (in JV with Mediobanca).
AUM: €71bn (2015 year-end)
National network: 4,387 family bankers (of which 446 private bankers)
Average portfolio per FA: €16m (€31m for private bankers)
Comparability: Average

Azimut. 11th asset manager in the 2015 ranking (Source: Assogestioni) – Independent asset manager vertically integrated with its own distribution network and no banking activities, targeting the Affluent and HNWI client segments.
AUM: €37bn (2015 year-end)
National network: 1,576 financial advisors
Average portfolio per FA: €23m
Comparability: High

Source: Companies' financial statements and presentations; for the ranking in the Asset Management industry, Assogestioni Q4 2015 report

European asset managers

When looking at international peers, we have selected only European asset managers: Aberdeen, Ashmore, GAM, Henderson, Julius Baer, Jupiter, Man, Schroders, St. James's Place. France, Ireland, Luxembourg, the UK and Germany are home to most and largest asset management companies, of which many global players. These companies are well-established, with global presence, a sound AUM base, solid cash and capital positions, fairly stable results. They have grown both organically and through acquisitions. Business models are diverse, ranging from pure asset management (active management of financial assets) to broader financial services, with a diversified client base (Institutional, such as pension funds, corporates, insurance companies, vs Retail, through distributors or third party advisers, such as private banks, financial advisers, wealth managers). Comparability with SCM is fairly low, as per size, business model and stage of development.

Aberdeen Asset Management. FTSE 100 investment manager that offers investment trusts, unit trusts and funds to a range of client categories. It only manages assets (not on its balance sheet). The product offering comprises three asset classes: equities, fixed income and property. It mainly operates in the UK.
AUM: €370bn (Q1 2016)
Comparability: Average

Ashmore Group. Specialist emerging markets asset manager that mainly offers debt and fixed income instruments. Also provides equity, currency, alternative and multi-asset solutions.
AUM: €47bn (Q3 2016)
Comparability: Low

GAM. Produces and distributes investment products, including equities, fixed income and alternative investment funds. In addition to own brands, a private label unit provides outsourcing for other parties. Also offers portfolio management solutions.
AUM: €102bn (Q3 2016)
Comparability: Low

Henderson. Offers retail and institutional investors equities, fixed income, property and private equity. Operates through funds and trusts.
AUM: €114bn (Q3 2016)
Comparability: Low

Julius Baer. Swiss private banking group offering private investors wealth management services, providing securities, foreign exchange and other products through an open architecture platform. Julius Baer's home markets are Switzerland and Asia.
AUM: €282bn (Q3 2016)
Comparability: Average

Jupiter Fund Management. UK-based asset manager offering open-ended funds to retail investors. Jupiter has been recently targeting mainland Europe.
AUM: €44bn (Q3 2016)
Comparability: Low

Man Group. Hedge fund and alternative investments provider, Man offers products with a low correlation to the equity and bond markets. It serves private as well as institutional investors who seek to reduce the correlation between their portfolios and market benchmarks. Its offering comprises futures, long/short and long only funds.
AUM: €69bn (Q3 2016)
Comparability: Low

Schroders. Multinational asset management group, providing investment solutions to corporations, insurance companies, local and public authorities, charities, pension funds, high-net-worth individuals and retail investors. Asset categories include equities, bonds, cash and alternative investments.
AUM: €412bn (Q3 2016)
Comparability: Low

St. James's Place. Wealth management company mainly operating in the UK, with recent office openings in Hong Kong and China, offering advice to individuals, trustees and businesses. Its investment approach does not rely on internal but rather external investment managers.

AUM: €79bn (Q3 2016)

Comparability: Average

Source: S&P Capital IQ, September 30th, 2016 (except for Aberdeen, as at March 31st, 2016)

Key data comparison - Italian asset managers

Data in €m 2015	AUM	AUM CAGR 11-15	FA (units)	FA CAGR 11-15	AUM/FA	Clients (k)	AUM/Client (€k)	Market Cap 31.12.15	Mkt Cap/AUM
SCM SIM (2018)	1,747	32.9%	40	23.5%	43.7	n.a.	n.a.	n.a.	1.8%
SCM SIM (2021)	3,019		60		50.0	n.a.	n.a.		1.0%
Anima	66,887	17.6%	n.a.	n.a.	n.a.	n.a.	n.a.	2,404.4	3.6%
Azimut	36,700	22.1%	1,576	3.2%	23.3	195	188	3,063.9	8.3%
Banca Generali	41,600	7.3%	1,715	3.9%	24.3	250.0	166	3,386.6	8.1%
Banca Mediolanum	70,682	11.2%	4,387	-0.7%	16.1	943	75	5,400.5	7.6%
Mean		**14.6%**		**2.1%**	**21.2**		**143**		**6.9%**

	Fee income	% of performance fees on total fees	Fee expense	Net fees	Fee expense/income	Net fees/AUM (bps)	Cost/Income	ROE	Tier 1 31.12.15
SCM SIM (2018)	9.9	33%	(4.0)	5.9	40%	33.8	-69.1%	16.4%	12.0%
SCM SIM (2021)	16.6		(6.1)	10.5	37%	34.7	-46.3%	23.3%	
Anima	867.8	20%	(577.2)	290.6	67%	43.4	24.1%	15.9%	n.a.
Azimut	707.6	22%	(290.8)	416.8	41%	113.6	58.9%	34.0%	19.5%
Banca Generali	652.0	n.a.	(281.2)	370.8	43%	89.1	46.1%	32.0%	15.1%
Banca Mediolanum	1,366.5	24%	(553.2)	813.3	40%	115.1	36.9%	21.2%	19.7%
Mean		**22%**			**48%**	**90.3**	**41.5%**	**25.8%**	**18.1%**

Source: Companies' financial statements and presentations

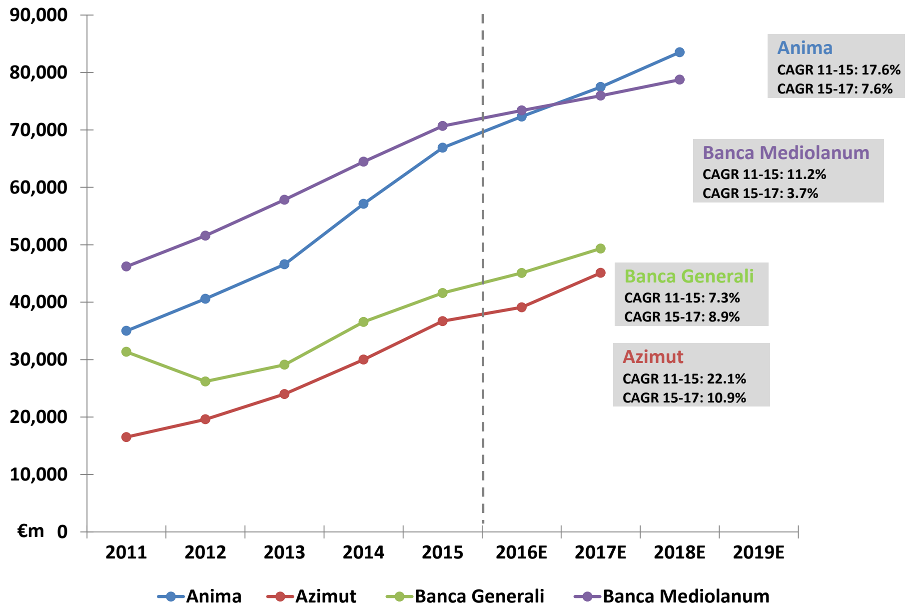
Relevant figures:

- Recent double-digit CAGR, helped by market recovery
- Stability in the number of FAs, with an increase in their average asset portfolio to over €20m
- Banca Generali and Azimut enjoy HNWI clients
- Rewarding fees and market capitalization
- 20% to 35% ROE (except Anima, due to different business model)

Continuing growth sentiment for the Italian industry

The combined effect of the recovery in financial markets after the 2008-2010 financial turmoil, coupled with significant inflows from clients, helped the major asset managers enjoy very rewarding growth rates. Expectations for the next years (2016-2018) reported in the below graph, are based on analysts' estimates.

AUM (€m) growth 2011-2018E - Italian asset managers



Source: EnVent Research on Companies' Financial Statements (2011-2015); For 2016-2018E, Analysts' equity research and Bloomberg Analysts' consensus, November 2016

Double-digit growth for Italian asset management

Such double-digit growth rates necessarily imply generous valuation multiples with reduced relevance given to bottom-line performance. We have some concerns about the sustainability over time of such multiples, given that:

- 2015 has been an exceptional year as per growth of stock prices versus growth of fundamentals
- Asset managers enjoyed additional value uplift given the extraordinary levels of performance fees

For the reasons indicated in the Outlook section, we believe that whilst a normalization of multiples is ahead, the European cluster still represents a reliable indication as to forward valuation multiples.

Market multiples

Company	Market Cap / AUM			P / E				
	2014	2015	Q3 2016	2014	2015	2016E	2017E	2018E
Italian asset managers								
Anima	2%	4%	2%	14.7X	18.9X	14.2X	12.6X	11.7X
Azimut	8%	8%	4%	26.0X	12.4X	15.6X	13.2X	12.4X
Banca Generali	7%	8%	4%	16.6X	16.6X	17.6X	17.2X	15.3X
Banca Mediolanum	n.a.	8%	6%	12.2X	15.4X	15.2X	15.1X	14.2X
Mean	**6%**	**7%**	**4%**	**17.4X**	**15.8X**	**15.7X**	**14.5X**	**13.4X**
European asset managers								
Aberdeen AM	2%	1%	1%	18.5X	12.2X	13.7X	12.4X	10.7X
Ashmore Group	4%	4%	6%	14.5X	12.1X	18.4X	15.1X	14.1X
GAM	2%	2%	1%	17.6X	19.7X	24.0X	16.7X	13.7X
Henderson	3%	4%	3%	8.8X	20.4X	15.5X	12.9X	11.1X
Julius Baer	3%	4%	3%	27.3X	88.1X	15.8X	14.1X	12.8X
Jupiter Fund Mgmt	5%	6%	5%	12.9X	15.4X	14.4X	12.9X	11.8X
Man Group	6%	6%	3%	12.0X	25.7X	15.9X	9.2X	7.4X
Schroders	2%	2%	2%	16.9X	16.6X	15.8X	14.6X	13.5X
St. James's Place	8%	9%	7%	22.5X	26.2X	33.6X	24.0X	20.1X
Mean	**4%**	**4%**	**3%**	**16.8X**	**26.3X**	**18.6X**	**14.7X**	**12.8X**
Mean w/out extremes	**4%**	**4%**	**3%**	**16.4X**	**19.5X**	**17.1X**	**14.1X**	**12.6X**
Median	**3%**	**4%**	**3%**	**16.9X**	**19.7X**	**15.8X**	**14.1X**	**12.8X**
Mean	**5%**	**6%**	**4%**	**17.1X**	**21.1X**	**17.1X**	**14.6X**	**13.1X**

Source: S&P Capital IQ Update: 09/01/2017

Source: EnVent Research on S&P Capital IQ data – Update: January 2017

11. VALUATION

Key valuation issues

A growth stock deserves a forward looking valuation

As customary in the industry, the key value driver resides in total managed client assets (AUM), leading to the net fees that will be generated throughout the years. The second key driver is the obtainable operating profitability linked to the Cost/Income ratio. SCM has a short history and the current P/L items and profitability indicators are inappropriate to be used as value metrics, currently being involved in a significant investment effort. Moreover, short-term forecasts are insufficient to represent attainment of a boost from operational leverage. Only at this point operational leverage would become a catalyst for comparability with peers and large industry players, which could be used as an indicator of the roadmap towards value creation.
As a consequence, we believe that the valuation of SCM should be mainly driven by considering the Net fees/AUM ratio, which well represents the strategic appeal of its market position and the quality of its team, regardless of current profitability. Under the same logic, applying analytical valuation methodologies such as the free cash flow to equity (FCFE) or income-based methods, these should extend to the mid-term in order to recognize a suitable normalized P/L account. Our estimates have been formulated accordingly.

Value drivers and use of market data

We see SCM as a potential strong player in the Italian private banking industry. We expect that its advantages of being independent, transparent and client-centric will support growth in the years ahead.
Key value drivers for both market multiples and analytical valuations are:

- Expected growth rate
- Stability of recurring revenues as a function of client asset generating fees
- Operational leverage
- Cost control: MiFID II-ready organization

In addition, the Company's cash flow generation capabilities will also sustain value-enhancing opportunities such as an increase in the number of bankers.

Valuation metrics

We deem appropriate to value SCM with a cash-based approach, because:

- The business has a cash generative nature and there will be no need for additional capital in the short-mid term
- A long interval may be used, given the forward-looking business, the growth-like nature of the stock and the soon to come higher profitability linked to the anticipated operational leverage

As a measure of cash flow, we use cash flows distributable to equity holders, adjusted to consider investments needed to meet regulatory requirements.
We look at multiples mainly as a guideline to interpret the market's view on the Company. Discounted forward multiples may address the potential value under different assumptions of turnover and work to better orientate the FCFE model sensitivities.
We have also used regression analysis to identify a suitable value growth path for SCM.

Free cash flow to equity model

The FCFE model represents the cash flow available to shareholders after the firm meets its financial obligations and after covering capital requirements.
We have chosen a mid-term forecast period to recognize the value impact of operational leverage at its point of normalization. A shorter period of projections would have introduced distortions, offsettable only through excessively simplified assumptions in the calculation of terminal value. Given the growth history and the industry opportunities analyzed in the preceding sections, we feel confident that the mid-term AUM target of €3bn is a reasonable figure.

Cost of Equity – We noted that SCM, as well as other industry players, present revenue, profitability and cash flow dynamics that are shared across the industry. In detail, the revenue streams from AUM are fairly stable and predictable, at least in a standard market environment. Also margins are fairly predictable: as long as the scale of the operator and its lifecycle have reached critical mass, coverage of fixed costs and other overhead is manageable. Consequently, it is reasonable to estimate a range of operating earnings which fluctuate within a limited range denoting a relatively low risk and volatility. In addition, capex or working capital requirements are generally limited, making the business model asset light (the main sources of investment are expensed and used to increase AUM).

The resulting risk/return profile is that of an industry where ROEs generally range from fair to excellent, with only remote chances of serious losses or insolvency. This kind of profile is substantially different from the common corporate profile listed on the Italian stock market. We believe this may explain the inconsistency between the implied cost of equity underlying the average P/E for the wealth management industry (15x) equal to 7% and the current market average of 14% and above. We feel that the cost of equity, as such, cannot be derived using market premia as calculated by major financial database platforms. Taking into account the implied growth rate and that industry Betas range between 1 and 1.3, we have calculated a cost of equity of 9.2% (also implied in the 15x P/E figure). Aside from a higher market risk premium, this value incorporates a Beta factor of 1.2 (on the high side of current market values, in order to recognize that SCM is a small company).

FCFE valuation model – Base case: Rm=8%

We have run our FCFE model in the base case with the following assumptions:

- Risk free rate: 1.9% (Italian 10-year government bonds interest rate – December 2016. Source: Bloomberg)
- Market return: 8% (Source: EnVent Research as described)
- Market risk premium: 6.1%
- Beta: 1.2 (Average of European industry peers. Source: Bloomberg, December 2016)
- Cost of equity: 9.2%
- Perpetual growth rate after explicit projections: 2.5%
- Terminal Value assumes a normalized sustainable net cash flow of around €2.8m, calculated by normalizing net fees and Cost/Income in the range of last year of explicit projections P/L
- Capital requirements will continue to be driven by net fees and fixed costs

€m		2015A	2016E	2017E	2018E	2019E	2020E	2021E	Perpetuity
Cash flow from operations		0.9	0.2	0.7	1.2	1.4	2.0	2.7	2.9
Capital requirement		0.0	0.0	0.0	(0.3)	(0.2)	(0.3)	(0.4)	(0.2)
Net cash flow		**0.9**	**0.2**	**0.7**	**0.9**	**1.2**	**1.6**	**2.3**	**2.8**
Cost of Equity (Ke)	9.2%								
Long-term growth (G)	2.5%								
Discounted Cash Flows			**0.2**	**0.6**	**0.7**	**0.9**	**1.0**	**1.3**	
Sum of Discounted Cash Flows	**4.8**								
Terminal Value	42.3								
Discounted Terminal Value	**24.9**								
Net cash as of 30/06/2016	**0.8**								
IPO proceeds	**2.2**								
Equity Value	**32.8**								

Implied multiples	2016E	2017E	2018E	2019E	2020E	2021E
P/E	n.m.	n.m.	34x	22x	16x	12x
Market Cap/AUM	2.8%	2.3%	1.9%	1.6%	1.3%	1.1%

Source: EnVent Research

As shown in the table above, our FCFE valuation model in the base case indicates a fair value of €32.8m.

Considering that a significant portion of the value resulting from the FCFE model is driven by income and cash flows subject to the AUM growth incorporated in the last years of projection, we have run the FCFE model also in a more conservative way, by subjectively increasing the market risk premium to 8%, which brings the Cost of Equity (discount rate) to 11.6%.

FCFE valuation model – Conservative case: Rm=10%

We have run our FCFE model in a more conservative manner with the following assumptions:

- Risk free rate: 1.9% (Italian 10-year government bonds interest rate – December 2016. Source: Bloomberg)

- Market return: 10% (Source: EnVent Research as described)
- Market risk premium: 8.1%
- Beta: 1.2 (Average of European industry peers. Source: Bloomberg, December 2016)
- Cost of equity: 11.6%
- Perpetual growth rate after explicit projections: 2.5%
- Terminal Value assumes a normalized sustainable net cash flow of around €2.8m, calculated by normalizing net fees and Cost/Income in the range of last year of explicit projections P/L
- Capital requirements will continue to be driven by net fees and fixed costs

€m		2015A	2016E	2017E	2018E	2019E	2020E	2021E	Perpetuity
Cash flow from operations		0.9	0.2	0.7	1.2	1.4	2.0	2.7	2.9
Capital requirement		0.0	0.0	0.0	(0.3)	(0.2)	(0.3)	(0.4)	(0.2)
Net cash flow		**0.9**	**0.2**	**0.7**	**0.9**	**1.2**	**1.6**	**2.3**	**2.8**
Cost of Equity (Ke)	11.6%								
Long-term growth (G)	2.5%								
Discounted Cash Flows			**0.2**	**0.6**	**0.7**	**0.8**	**0.9**	**1.2**	
Sum of Discounted Cash Flows	**4.3**								
Terminal Value	31.1								
Discounted Terminal Value	**16.1**								
Net cash as of 30/06/2016	**0.8**								
IPO proceeds	**2.2**								
Equity Value	**23.5**								

Implied multiples	2016E	2017E	2018E	2019E	2020E	2021E
P/E	n.m.	n.m.	25x	16x	11x	8x
Market Cap/AUM	2.0%	1.6%	1.3%	1.1%	0.9%	0.8%

Source: EnVent Research

As shown in the table above, our FCFE valuation model in the conservative case indicates an equity value for SCM of €23.5m.

Valuation based on market multiples

The limited number of listed companies among competitors and the diversities of businesses in principle could constitute a concern in applying multiples to any company, but we observe that in the asset management industry, as a whole:

- Growth would be driven by the same factors and dynamics
- Client assets under management or advisory generate recurring fees
- Net fees within the industry tend to converge to a narrow range
- Capital requirements in EU have a common reference regulation (Basel III)

When key value drivers are common to most operators of an industry – and this is the case of the asset management industry – generally a regression methodology represents a reliable tool to identify correlations between value and revenues or operating profit. In the asset management industry, the typical correlation is between assets under management and value, being the asset size a permanent generator of revenues, and fee income, as a percentage of AUM, the key measure of value. Fee income is a function of the business model and thus a permanent value indicator, while fee fluctuations are externally driven by market trends and an excessive Cost/Income ratio is only temporary burden in a growing wealth management operator. For these reasons, the income-based regressions are of minor significance.

When observing the multiples of the selected samples, some key evidences may drive the appropriate multiple selection for SCM:

- Italian companies' AUM multiples trade at 30% premium compared to the European average. The history of these companies, and their recent excellent performance, may justify their valuations. However, we believe that these represent a peak difficult to be maintained in the mid-term, so their multiples might not be suitable to value SCM. In any case, they may be used as a reference on the high side of a regression analysis as an indicator of net fees as a value driver.
- European companies share large AUM and stable revenues, with net fees proportionally lower than the Italians. Their correlation between market cap and net fees is consistent, so are their multiples, whose convergence toward recurring values helps identify value measures that we consider reliable.

Considering that the underlying earning-based results are heavily penalized by the absence of operational leverage, we have used 2018 and 2021 proxies valued on a 2018 P/E analysts' consensus multiple as an indication of value potential at a normalized Cost/Income level. The equity value resulting from the application of the 2018 P/E multiple to 2021 Net Income was then discounted at the 9.2% Cost of Equity until 2018. Net cash has been added to equity values.

Italian asset managers

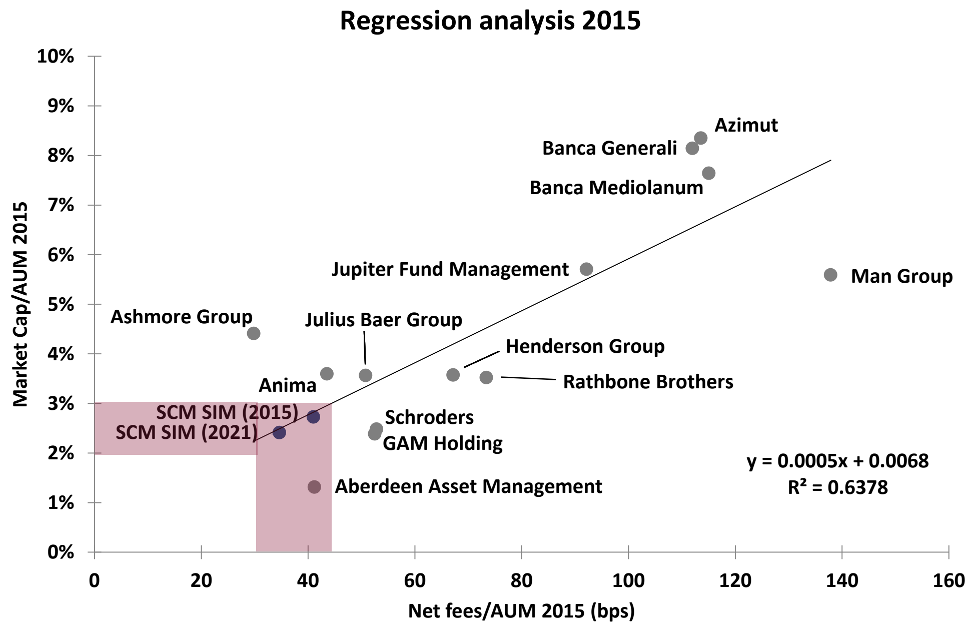
SCM SIM Valuation - Multiples		Multiple	Forward Equity Value	Discounted Equity Value	Cash	Equity Value
		P/E				
2018E Net Income	**1.0**	13.4x	12.8		3.1	**15.9**
2021E Net Income	**2.8**	13.4x	37.6	28.9	3.1	**32.0**

European asset managers

SCM SIM Valuation - Multiples		Multiple	Forward Equity Value	Discounted Equity Value	Cash	Equity Value
		P/E				
2018E Net Income	**1.0**	12.8x	12.2		3.1	**15.3**
2021E Net Income	**2.8**	12.8x	35.9	27.6	3.1	**30.6**

Source: EnVent Research

We have also applied the Market Cap/AUM ratio resulting from the 2015 regression (Net Fees/AUM bps) of the selected industry peers. The SCM prospect value area assumes current AUM of €1bn and its short-term target of €1.9bn. The resulting equity values would be, respectively, €25.9m in 2015 and €41.4m in 2018 (discounted at 9.2% Cost of Equity to €34.8m).

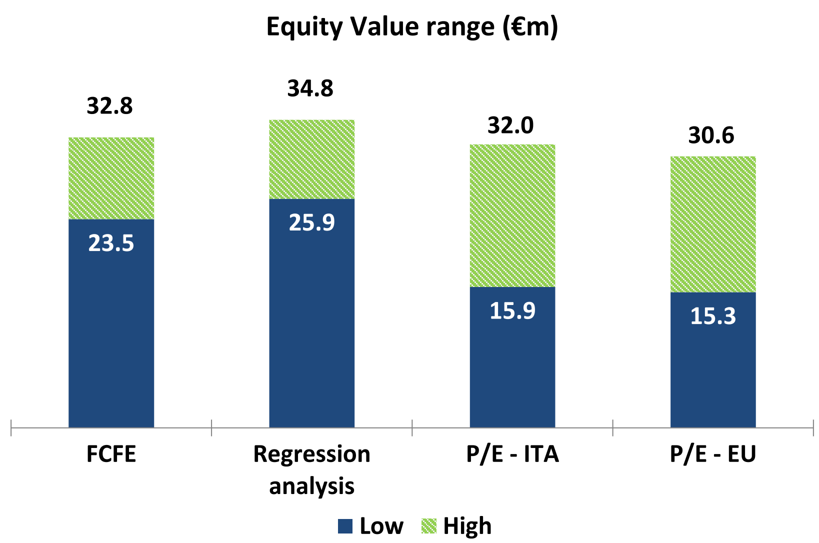


Source: EnVent Research

These values, to be technically accurate, should be adjusted by the temporary excess Cost/Income with respect to the mid-term AUM volumes target. On the other hand, this factor has already been properly addressed by the FCFE model, while the regression analysis has a different aim: providing a proxy of value creation path, whose purpose is to estimate the potential mid-term upside.

Target price

The values provided by our valuation models are:



Source: EnVent Research

A wide range of values is no surprise for a company whose profitability is conditioned by the completion of the current investment cycle.

Based on our DCF model with the higher Rm at 10% and the current 1,909,880 shares outstanding, we initiate coverage on SCM SIM with a Target Price of €12.32 per share, with a 15% upside on current share price and a NEUTRAL recommendation.

SCM SIM Price per Share	€
Target Price	**12.32**
Current Share Price (13/12/2016)	10.74
Premium / (Discount)	**15%**

Source: EnVent Research

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DETAILS ON STOCK RECOMMENDATION AND TARGET PRICE

Date	Recommendation	Target Price (€)	Share Price (€)
09/01/2017	NEUTRAL	12.32	10.74

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