

DEA CAPITAL

OUTPERFORM

Price (Eu):

1.15

Target Price (Eu):

1.55

SECTOR: Holdings & RE

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Resilient 1H, DeA Poised to Seize Opportunities. Stock Price an Opportunity

■ **Steady results in 1H20 despite challenging business environment.** DeA Capital reported steady results for its AAM platform, with revenues of Eu32mn (of which Eu18.1mn from real estate and Eu14mn from credit and private equity) and operating profit of Eu7.5mn vs. Eu7.4mn last year. The 1H net loss of Eu1.8mn, down from Eu-3.9mn in 1H19, including price alignments for some investments. 1H20 net cash amounted to Eu71.3mn at holding company level, while the NAV was flat YoY at Eu425mn (Eu1.63ps).

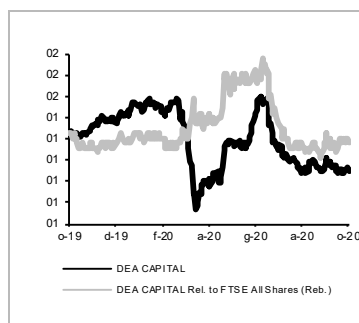
■ **AAM platform set to grow and act as market consolidator.** In 1H the AAM platform performed in line with last year despite the clear challenges posed by the lockdown. Following the deal with Quaestio the total combined AuM increased to Eu22.5bn, making DeA Capital a point of reference for domestic and international institutional investors seeking to gain exposure to the Italian market. The investment solutions offer is now comprehensive and we see this as a major advantage over other players. Investment solutions can be segmented into four main areas:

1. **Real Estate (Eu9.9bn AuM):** 51 managed funds focused on core/core+ investments. The real estate sector may undergo some structural changes and DeA Capital Real Estate SGR is well placed to strengthen its relationship with its main customers, which range from pension funds and foundations to international institutional investors.
2. **Multi-Asset / Multi-Manager (Eu7.6bn AuM):** pool strategy with 8 internal / 30 third-party pools enabling DeA to cover a range of strategies and client needs.
3. **Credit (Eu3.2bn AuM):** DeA has been an innovator in the segment, launching Credit Recovery Funds aimed at providing capital for the relaunch of financially troubled companies. DeA currently manages 4 funds.
4. **Private Equity (Eu1.8bn AuM):** DeA is a seasoned player in PE through 10 funds and 80 third-party funds that are invested in 900 companies.

The recent economic crisis has had some negative short-term effects but also represents a great opportunity to make acquisitions, seal partnerships and gain new clients. Our updated forecasts for DeA's AAM platform point to 2020 revenues at ~Eu65mn and net operating profit at ~Eu15mn, rising to Eu68mn and Eu16.5mn respectively in 2021.

■ **DeA Capital valuation looks very appealing given its strength on the Italian AAM market: OUTPERFORM; target Eu1.55ps confirmed.** We believe DeA Capital is a stock that offers significant investment opportunities. The most important is the chance to gain exposure to the largest and broadest alternative asset manager in Italy at valuations that seem misaligned to the sector in the rest of Europe. In the future, the platform is expected to grow organically and through acquisitions. DeA Capital has the financial flexibility to make acquisitions, and we expect future dividends to be linked more to operating profitability than the distribution of excess cash: consequently we expect a Eu0.06 DPS on 2020, down from the Eu0.12 distributed in recent years. The discount on NAV reported by the company is wide at around 35%. We think a 15% discount is more appropriate and confirm our Eu1.55ps TP and OUTPERFORM rating on the stock.

DEA CAPITAL - 12m Performance



RATING: unchanged

TARGET PRICE (Eu): unchanged

STOCK DATA

Reuters code: DEA.MI
Bloomberg code: DEA IM

Performance	1m	3m	12m
Absolute	-3,9%	-9,6%	-13,6%
Relative	-0,2%	-6,0%	-3,6%
12 months H/L:	1.50/0.97		

SHAREHOLDER DATA

No. of Ord. shares (mn):	267
Total No. of shares (mn):	267
Mkt Cap Ord (Eu mn):	306
Total Mkt Cap (Eu mn):	306
Mkt Float - ord (Eu mn):	92
Mkt Float (in %):	30,1%
Main shareholder:	
De Agostini	67,1%

BALANCE SHEET DATA

	2020
Book value (Eu mn):	
BVPS (Eu):	
P/BV:	
Net Debt (Eu mn):	
NAV (Eu mn)	

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Time To Buy DeA Capital and Gain Exposure to Promising Italian AAM Market

DeA Capital is well equipped to face the current uncertain times. The Alternative Asset Management platform the company has developed over the years is gaining traction and the recent acquisition of parts of Quaestio helps to complete a full range of investment solutions for institutional investors that is unmatched on the Italian market.

We believe the current stock price does not properly reflect the company's current positioning in the alternative investments arena, as summarised below:

- Wide and unmatched range of investment solutions spanning real estate, credit, private equity and asset management;
- Access to a wide range of investors, both domestic and international;
- Possibility to arrange tailored investment solutions;
- Solid balance sheet allowing the company to scout and grasp growth opportunities.

DeA Capital has almost completed divestments from major assets and now mostly has investments in funds managed by the AAM platform. The investment portfolio currently represents less than one third of the company's NAV.

We forecast the AAM platform will close a tough 2020 with adjusted net profit of Eu15mn and major scope to improve on this result in the coming years, thanks to the launch of new initiatives in a very dynamic business environment. We also believe that the company has great financial flexibility thanks to a net cash position of Eu97mn at consolidated level (Eu71.3mn at holding company level) and the expected future cash-in from funds and divestments. Available resources could be used in the near future to grasp market opportunities, as smaller players operating in most of DeA's segments may well be suffering and seeking a larger partner. This trend could further accelerate the company's growth trajectory in AAM.

Looking at the multiples of listed AAM companies we find that the platform set up by DeA Capital could be valued at a much higher figure than is implied in the company's NAV. Assigning a multiple of 15x to the expected 2021 earnings of Eu16.5mn yields a fair value north of ~Eu250mn, compared with the company's NAV valuation of Eu207mn. We think DeA Capital has yet to close the gap to other listed European alternative asset management companies and this could represent a major positive future catalyst for the stock. As for dividends, we assume that after a prolonged period dating back to 2015 in which the company has distributed part of the excess cash (i.e. a total of Eu0.90 per share roughly equal to 80% of its current market cap), it is likely to move towards a more normalised distribution linked to operating results on the AAM platform. For 2020 we expect a DPS in the region of Eu0.06, equal to a yield in the region of 5%, while the company is expected to continue to consider buybacks on the stock as an option.

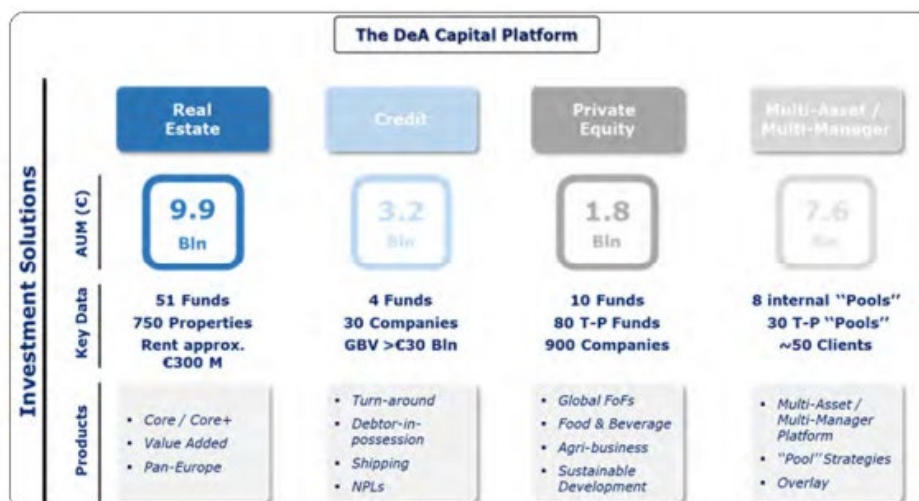
To sum up, our Sum of the parts is Eu402mn including a 15% discount on investments and holding costs. The implied discount on our SoP is equal to 32%.

We therefore confirm our OUTPERFORM rating and target at Eu1.55ps.

DeA Capital at a Glance

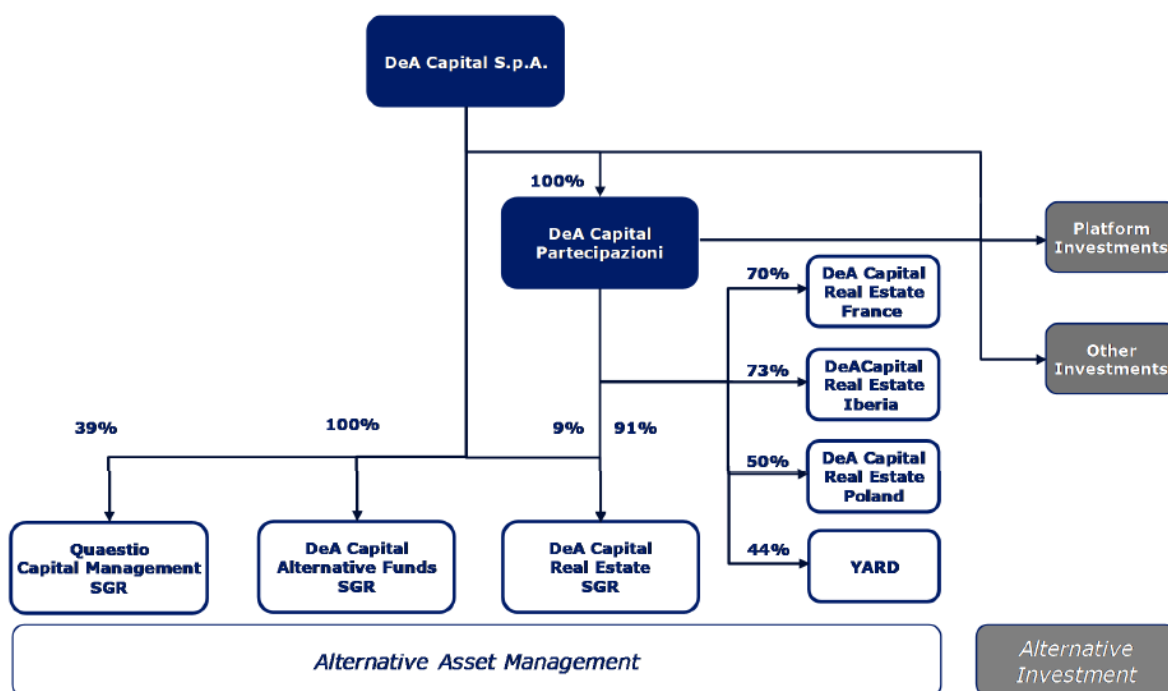
DeA Capital group is a leading Italian alternative asset management company and is listed on the STAR segment of the Italian stock exchange. The company's main shareholder is the Italian industrial group De Agostini (67.1% of capital), for which DeA Capital is the investment arm, while the float is almost 31% of the capital as the company has 2% in treasury shares.

DeA Capital manages a compound of combined AuM of Eu22.5bn, hence representing one of most important Italian alternative asset management operators, with a wide range of investment solutions, ranging from real estate to private equity to credit, as shown in the picture below.



Its track record, skilled management team, extensive network of domestic and international relations and net cash position, as well as the backing from the main shareholders, put the company in a solid position to confront the challenging environment and the uncertainty that has dominated the early part of 2020. While the time and pace of a recovery is difficult to predict, DeA Capital is in an enviable position as the situation unfolds, and is well placed to size up new investment opportunities.

The group structure as at 1H20 is shown below.



AAM Platform: Broadening Investment Solutions

The AAM platform performed in line with last year in 1H despite the clear challenges posed by the lockdown. Following the deal with Quaestio, total combined AuM increased to Eu22.5bn making DeA Capital a point of reference for domestic and international institutional investors seeking to gain exposure to the Italian market. The offer of investment solutions has become comprehensive, and we see this as a major advantage over other players.

The platform is concentrated in two subsidiaries: DeA Capital Real Estate SGR and DeA Capital Alternative Funds SGR, as well as the equity investment in Quaestio Capital Management SGR.

The investment solutions range can be segmented in four main areas:

Real Estate (Eu9.9bn AuM): 51 managed funds focused on core/core+ investments. The real estate sector may undergo some structural changes and DeA Capital Real Estate SGR is well placed to strengthen its relationship with its main customers, which range from pension funds and foundations to international institutional investors.

Multi-Asset / Multi-Manager (Eu7.6bn AuM): pool strategy with 8 internal / 30 third-party pools enabling DeA to cover a range of strategies and client needs.

Credit (Eu3.2bn AuM): DeA has been an innovator in the segment, launching Credit Recovery Funds aimed at providing capital for the relaunch of financially troubled companies. DeA currently manages 4 credit funds and the massive NPL fund related to the Italian Recovery Fund.

Private Equity (Eu1.8bn AuM): DeA is a seasoned player in PE through 10 proprietary funds and 80 third-party funds, which are invested in 900 companies.

Below we report developments in AAM platform activities in 1H20, which highlight stable trends for management fees at Eu32.1mn (+2.6% YoY), operating profit at Eu7.5mn (Eu7.4mn last year) and net profit of Eu6.6mn compared to Eu6.3mn last year.

DeA Capital – AAM Platform Results

DeA Capital AAM Platform	1H20	FY'19	1H'19
<i>(Euro thousands)</i>			
Alternative Asset Management fees	32.157	64.858	31.329
Other investment income/expense	-541	2.009	309
Other income	175	50	22
Personnel costs	-14.366	-28.236	-12.371
Service costs	-5.176	-10.093	-5.071
D&A	-2.201	-4.000	-2.004
others	-1.586	-3.739	-1.648
Earnings before taxes	8.462	20.849	10.566
Income tax	-307	-6.590	-3.488
Net Profit	8.154	14.259	7.078

Source: Intermonte SIM on Company Data

DeA Capital Real Estate SGR (100% stake)

Italy's largest independent real estate asset management company, with Eu9.9bn of assets under management and 51 managed funds (including 2 listed funds). The company is the leading company in this sector and a point of reference for Italian and international institutional investors in the promotion, creation and management of mutual real estate investment funds. The asset management company specialises in "core" and "core plus" properties, despite also including "value added" transactions. The funds under management are invested into around 700 properties with annual rents of roughly Eu300mn.

The panel of investors comprises over 100 investors and consists of Italian and international institutional investors of high standing, such as pension funds, banking and insurance groups and sovereign funds.

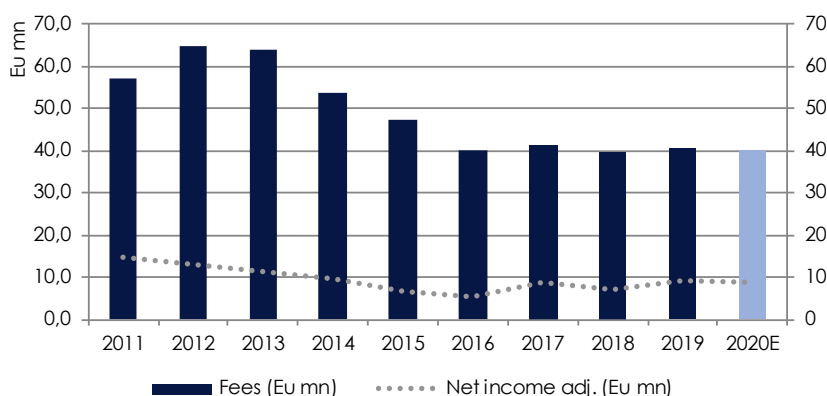
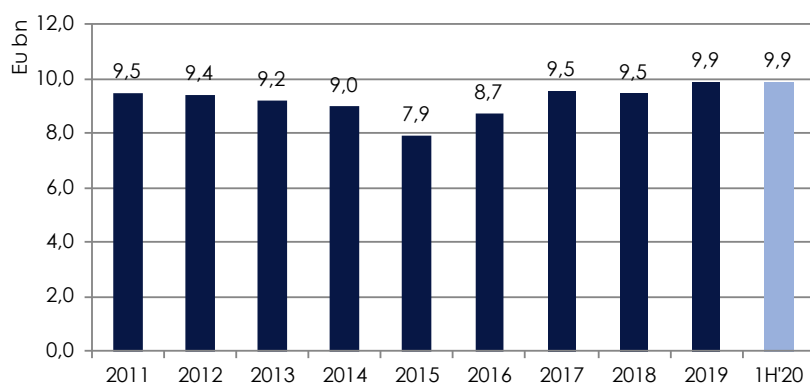
A few years ago the company embarked upon an internationalisation programme, expanding into France, Spain, Portugal and Poland. More recently the company started operations in Germany, Switzerland and Austria.

Recent events are putting pressure on some real estate assets, but the funds are focused on assets that are expected to prove resilient, such as top locations for offices, which represent 61% of the portfolio, while 13% is linked to commercial properties and only 4% is exposed to tourism/leisure.

In terms of geographical exposure, the lion's share is in Milan/Lombardy, with 46% of AuM followed by Rome/Lazio at ~40%. Exposure to secondary locations is therefore small at ~15%.

There might be price adjustments for some properties but the portfolio held up very well during the lockdown.

DeA Capital Real Estate SGR – AuM and operating trend

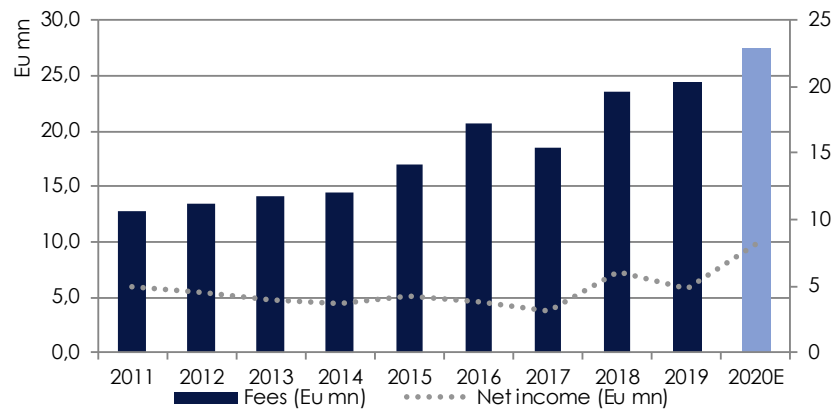
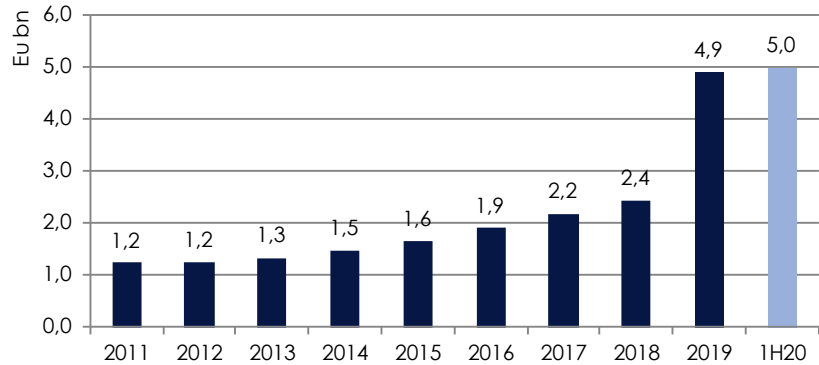


Source: Intermonte SIM and company data

DeA Capital Alternative Funds SGR (100% stake)

Manages alternative investment funds (funds of funds, private equity theme funds, as well as credit funds) with Eu4.9bn of AuM. As at 31st December 2019, the asset management company managed 14 closed-end funds, of which 5 funds of funds (IDeA I FoF, ICF II, ICF III, IDeA Crescita Globale and DeA Endowment Fund), 3 theme funds (IDeA EESS, IDeA Tol, IDeA Agro), the "direct" co-investment fund (IDeA OF I), 4 NPE funds (IDeA CCR I and II, with a focus on debtor-in-possession financing funds, and the NPL funds Atlante and Italian Recovery Fund - "IRF") and the Investitori Associati IV fund (in liquidation). The asset management company also has management delegations for a portion of the closed-end, non-reserved AIF called "Azimut Private Debt" created by Azimut Capital Management SGR.

DeA Capital Alternative Funds SGR– AuM (above) and operating trend (below)



Source: Intermonte SIM and company data

Quaestio Capital Management SGR (38.8%, held indirectly through Quaestio Holding)

It is a company acquired in 2019 and mainly active in investment solutions for institutional investors, with c.Eu7.6bn in AuM. Through a multi-asset/multi-manager platform, Quaestio SGR is able to structure customised investment solutions for institutional investors. Its main clients are banking foundations and social security institutions. It mainly operates through management mandates, allowing investors' assets to be allocated on the basis of specific risk/return objectives, with full visibility (look-through) and risk management of the individual components of the portfolio.

The other components of the AAM business are the controlling interests in **DeA Capital Real Estate France** (70.0%) and **DeA Capital Real Estate Iberia** (73.0%), as well as a co-controlling holding in **DeA Capital Real Estate Poland** (50.0%); these companies focus on the French, Iberian and Polish real estate markets respectively.

YARD (43.6% stake): real estate company active in project, property and facility management, appraisals and due diligence, as well as in real estate brokerage.

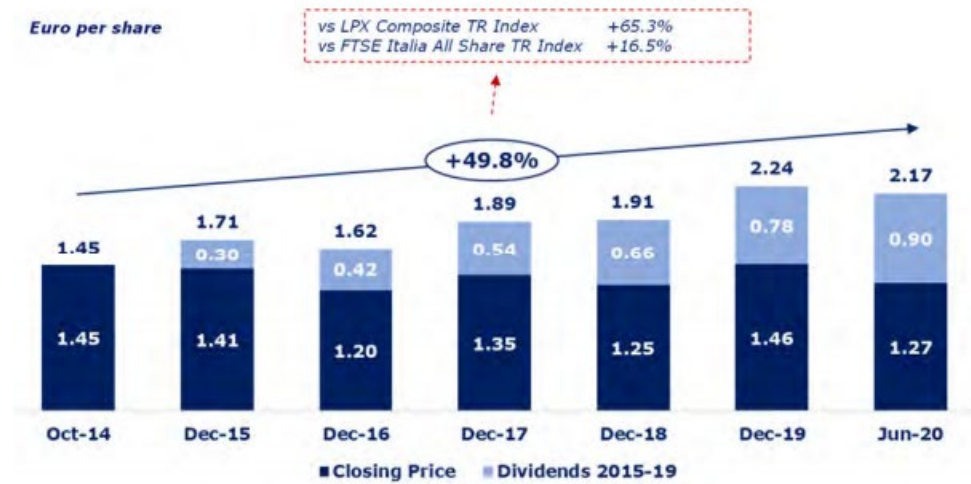
Internationalisation of the AAM platform continues. In August 2020, DeA Capital established a new company, DeA Capital Real Estate Germany. The group owns a 70% stake, while 30% is owned by local management, and the objective is to develop the real estate advisory business in Germany as well as Austria and Switzerland.

Capital Management and Dividends

The capital structure is straightforward. The net cash position of the holding company was Eu71.4mn at 1H20, benefiting from the distribution of dividends from the platform and some divestments and in particular the Eu16.5mn cash-in from the liquidation of the SPAC IdeaMI.

The company has a buyback plan on 3% of outstanding shares to reach a total of 5% of treasury shares at the end of the plan.

DeA Capital – Total Return per share since Oct 2014



Source: Company Presentation

DeA Capital SoP Update

DeA Capital reported a NAV of Eu1.63ps at the end of 1H20 compared to an adjusted NAV of Eu1.64ps at YE19. Our calculation of the Sum-of-the parts shows a fair value of Eu404mn including a 15% discount on investments and holding costs equal to Eu18mn.

DeA Capital – Intermonte Sum of the Parts

Asset	Stake	Value (€ mn)	per share €	%	Valuation Method
DeA Capital Real Estate SGR	100,0%	117,3	0,45	35,3%	Intermonte Fair Value
DeA Capital Alternative Funds SGR	100,0%	103,1	0,39	31,0%	Intermonte Fair Value
Fee Business AAM		220,4	0,84	66,3%	
Quaestio Holding	38,8%	13,7	0,05	4,1%	Carry Value
Others AAM (Yard, DeA RE France, Iberia, Poland)	nm	8,4	0,03	2,5%	Carry Value
Total AAM Platform		242,5	0,08	72,9%	
Platform investments	n.m.	103,2	0,39	31,0%	Company Fair Value
Others (4.4% Cellularline & venture capital funds)	n.m.	10,6	0,04	3,2%	Market Price
Kenan (Migros)	2,0%	17,2	0,07	5,2%	Market Price
Total investments		153,2	0,59		
<i>Fair % discount</i>		<i>15%</i>			
Investments net of discount		130,2	0,50	39,1%	
Holding Costs and Tax Assets		-18,0	-0,07	-5,4%	Intermonte Estimates
Adjusted SOP ex cash		332,6	1,27		
NFP		71,3	0,27		1H'20
Intermonte Fair Value		403,9	1,54		

Source: Intermonte SIM and company data

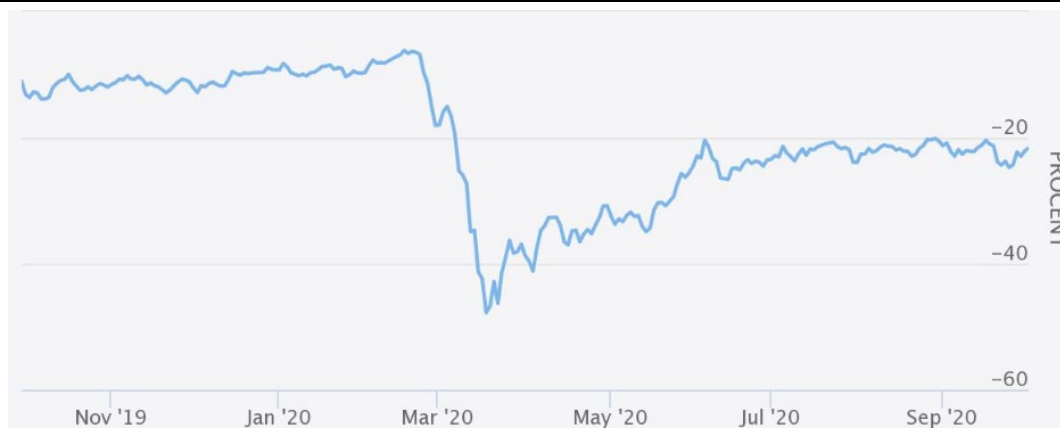
We believe that the market is not yet fairly considering the growing weight of recurring-fee business in the company's total value. We have to face a period of high uncertainty, but think DeA Capital is well placed thanks to the resilience of its stream of recurring fees and could potentially consider external growth opportunities given the healthy financial situation at holding company level. The implied discount on Intermonte adjusted NAV/SOP is equal to 32%.

DeA Capital – Discount to SoP / adj. NAV

Adjusted NAV pre-discount & holding costs	373,6	1,43
NFP	71,3	0,27
Adjusted NAV	444,9	1,70
Current Mkt Price		1,15
Discount to Intermonte Adjusted NAV		-32%

Source: Intermonte SIM and company data

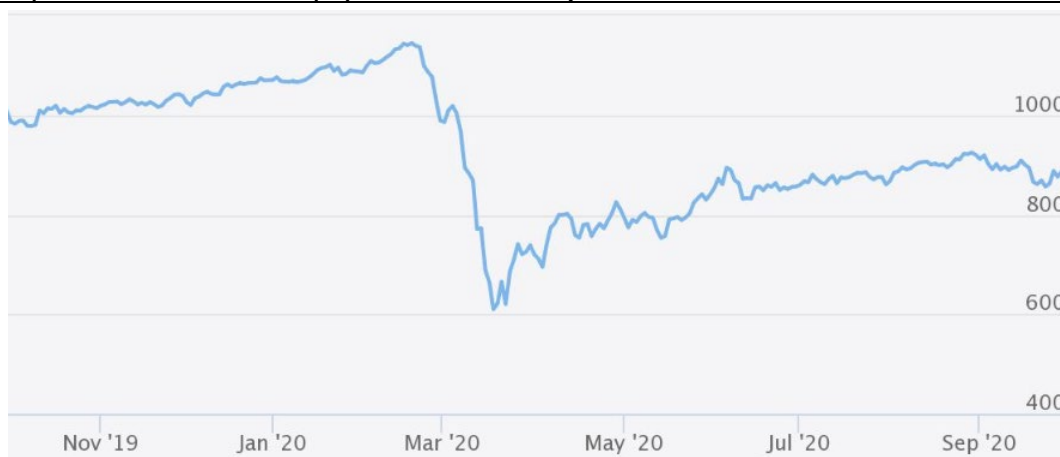
DeA Capital – 1Y discount on BV of European listed Private Equity (LPX Index)



Source: LPX group

The performance of the companies included in the panel in the last 12 months is shown below. It shows the segment held up well compared with the rest of the market even through the recent period of volatility.

DeA Capital - LPX - Listed Private Equity Index Performance (12 months)



Source: LPX group

DeA Capital Alternative AM business – Absolute performance of the peer group

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
DeA Capital S.p.A.	1,15	Euro	307	(1,5%)	(8,0%)	16,1%	(14,2%)	(6,5%)	6,9%
Tamburi Investment Partners S.p.A.	5,7	Euro	1.044	(0,2%)	(1,6%)	5,0%	(17,0%)	(8,3%)	(13,3%)
Alternative Asset Managers									
Tikehau Capital SCA	21,4	Euro	2.928	(0,9%)	(9,7%)	1,9%	(2,7%)	4,4%	(17,4%)
Intermediate Capital Group plc	12,0	GBP	3.533	(9,3%)	(6,2%)	38,8%	(25,4%)	(15,0%)	10,2%
3i Group plc	10,3	GBP	9.999	12,2%	23,5%	43,8%	(6,5%)	(10,9%)	8,2%
Partners Group Holding AG	844,6	CHF	22.551	(7,2%)	(2,9%)	28,9%	(4,8%)	11,1%	8,3%
Traditional Asset Managers									
Azimut Holding Spa	15,1	EU	2.202	(6,0%)	(0,2%)	19,2%	(29,0%)	(11,7%)	19,7%
Janus Henderson Group PLC Shs C	32,8	GBP	6.473	17,3%	6,8%	32,5%	(6,5%)	(1,1%)	(12,4%)
Rathbone Brothers Plc	15,3	GBP	877	(10,7%)	4,7%	8,5%	(28,3%)	(31,3%)	(36,7%)
Schroders PLC	27,5	GBP	7.296	(0,4%)	(5,2%)	17,4%	(17,5%)	(8,6%)	(8,9%)
Blackstone Group Inc. Class A	53,7	USD	63.126	(0,0%)	(4,3%)	31,6%	(4,0%)	13,8%	38,6%
Man Group PLC	1,1	GBP	1.679	(5,8%)	(11,5%)	(6,9%)	(27,9%)	(33,5%)	(35,8%)
Partners Group Holding AG	844,6	CH	22.551	(7,2%)	(2,9%)	28,9%	(4,8%)	11,1%	8,3%
Ashmore Group plc	3,7	GBP	2.631	(9,2%)	(11,8%)	11,9%	(28,7%)	(26,5%)	0,7%
Hargreaves Lansdown plc	16,0	GBP	7.601	0,3%	4,1%	20,9%	(17,2%)	(20,1%)	(27,3%)
Simple mean performance				(4,4%)	(2,3%)	18,2%	(18,2%)	(12,0%)	(6,0%)
RE service Co									
Savills plc	8,0	GBP	1.143	(2,3%)	(1,3%)	7,3%	(29,6%)	(9,8%)	1,8%
CBRE Group, Inc. Class A	46,5	CHF	15.604	(2,6%)	3,7%	30,2%	(24,1%)	(9,1%)	4,7%
Euro STOXX	353,2	EU		(3,7%)	(2,3%)	20,2%	(12,6%)	(4,3%)	(6,4%)

Source: Intermonte SIM and company data

DeA Capital Alternative AM business – Multiple comparison

Dea Capital AAM Business - Multiple Comparison											
Stock	Price	Ccy	Mkt cap	EV/Ebitda 2020	EV/Ebitda 2021	EV/Ebitda a 2022	P/E 2020	P/E 2021	P/E 2022	Div Yield 2020	Div Yield 2021
Alternative Asset Managers											
Tikehau Capital SCA	21,40	Euro	2.928		11,2x	8,9x		14,1x	10,9x	1,7%	2,9%
Intermediate Capital Group plc	12,01	GBP	3.533	25,5x	16,6x	11,6x	19,4x	12,8x	11,1x	4,4%	5,0%
3i Group plc	10,27	GBP	9.999	8,3x	8,3x	7,2x	7,4x	9,7x	7,0x	3,5%	3,8%
Partners Group Holding AG	844,60	CHF	22.551	25,7x	20,9x	17,6x	32,8x	26,0x	22,0x	2,9%	3,1%
Traditional Asset Managers											
Azimut Holding Spa	15,10	EU	2.202	6,5x	6,6x	6,1x	9,5x	9,7x	9,1x	6,8%	7,2%
Janus Henderson Group PLC Shs C	32,80	GBP	6.473	5,2x	5,0x	4,5x	8,7x	8,7x	8,1x	6,9%	7,0%
Rathbone Brothers Plc	15,28	GBP	877	13,1x			14,0x	13,3x	12,3x	4,5%	4,6%
Schroders PLC	27,52	GBP	7.296	6,7x	6,0x	5,4x	15,4x	14,3x	13,4x	4,2%	4,2%
Blackstone Group Inc. Class A	53,71	USD	63.126	27,9x	17,2x	12,4x				3,3%	4,7%
Man Group PLC	1,14	GBP	1.679	7,7x	6,0x	5,1x	11,9x	9,0x	7,3x	6,2%	6,2%
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Ashmore Group plc	3,69	GBP	2.631	9,5x	10,2x	9,0x	14,2x	14,9x	13,6x	4,6%	4,7%
Hargreaves Lansdown plc	16,03	GBP	7.601	20,6x	24,5x	23,7x	27,6x	31,2x	30,8x	3,4%	2,6%
Median Alternative and Traditional AM				11,3	10,7	9,0	14,2	13,8	12,9	4,5%	4,7%
RE service Co											
Savills plc	8,0	GBP	1.143	9,2	7,2	5,8	18,6	13,1	11,0	1,2%	2,4%
CBRE Group, Inc. Class A	46,5	CHF	15.604	11,5	9,1	7,8				0,0%	0,0%
Average RE Services				10,3	8,1	6,8	18,6	13,1	11,0	0,6%	1,2%

Source: Intermonte SIM and company data

DETAILS ON STOCKS RECOMMENDATION

Stock NAME	DEA CAPITAL		
Current Recomm:	OUTPERFORM	Previous Recomm:	OUTPERFORM
Current Target (Eu):	1.55	Previous Target (Eu):	1.55
Current Price (Eu):	1.15	Previous Price (Eu):	1.10
Date of report:	05/10/2020	Date of last report:	16/04/2020

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

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Frequency of research: quarterly.

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Explanation of our ratings system:

BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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BUY:	07.44 %
OUTPERFORM:	52.07 %
NEUTRAL:	33.88 %
UNDERPERFORM	06.61 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (52 in total) is as follows:

BUY:	11.54 %
OUTPERFORM:	59.62 %
NEUTRAL:	28.84 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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IKF	0,57	SHORT
LIFE CARE CAPITAL	0,59	LONG
OLIDATA	0,74	SHORT

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