NIC

— Nova Investment Club —

Newsletter

December 2019

NIC

—Nova Investment Club—

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Foreword

This Month:

In our Macro Overview section, Analysts from both divisions will cover broad macro themes while reviewing major economic news from the past month. In our Deeper Dive section, Federico Farina elaborates on the influence that the boom in the US M&A environment has on the financial market. Moreover, in our Regional View, Corina Popa examines the poor performance of SOEs likely to downgrade South Africa to junk.

Our Investment Banking Division will guide you through November's M&A overall activity. Read about Google to acquire Fitbit, LVMH to buy Tiffany & Co. in the largest luxury goods deal ever and Charles Schwab to acquire TD Ameritrade in landmark deal. Additionally, get a detailed overview on what happened to PayPal, as well as consider our opinion on AbbVie, the fourth largest corporate bond issuance of all time.

Our Financial Markets Division will present the monthly results of the NIC Fund, an active relative return fund investing across four different asset classes: Equities, Fixed Income, Commodities and Currencies. The analysts will also provide commentary on each of the four major asset classes through analysis of the past month's major market moves. The active positioning of the NIC Fund in November yielded a 1.69% cumulative return, majorly supported by Equities.

Lastly, our President, Francisca Fernandes, examines how the Saudi Aramco came up short on their valuation and Raphael Salimi elaborates on BlackRock launching Europe's first high yield ESG ETF.

Macro Overview

Monthly
December 9th , 2019

Deeper Dive
M&A Market Boom: Is it the End of the Bull Market Rush?

Regional View
Poor Performance of SOEs Likely to Downgrade South Africa to Junk

Market Moves

Market Moves

% change

	Last Close	-1W	-3M	YTD
S&P 500	3 141	0,99%	7,33%	25,30%
DJIA	28 051	0,63%	6,24%	20,25%
Nasdaq	8 665	1,71%	8,82%	30,60%
MSCI World	3 029	0,61%	7,97%	18,18%
MSCI EM	3 732	-0,67%	3,94%	5,12%
Russell 2000	1 625	2,24%	8,67%	20,46%
Euro Stoxx 50	3 704	0,44%	8,08%	23,39%
FTSE 100	7 347	0,27%	1,93%	9,19%
Nikkei 225	23 294	0,78%	12,51%	16,38%
Hang Seng	26 346	-0,93%	2,42%	1,94%
Dollar Index	98,27	0,00%	-0,65%	2,18%
EUR/USD	1,102	-0,03%	0,33%	-3,92%
GBP/EUR	1,174%	0,81%	6,04%	5,54%
GBP/USD	1,293%	0,71%	6,33%	1,34%
USD/JPY	109,490	0,76%	3,02%	-0,18%
USD/CHF	1,00	0,26%	0,99%	1,84%
Brent Crude	62,430	-1,51%	3,31%	16,04%
Gold	1 465,6	0,14%	-3,77%	14,38%

Generic Bond Yields

change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	1,776%	0,5	28,0	-90,8
GER 10Y Yield	-0,360%	-0,1	34,0	-60,2
JPY 10Y Yield	-0,073%	0,1	19,6	-7,6
UK 10Y Yield	0,697%	-0,8	21,8	-58,0
PT 10Y Yield	0,401%	0,2	27,6	-132,1

**Source: Bloomberg, as of 2019-11-29*

In Focus
November

UK Prime Minister Boris Johnson on course to seize majority in parliament. The Conservative Party representative promised to deliver Brexit by the 31st of January if he wins the upcoming British elections on the 12th of December. According to polls, Mr. Johnson is on course to secure parliamentary majority, increasing the chances of "getting Brexit done".

Congress invites US President Donald Trump to its first impeachment hearing. The hearing on December 4th marks the next phase in the impeachment inquiry following the July phone call between President Trump and Ukrainian President Volodymyr Zelensky. Mr. Trump allegedly pressed Ukraine's leader to find damaging information on US presidential candidate Joe Biden.

Stocks continued to rise at the end of the month and hit record highs in major US indices. Stocks rose consistently throughout the month of November, with all three major US indices reaching an all-time high. On the 28th the S&P 500 closed at 3,153.64, whilst the Nasdaq and DJIA closed at 8,632.49 and 28.164,00 respectively.

Brussels increases emissions targets as members of the European Parliament declare 'climate emergency'. Brussels will disclose new carbon emissions goals following the EU's decision to officially declare a "climate emergency". Incoming commission president Ursula von der Leyen aims for carbon cuts of at least 50% by 2030, up from the previous 40% target.

Donald Trump signs bills supporting the Hong Kong pro-democracy movement. Mr. Trump ratified the Hong Kong Human Rights and Democracy Act in late November. The Act decrees that the US will review Hong Kong's special trading status annually and impose sanctions should human rights be violated in the region.

Global trade uncertainty hits European Union vigorously. Brexit uncertainty, Germany's industrial downturn, US-China trade war and the record USD 7.5 bn in tariffs imposed by the US have all collaborated for the decline in exports and imports across all major EU economies.

Colombia joins other Latin American nations in protests. Tens of thousands of Colombians filled the streets of Bogota in an effort to press president Iván Duque to drop mooted tax, labour and pension reforms.

US corporate bond market sparkle warning signs. Despite the great stock rallies of last quarter, investors are sceptical that the domestic economy may not be sufficient to support hundreds of companies struggling under heavy distressed debt.

Mexican economy enters a technical recession. "It's a clear recession. I don't think there will be any growth this year" Carlos Serrano said, chief economist at BBVA, after data pointing an economic contraction in the last quarter and likely zero growth for 2019.

ECB's Christine Lagarde pushes for upgrade in public investment. On her first speech as ECB's president, Ms. Lagarde urged leaders to increase investments into services, banking and capital markets to rebalance the world's second-largest economy towards domestic demand.

European Commission warns France and Italy on high levels of debt. Brussel's commission's assessment said that "Failure to reduce public debt may increase the risk of heightened market pressure on countries with high public debt in the future, which could have negative spillover effects on the public debt markets of other euro-area member states".

Henrique Oliveira
Financial Markets Division

Deeper Dive

M&A Market Boom: Is it the End of the Bull Market Rush?

Federico Farina
Investment Banking Division

M&A market is reaching the highest levels in decades and this could signal an imminent bull market downturn. However, the current economic environment is different from any other experienced before and financial professionals state that there could still be room for growth.

"M&A peak could fuel any ongoing rally in the stock market," said Jim Paulsen of the Leuthold Group. "It may signal a market peak but it could be from much higher levels. M&A is just a single indicator among many impacting stock market conditions."

Corporate America is booming and the merger market is seeing large deals being executed such as the high end jeweller Tiffany or the discount broker TD Ameritrade. But the consolidation leads to an impelling question: is this a signal of the bull market's end?

The proportion of stock-based M&A deals is at the highest since 2000 and inflated valuations made US stock investors nervous. Buyout firms and companies are paying about 22.5x the net income of the target. This is the second-highest level since 1998 and it has a massive impact on the decision of companies on how to structure a deal or even to proceed at all.

M&A transactions tend to flourish around cycle peaks, as companies try to buy growth instead of creating it organically. If we look at the past, record deal making's states were reached in 1990, 2000, 2006 and 2007, on the eve of two of the hardest financial crisis. The rush of M&A deals actually signals that companies are looking for growth.

This is an economic environment different from any others experienced before and optimists think that the bearish monetary policies from major central banks can support and lengthen the M&A and stock market cycle. Peaks in M&A valuations could eventually signal we are close to valuations downturn but it could be on a much higher level than what we are experiencing now.

Trillions of dollars of negative-yield bonds have sent investors' search for returns in equities. "What we are seeing in the recent bump in M&A activity is that corporates and other investors have concluded that despite the advanced age of the current cycle we are not about to descend into a recession, rather that the current cycle still has legs," said Eric Shube, head of US M&A at law firm Allen & Overy.

If a trade deal between the US and China is agreed and a global downturn is passed, deal making could still accelerate despite current levels. In 2015 M&A set a record high and, even though the year was followed by a little slowdown, transaction's activity and stock prices rapidly recovered. "The cycle has room to run and there is sign that animal spirits are coming back into the market" said hedge fund investor Thomas Hayes.

However, we cannot avoid that the risk of a pullback for the benchmark S&P 500 is relatively high, following its 25% increase this year. "Levels of confidence have been trending lower and are well below the highs of the current cycle." said Lori Calvasina, head of US equity strategy at RBC Capital Markets.

Higher prices for companies and the fear of a stock market's correction has prompted boards to use their own stock for deals, hedging against a potential stock decline and overpaying risk.

Examples of overhyped valuations like WeWork group shaped the transaction environment and SoftBank-backed group had ultimately to restructure itself.

Private equity leading group KKR submitted a bid for the USD 70 bn drugstore Walgreens Boots Alliance, which would be the largest leveraged buyout in history if concluded. The current PE boom also pointed back to the last PE rush ahead of the financial crisis warning investors and rating agencies.

Federico Farina
Investment Banking Division

Regional View

Poor Performance of SOEs Likely to Downgrade South Africa to Junk

Corina Popa
Financial Markets Division

"If or when, Moody's downgrades South Africa's sovereign debt, the country will have to face a higher cost to service its debt, which is projected to be 60.8% of GDP this fiscal year but is likely to surpass 70% of GDP by 2022 as SOEs' bailouts continuously add to government spending."

A quarter century after the end of Apartheid, an authoritarian political regime based on racial segregation, South Africa continues to be burdened with socioeconomic, political and financial instability.

Ten years ago, a dollar would amount to roughly 7.5 Rand, while today, it corresponds to almost double, approximately 14.5 Rand. The currency has lost nearly half of its value and the country has lost its attractiveness to many foreign investors. Moreover, South Africa is experiencing high levels of capital flight, with domestic companies increasingly looking to diversify their portfolios overseas.

Adding to South Africa's troubles is their failing public sector, with state owned enterprises (SOEs) not appearing to be financially sustainable. In the recent report on SOEs published by Parliaments Portfolio Committee on Public Enterprises, it was outlined that public enterprises are still feeling the effects of the state capture that took place during former President Jacob Zuma's time in office.

Chief among the enterprises that were looted is South African Airways which is currently struggling to meet payroll and that has already been bailed out by the taxpayer on several occasions. South African Airways currently has a debt of USD 900 m, of which USD 630 m is legacy debt and the remainder is a working capital facility. The report detailed that in order to fund a successful turnaround strategy, the airline will need a capital injection of approximately USD 1.48 bn. Many economists believe that this is ultimately a loss cause and that stakeholders should walk away from the table.

Eskom, the country's sole energy supplier is another parastatal that has been making headlines over the last few years with South Africans having to become accustomed to rolling blackouts of their electrical grid. The electricity monopoly is set to receive a USD 8.6 bn bailout in the next three years as it is unable to bear its USD 30 bn debt outstanding.

This costly government support of mismanaged SOEs has negatively affected the country's credit rating. Having already been downgraded to junk by Fitch and S&P, South Africa has now developed a deep concern after loosing its investment grade rating from the last big credit rating agency. Moody's warned South Africa, it has three months to show some progress in developing a strategy to turnaround their financial situation otherwise the country will be downgraded to junk. Junk status seems inevitable though as growth is projected to be a mere 0.5% for 2019 combined with official unemployment figures of 29%, it's a stay of execution.

If or when, Moody's downgrades South Africa's sovereign debt, the country will have to face a higher cost to service its debt, which is projected to be 60.8% of GDP this fiscal year but is likely to surpass 70% of GDP by 2022 as SOEs' bailouts continuously add to government spending. Moreover, the country's debt would be removed from the FTSE World Government Bond Index, resulting in a massive sell-off and consequent rise in yields.

However, acclaimed analysts Dawie Roodt from Efficient Group stated that "A downgrade would not have a massive impact on the South African Rand or on the country's markets as there is evidence to believe that the currency is undervalued and that a downgrade to junk has already been priced into the markets". There is no consensus regarding the magnitude of the market's reaction, but it will most likely be negative.

Unless severe changes in the state's public finances are rapidly initiated, South Africa will not be able to avoid the "junk guillotine".

Corina Popa
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

UK Elections

Elections on December **12th** will define whether Prime Minister Boris Johnson can secure a majority in parliament to deliver the Brexit on January **31st**, as promised after the latest delay granted by EU leaders.

Manufacturing PMI

The latest result of the index pointed to the eleventh straight month of contraction in the German manufacturing sector, third for the US amid trade uncertainties, and seventh for a much disturbed UK. December publications are highly awaited by the market to see whether the negative trend continues.

German ZEW Economic Sentiment

The Economic Sentiment Index has indicated pessimism amongst Germans for the entire 2019, with exception of April. However, readings have been stronger than forecast. Last reading, in November, pointed to a -2.1 from -22.8 in October. Next release will be on December **10th**.

Central Bank Decisions

Fed Interest Rate Decision

The FOMC meeting will take place on December **10th** and **11th**. After last meeting, Fed's Powell indicated that no further cuts were planned unless economic data begins to show a slowdown. In October the Fed cut interest rates for the third time in 2019.

PBoC Interest Rate

On the **19th** of December the People's Bank of China will meet. Last month, interest rates were lowered by 5 bps to 4.15%. A small cut compared to other major central banks. However, the PBoC is conducting another open market operation: injecting CNY 180 bn (USD 25.7 bn) into the monetary system.

ECB Monetary Policy Decision

Christine Lagarde will announce her first policy decision on December **12th**. In September, the ECB cut interest rates further into negative territory, and restarted a paused program of bond purchases. The market does not expect to see any new measure at this point.

Inflation and Deflation

Update on Euro Zone Inflation

Inflation rebounded more than expected by economists in November. After a series of monthly declines in consumer price growth, the 1% level compared to a year earlier indicates a degree of stabilisation. Eurozone YoY CPI will be published on December **18th**.

UK Consumer Price Index

YoY figures on consumer prices in the United Kingdom will be made public on December **18th**. Inflation in the region remained below forecasts and BoE's 2% target for three consecutive months.

Argentina's New President and Inflation

On December **10th**, President-elect Alberto Fernandez will inherit the difficult mission to restructure Latin America's third largest economy. Indeed, Inflation is expected to be as high as 55% according to the Treasury minister.

Labour Market

US Employment Readings

On the **6th** of December the US Nonfarm Payrolls and Unemployment Rate will be announced. Despite worries of recent weak economic data, the labour market is expected to remain strong. The unemployment rate is expected to remain close to a 50-year low of 3.50%.

German Ifo Business Climate Index

On the **18th** of December, Germany will announce results of the survey used to evaluate business sentiment across the country. Along with the ZEW Index, despite weak economic data, numbers have indicated positive economic sentiment amongst Germans for the near future of the region.

UK Claimant Count Change

Last month, the figures released from Average Earnings Index +Bonus gave analysts mixed expectations for the upcoming months. Earnings figures missed expectations whilst unemployment rates performed above forecast. New figures will be announced on December **17th.**

Henrique Oliveira
Financial Markets Division

Investment Banking

M&A

Overall Activity

Global

Throughout October global M&A was mixed. In the US the number of deals continued to fall to 744, a 11.2% decline from the previous month. Globally, the picture was not much better with announced deals dropping 8.1% to 2,708. However, it was not all doom and gloom, as deal value rose by 37.5% in the US, to USD 99.3 bn and by 47.2% globally, to USD 282.7 bn. Crossborder activity also demonstrates continued strength late in the cycle, increasing by 112.9% MoM, to USD 132.99 bn. Most significantly US inbound activity increased by 49.6% to USD 33.9 bn. Largely driven by the acquisition of Tiffany & Co by LVMH for USD 16.2 bn at USD 135 in cash per share, a significant premium above the initial offer price of USD 120. An M&A surge in the last week of November added more than USD 70 bn to total deal value, setting the course for another record year. Values were predominately driven by the announcements of sizable transactions such as Charles Schwab Corp's USD 26 bn buyout of discount brokerage TD Ameritrade Holding Corp. Goldman Sachs once again finds themselves at the top of the pack of Investment Banks, advising on 350 deals YTD, closely followed by Morgan Stanley and JP Morgan.

Selected Regions

North America
The US mergers and acquisitions pipeline remains resilient amongst potetnial recession indicators. The Ernst & Young Capital Confidence Barometer indicates that 96% of 600 U.S. C-suite excecutives anticipate continued domestic economic growth and 83% expect the U.S. M&A market to improve in 2020. However, in November deal intentions slipped below 50% for the first time in two years.

EMEA
Most European M&A continues to close in the UK and Ireland, signaling persistent confidence in a region that a year ago was shattered with fears of geopolitical uncertainty. Looking towards sponsor driven activity, the EMEA region in its entirety exhibited a YoY decrease of 19% in November. Which according to JP Morgan is motivated by an absence of attractive targets and not economic and geopolitical fears in the region.

Asia
Indian M&A is faced with a drastic decline after a record breaking 2018. With less than one month to go, it is almost certain that India will experience the weakest deal flow in a decade. Only 459 deals have been excecuted so far this year, which is less than half the 1012 deals completed last year. Corporate confidence is being strangled by the country`s slowing economy and election uncertainties.

M&A

Deals of the Month

Announnced Date	Target	Buyer	Target Region	Target Business	Value (USD m)	Premium (%)
25 November 19	TD Ameritrade	Charles Schwab Corp	US	Brokerage	26,000.00	-
18 November 19	Line Corp - All Business	Z Holdings Corp	JPN	Software	10,000.00	-
6 November 19	HP Inc	Xerox Holdings Corp	US	Computers and Peripherals	33,000.00	-
4 November 19	IBERIANBANK Corp	First Horizon National Corp	US	Banks	13,500.00	-
18 November 19	Tiffany & Co	LVHM	US	Design and Clothing	16,200.00	12.5%
6 November 19	Republic of Brazil-Buzios Field	Investor Group	BRZ	Oil & Gas	8,900.00	-
24 November 10	The Medicines Co	Novartis AG	US	Pharmaceuticals	7.900.00	-
26 November 19	Caltex Australia Ltd	Alimentation Couche-Tard Inc	AUZ	Petrochemicals	6,400.00	-
13 November 19	Tech Data Corp	Tiger Miidco LLC	US	Computers and Peripherals	5,000.00	-
4 November 19	Pattern Energy Group Inc	-	US	Alternative Energy	5,000.00	-

Tobias Berberich
Head Investment Banking Division

M&A: Top Deals

Google to acquire Fitbit

Google's parent company Alphabet is to acquire the fit tech company Fitbit for USD 7.35 per share in cash valuing the company at USD 2.1 bn.

Buyer vs Seller

Alphabet is the world fifth-largest tech company and is the parent of Google and of several of its subsidiaries. Fitbit is headquartered in San Francisco, CA and produces tracking devices for measuring the fitness activity. Qatalyst Partners LLP acted as financial advisor for Fitbit while Lazard Freres & Co. advised Alphabet. Advisory fees have not been disclosed yet.

Industry Overview

The fitness tracker industry is currently dominated by Apple (with the Apple Watch) which captures almost half of the market share. The second rank is occupied by Samsung and Fitbit with 11.8% and 12.2% of the market share. Apple lost approximately 15% of the market share in the past 3 years due to the rise of the competition and the retail presence. The industry is expected to growth at a CAGR of 18.4% in the 2017-2023 period.

Peers	Currency	Market Cap (CUR m)
Universal Electronics Inc	USD	774.41
GoPro Inc	USD	629.25
Dolby Laboratories Inc	USD	6,901.85

Deal Rationale

Fitbit is considered as a top-tier brand in the industry with 12.2% market share and exhibits a strong presence in the North American market. Since the fitness tracker industry is growing, Google is interested in positioning itself by means of an existing brand in the market. Google is looking forward to bring its hardware and software knowledge into the Fitbit's products and to challenge Apple in the smartwatch market. Concerns regarding the usage of the user's data have risen since there is the fear that Google will use these sensitive information for marketing purposes.

Market Reaction

Alphabet Inc.
Since the announcement the share price has increased from USD 1,272.2 to USD 1,304.1 which is a sign of a good reaction from the investors.

Fitbit, Inc.
During the two weeks before the announcement the share price has more than doubled. In fact, it has increased from USD 3.45 (15th of October 2019) to USD 6.96 (29th of November).

Future Challenges

The fitness tracker market is still growing and it seems to be a promising industry. Since all the major tech players have already entered market (Apple, Samsung, Google), the question that arises now is who is going to be the market leader and how are all the players going to position themselves. Regulations are going to play a major role in the industry as well: data treatment and privacy regulations are still an important issue.

Michele Marcaccio
Investment Banking Division

M&A: Top Deals

LVMH to buy Tiffany & Co. in the largest luxury goods deal ever

The French multinational luxury goods conglomerate LVMH will acquire the American luxury jeweler Tiffany & Co. for USD 135 per share in cash, in a transaction with an equity value of approximately USD 16.2 bn.

Buyer vs Seller

LVMH Moët Hennessy Louis Vuitton SE, the world's leading luxury group generated USD 46.8 bn sales and an EBITDA of USD 12.3 bn in 2018. LVMH group is the only group present in all five major sectors of the luxury market as there are: Wines & Spirits, Fashion & Leather Goods, Perfumes & Cosmetics, Watches & Jewelry and Selective Retailing. Tiffany & Co. operates jewelry stores in the Americas, Asia-Pacific, Japan, Europe and the United Arab Emirates. Tiffany & Co. is known for its luxury goods, particularly its diamond and sterling silver jewelry with total sales of USD 4.1 bn and an EBITDA of USD 1.0 bn in 2018.

Industry Overview

Overall, the luxury goods market grew by 5% in 2018 fuelled by Chinese customers' appetite for luxury goods as well as accelerated online luxury shopping with consumers becoming younger and more diverse. Analysts said the deal is part of a wave of consolidation in the industry, as the world's biggest luxury goods groups compete to buy up brands that they hope will appeal to younger people and increasingly high-spending Chinese consumers.

Peers	Currency	Market Cap (CUR m)
Pandora A/S	DKK	26,420.00
Chow Tai Fook Jewellery Group	HKD	73,600.00
Luk Fook Holdings Internationa	HKD	12,622.82
Lao Feng Xiang Co Ltd	USD	2,837.02
Shanghai Yuyuan Tourist Mart G	CNY	29,183.19

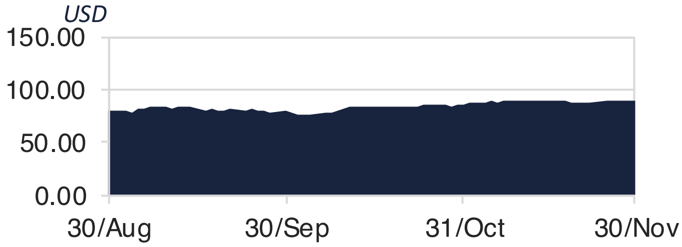
Deal Rationale

The deal announcement was positively received from shareholders and analysts, as both LVMH and Tiffany & Co. seem to benefit greatly from the transaction. The acquisition of Tiffany & Co. will strengthen LVMH's position in jewelry and further increase its presence in the United States as it will provide great access to U.S. luxury customers. Beyond that, the addition of Tiffany & Co. will transform LVMH's Watches & Jewelry division to appeal to younger and more digital shoppers. Tiffany & Co. will benefit from LVMH's strong financial resources which may help Tiffany & Co. to expand its business and turn around after a rocky few years with stagnating sales.

Market Reaction

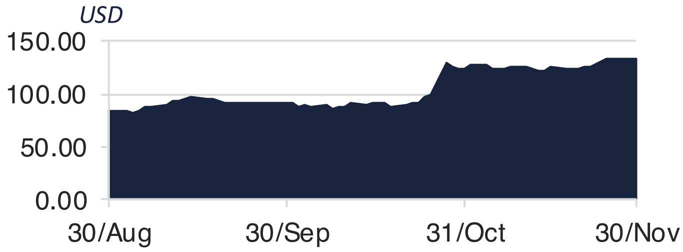
LVMH

While the share price of LVMH saw a slight increase on the days following the announcement on November 25, it almost went back to the pre-announcement price of USD 87.50 . As of today, the share price is USD 88.37.



Tiffany & Co.

On announcement date, Tiffany & Co.'s share price increased by roughly 7% underlining the positive perception Tiffany & Co.'s shareholders. As of today, the share price remained at the new level.



Future Challenges

With all efforts to revamp falling short, Tiffany & Co. has been struggling with stagnating revenue over the recent years. It will be interesting to see if Tiffany & Co. can be turned around with the help of an injection of capital and talent from LVMH. According to analysts, for the deal to be successful, it will be crucial to rejuvenate Tiffany & Co.'s image and keep up with rapidly changing demand of millennials and online shoppers. The transaction is expected to close in the middle of 2020 and is subject to customary closing conditions, including approval from Tiffany &Co.'s shareholders and the receipt of regulatory approvals.

Alexander Keil
Investment Banking Division

M&A: Top Deals

Charles Schwab to acquire TD Ameritrade in landmark deal

The Charles Schwab Corporation ("Schwab") and TD Ameritrade Holding Corporation ("TD Ameritrade") announced that they have entered into a definitive agreement for Schwab to acquire TD Ameritrade in an all-stock transaction for a consideration of approximately USD 26 bn.

Buyer vs Seller

Schwab, America's largest discount brokerage firm, is a leading provider of financial services, with more than 365 offices and 12.1 m active brokerage accounts, 1.4 m banking accounts and USD 3,770 bn in client assets. The company provides a range of wealth management, securities brokerage, banking, asset management, custody, and financial advisory services to individual investors and independent investment advisors. Its big rival, TD Ameritrade serves 12 m client accounts with a total of USD 1,300 bn in assets and custodial services.

Industry Overview

This deal will shake up the retail brokerage industry, creating a company with USD 5,000 bn in assets under management and putting smaller rivals under pressure to scout for tie-ups. The deal is among other recently unleashed big-ticket takeovers in the financial sector such as the USD 28 bn merger of the banks BB&T Corp and SunTrust. Consolidation in the brokerage industry is driven by recent price reductions with all major brokers dropping commission fees for trading.

Peers	Currency	Market Cap (CUR m)
E*TRADE Financial Corp	USD	10,118.77
Charles Schwab Corp/The	USD	64,344.58
LPL Financial Holdings Inc	USD	7,438.08
Focus Financial Partners Inc	USD	1,962.09
Raymond James Financial Inc	USD	12,375.50

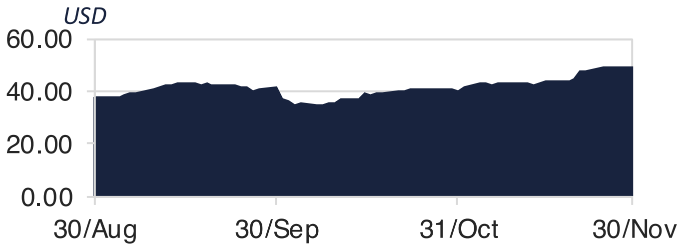
Deal Rationale

This deal allows Schwab to continue to add scale on top of its organic growth creating a brokerage giant which is expected to operate with up to 20% less of the combined cost base. As traditional discount brokerage firms are facing intense competition from alternative trading apps (e.g. Robinhood) with no commission business models, the merger will help Schwab to capitalize on the opportunity to create an even more quick-witted company that can steadily maintain market share.

Market Reaction

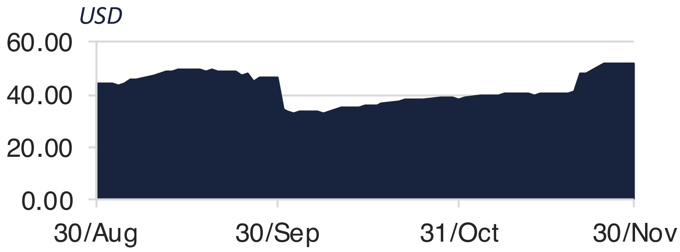
The Charles Schwab Corporation

Shares surged by 7.3% after deal announcement, following a period of a swift price war within the industry. Yet, the merger is a sign of the strains on big brokers as a demonstration of their market clout.



TD Ameritrade

Stock performance in 2019 was strongly burdened by revenue cuts due to commission elimination. Shares spiked by 17% after deal was publicly announced.



Future Challenges

While deal closing is planned for mid 2020, the deal could face tough regulatory scrutiny. As Schwab and TD Ameritrade belong to the largest registered investment advisory firms, this deal stirs up worry about negative effects on industry competition. Also, successful post-merger integration will be challenging and crucial to realize calculated upsides and scaling effects.

Benedict P. Minkner
Investment Banking Division

What Happened To
PayPal

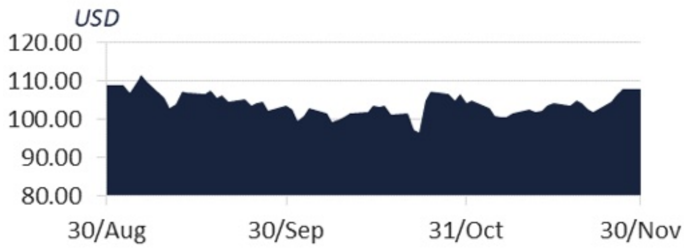
PayPal is an online service allowing users to transfer money without sharing own information with the recipient. Customers use PayPal to pay for transactions through credit/debit cards, bank accounts or PayPal accounts. The company charges a fee to handle payment processing. Launched in 1998, the firm was acquired in 2002 by eBay and in 2015 spun-off independently again.

Corporate News

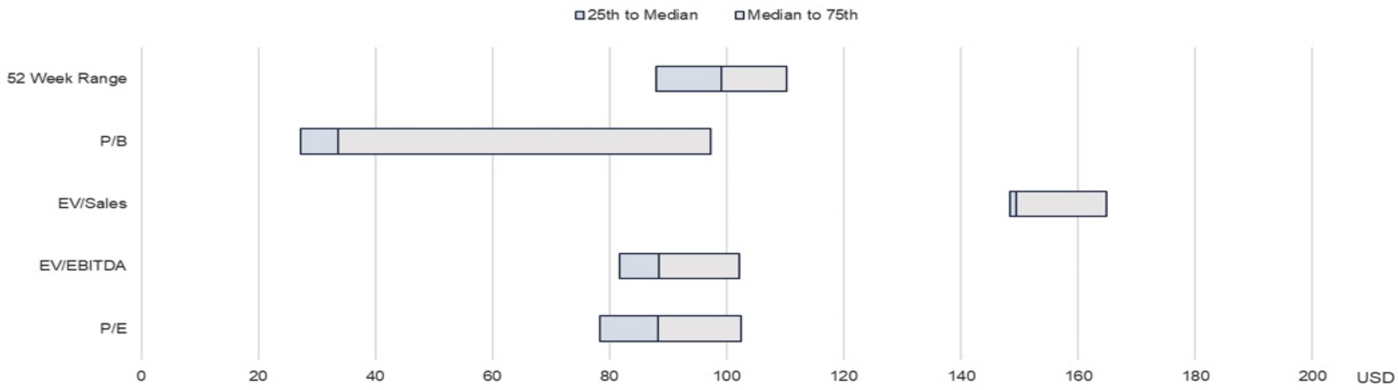
PayPal hit the news after undertaking its largest acquisition ever. The payments company paid USD 4 bn – mostly cash - for Honey, a deal-finding browser add-on and mobile application to save money while shopping. PayPal's stock price dipped 1.5% to USD 102.5 one day after the announcement suggesting investors did not share PayPal's vision on the acquired value. However, share performance rebounded and the price hit USD 107.7 seven days afterwards.

The pricey deal comes in line with recent efforts from PayPal to own more of the shopping experience as well as try to leg up against new players in the payments space such as Square, Apple and Alibaba.

Price (30 Nov 19, USD)	**108.01**
Target Price (USD)	126.00
3M Performance	-0.95%
Market Cap (USD m)	126,824.53
Enterprise Value (USD m)	121,839.53
**Target Price is for 12 months*	



Valuation Analysis



The big picture looks upbeat for the company with a 52 week range of USD 76.7 - 121.48. Paypal's shareholders have seen their holdings beat the S&P 500 Index by 10.7% looking back one year. The company has a current enterprise value of USD 121.84 bn and analysts mostly assign a buy-rating to the company's equity. According to relative valuation methods, Paypal's share price seems overpriced by all methods except EV/Sales, leaving doubts if the company will be able to meet its target share price of USD 126.

The peer analysis shows Paypal well ahead in terms of market capitalization. The company is a mature company with a successful track record of innovation. However, novel players like Square continue market penetration challenging PayPal's market position. With the rise of ecommerce and the increasing digitization of businesses, the payments industry shows vast growth potential with established tech companies developing their own solutions. Picking a winner might be farfetched now, but picking the payments industry should be a no brainer.

Peers	**Currency**	**Market Cap (Cur m)**
Fidelity National Information	USD	84,907.03
Fiserv Inc	USD	79,030.99
Global Payments Inc	USD	54,429.25
Square Inc	USD	29,699.58
FleetCor Technologies Inc	USD	26,634.88

Rafael Santos
Investment Banking Division

NIC's View On

AbbVie: Fourth Largest Corporate Bond Issuance of All Time

Paulina Michel
Investment Banking Division

AbbVie did not only announce that it is going to buy Allergan (Botox) this year, it also sold USD 30 bn of bonds to fund this cash and stock acquisition on November 13th. This bond issuance is the fourth-largest investment-grade debt sale so far (largest: Verizon (2013): USD 49 bn).

AbbVie is a US pharmaceutical company focusing mostly on immunology, oncology and virology. In June 2019, AbbVie announced to acquire Allergan, an Irish pharmaceutical firm which became famous for Botox. Even though the Botox patent expired already, Allergan still makes most of its revenues with Botox and generic drugs. AbbVie's blockbuster, Humira (treats arthritis), is responsible for approximately 60% of the firm's revenues. However, the patent expired last autumn, thus, the firm is under pressure to develop new, innovative products to maintain the previous sales level and market position as more and more similar drugs to Humira are arising. As Allergan exhibits a promising pipeline, it became an attractive target for AbbVie.

To fund the USD 63 bn takeover, the companies agreed on a cash and stock transaction. To finance this deal, AbbVie borrowed USD 30 bn from its investors. The issuance is split across ten maturities reaching from 18 to month to 30 years.

AbbVie's bonds are rated as triple B which is still investment grade, however, just slightly above junk bond status. Bonds with this rating are usually highly demanded due to the yield and the relatively low probability to default when the issuer is an established company such as AbbVie. As this issuance was more than two times oversubscribed, the planned premium of 150 bps above US treasury bond was lowered to 130 bps for AbbVie's 10 year bond. Since this issuance, the company owns USD 90 bn of debt which results in a leverage of 3.4 times earnings before interest, taxes, depreciation and amortization. However, AbbVie announced to decrease its leverage to 2.5 times by 2021.

The CEO of AbbVie stated, that he is not worried about the high level of debt as both of the companies were generating USD 19 bn in cash last year. With this promising level of cash, it is planned to enhance R&D, to pay back debt and support a strong and growing dividend.

This bond issuance has not been the first one in the pharmaceutical industry this year. 2019 was the year of mega deals in the industry, where the biggest one was Bristol Myers Squibb's takeover of Celgene for USD 76 bn. For this acquisition, bonds of USD 19 bn were issued. Since this and the next year many patents are expiring, the consolidation of the industry can be seen as a consequence. As it might be faster and safer to acquire another company with existing products, a merger is seen as a promising way to escape a possible downturn due to patents expirations of blockbusters. However, mainly in the pharmaceutical industry, such mega mergers might take longer than assumed due to antitrust issues, as the conflict of interest to be in a leading market position and to help the mankind by developing new medicines needs to be bridged. Therefore, in the scope of these big deals, most of the targets were enjoined to divest some of their assets to create an incentive for their buyer to keep researching and not to rely on existing products.

Date	Recent News
25 June 19	AbbVie announces to acquire Allergan. **Source:** *abbvie.com*
27 Sep 19	Second request from US Federal Trade Commission on pending transaction **Source:** *abbvie.com*
25 Oct 19	AbbVie announces the bond issuance of USD 30 billion. **Source:** *abbvie.com*
13 Nov 19	Bonds of ten different tranches were issued and sold. **Source:** *reuters.com*

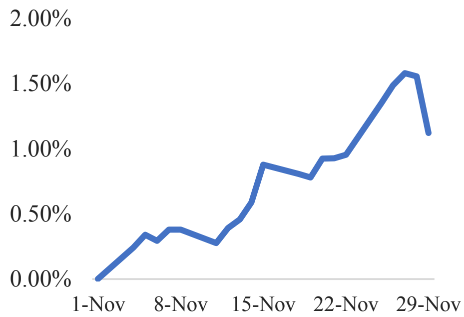
Paulina Michel
Investment Banking Division

NIC Fund

NIC Fund

Portfolio Overview

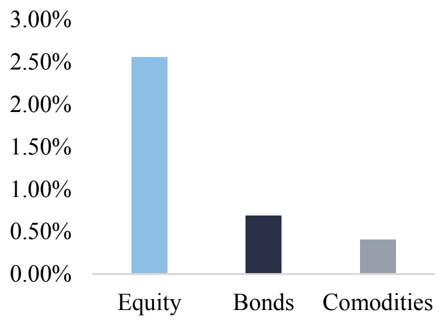
NIC Fund Cumulative Return



Portfolio Statistics	
Cumulative Return	1.12%
Annualized Return	13.45%
Daily St. Dev	0.20%
Period St. Dev	0.92%
Annualized St. Dev	3.18%
Info Sharpe	4.23
Skew (Daily)	0.07
Kurtosis (Daily)	1.23

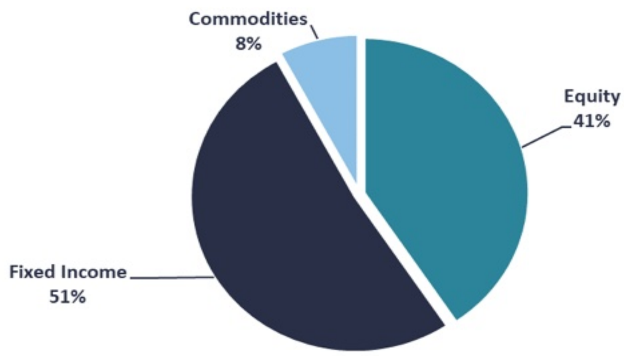
Benchmark	
iShares 3-7 Year Treasury Bonds	55%
MSCI World ETF	30%
Invesco DB Commodity Index	10%
MSCI Emerging Markets ETF	5%

Individual VaR



Portfolio Snapshot

November was a solid month for our fund which remained invested in equities, fixed income and commodities with allocations closely aligned to our benchmarks. Asset class weights remained unchanged with a distribution of 51% in fixed income, 41% in equity and 8% in commodities. Returns were again driven by strong performances in equities whereas our fixed income and commodities holdings performed poorly in November. Communication Services, Information Technology and Consumer Discretionary were the top performing sectors. This month's best performing stock was Mercadolibre (MELI US) whose share price rose by 18.49%. On the other hand, funds in emerging markets and commodities fell by nearly 2% in value.



Return Metrics

The overall performance of the portfolio was positive, with a cumulative return of 1.12%. Best performers were in equities across sectors. All had positive returns with the exception of energy and material that ended up the month in the red. Three stocks yielded more than 10% last month: Walt Disney (DIS) , Everbridge (EVBG) and Mercadolibre (MELI). Moreover, besides the top 3 sectors mentioned in the above snapshot, we can highlight the good results of financial services companies. US banks such as Bank of America (BAC) and Goldman Sachs (GS) saw their share prices increasing by 4.78% and 2.80% respectively. However, this month's worst performer was Solutions 30 SE (ALS 30) whose stock plunged by 4.12%. The energy sector also suffered a harsh month of November as our Commodity Index went down by 1.92% and Texan hydrocarbon producer EOG Resources returned -0.35%.

Risk Metrics

In terms of risk, our portfolio registered a daily diversified portfolio VaR lower than October (2.32%) mainly driven by a decrease in the discrete VaR of equity. Nevertheless, non-diversified VaR was equal to 3.64%, exceeding our 2.5% threshold. bonds and commodities VaRs remained steady compared to last month's level at 0.69% and 0.40% respectively.

Maxime Hozé
Head of Financial Markets Division

NIC Fund

Assets in Brief

Asset Class	Symbol	Comments
EU Equity	**BNP**	Despite the pressure from a lower rates environment, revenues of the French bank, led by CEO Bonnafé, went up by an average 2.8% over the past 9 months, topping EUR 33.3 bn at the end of Q3. The stock was up by 6.67% at EUR 50.97 at market close on Friday 29th. The cost reduction program that includes cutting jobs and closing retail banks in France, Belgium and Italy has already yielded in recurrent EUR 1.7 bn savings. Going further into the program, BNP is now considering removing 250 jobs in Switzerland where it employs around 1,400 people nationwide. Job cuts will concern mainly Geneva where slow growth and lower fees have harmed the profitability of the business.
US Equity	**DIS**	Disney showed strong performance last month (+14.18%) following the launch of its new streaming platform on November 12th. Disney+ enters into the already very competitive streaming market led by giants Netflix, Amazon Prime, Hulu and Apple. The launch was a success since Disney+ surpassed 15m subscribers within the first five days of operation. Taking aside the nostalgia factor and the strong brand awareness that plays in its favor against new entrant Apple, the firm included a new streamer's free promotion. Nevertheless, the initial monthly subscription price of USD 6.99 is still considered too expensive for many.
US Equity	**DPZ**	Domino's share price surged 9.3% in November contributing to 9% of our portfolio return. The firm headquartered in Ann Arbor Michigan benefits from a general bullish market consensus, it has 14 buy recommendations, 12 holds and 1 sell according to Bloomberg. A recent research from Guggenheim Analyst Matthew Difrisco sets a price target of USD 310. Activist hedge fund Browning West acquired an estimated 7% share in the company on November 12th and appointed its own CIO Usnam Nabi as non-executive director of the board. Let's see how the future corporate strategy will be affected by this corporate governance event.
ETF Equity	**EEM**	Blackrock's ETF tracking the MSCI Emerging Market index yielded a negative 1.57% return last month amid growing tensions in emerging countries such as Hong-Kong and Brazil as well as the weakening South-African economy. On November 27th the MSCI increased the weight of Chinese companies in the index. The iShare replicating the MSCI index has nearly 30% of its assets allocated in companies domiciliated in Mainland China.
US Equity	**EVBG**	Everbridge had a momentum in November, the stock was our best performer last month as it jumped by 23.84%. The tech company specialized in critical event management announced last week that Goldman Sachs (GS) will use the CEM suite to improve its ability to track operational risk, business continuity and employee safety events. Most of Fortune 100 companies as well as the US government sector are already relying on Everbridge's technology.
ETF Fixed Income	**IEI**	Our investment in Blackrock's iShare which is mainly focused on US T-bills with maturities between 3 and 7 years has had a positive contribution to our portfolio YTD. However, last month yielded a negative 0.24% as bond prices decreased following the raise in yields.

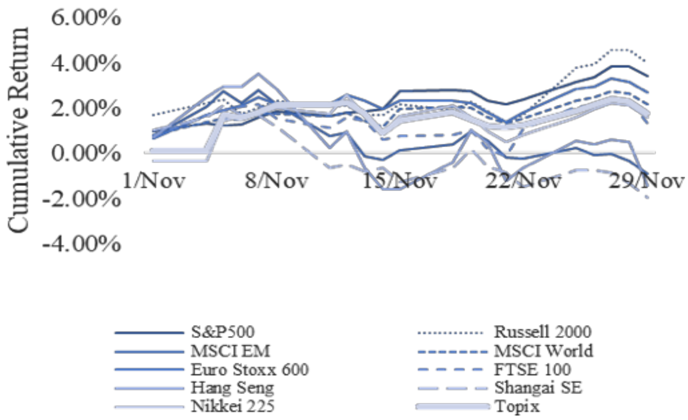
Maxime Hozé
Head of Financial Markets Division

NIC Fund

Equities

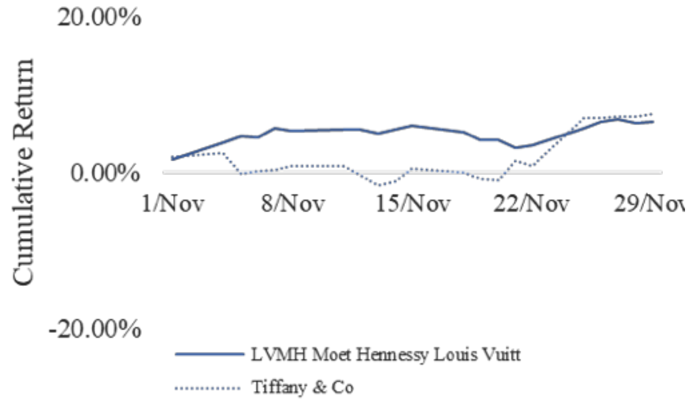
World Equities

Investors gobbled up US stocks to begin the Thanksgiving week, as trade optimism and a flurry of corporate deal making pushed all three major indices to new record highs. Hopes for a preliminary trade deal between the US and China have contributed to strong gains on Wall Street in recent weeks, with major bourses notching multiple record highs. On Friday 29th, the Dow Jones Industrial Average dipped 0.4% to 28,051.41. The S&P 500 slipped 0.4% to 3,140.98 while the Nasdaq Composite fell nearly 0.5% to 8,665.47. Health care stocks were also strong, helped by some moderation in presidential candidate Elizabeth Warren's plans for a "Medicare for all" system. Consumer discretionary shares lagged following disappointing sales and forecasts from Macy's, Home Depot, Kohl's, and other retailers. Target was a notable standout after the company topped earnings and revenues estimates and raised its full-year profit outlook. The major indices posted solid monthly gains with the S&P 500 climbing 3.4% to notch its biggest one-month gain since June, when it rallied more than 6%. The Dow and Nasdaq Composite gained 3.7% and 4.5%, respectively. The iShares Expanded Tech-Software ETF (IGV) surged nearly 8% this month, being its best monthly performance since January. Disney shares outperformed the Dow, gaining 16.7% while UnitedHealth climbed nearly 11% over that time period.



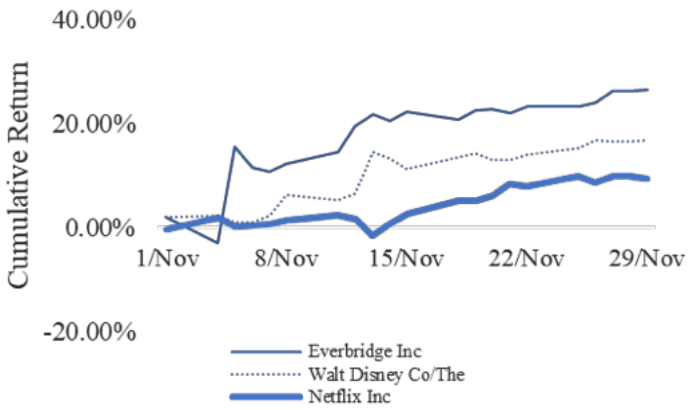
In Depth: The Luxury Giant's Stock

LVMH has clinched a deal to buy Tiffany & Co for USD 16.6 bn, handing control of the upmarket American jeweller to the luxury group controlled by Europe's richest man Bernard Arnault. The deal, the largest ever in the luxury sector, comes a month after it emerged that LVMH had approached the jeweller. The French group increased its offer from USD 120 to USD 130 a share and was granted access to Tiffany's books to conduct due diligence. The company's share price closed last Friday in New York at USD 133.8. As recently as August, the stock was trading close to USD 80.6 a share. For LVMH, the acquisition would deepen its presence in jewellery, allowing it to compete in the category more closely with the likes of Switzerland's Richemont in one of the fastest-growing categories of the personal luxury goods sector. With shares in the world's luxury giant's stock touching an all-time high of USD 448, investors should keep an eye on whether it has further to go. LVMH's stock price soared more than 210% in the past five years.



Our Performance

In November, equities' contribution to the overall portfolio performance was higher than last month, with a 6.59% cumulative return. This positive result was majorly driven by shares in Communication Services, with a cumulative yield of 12.55%, represented by Netflix and Walt Disney's positive contributions. On the Information Technology side, Everbridge was the stock with the highest return for this month, 23.84%. The stock's gain followed Everbridge's third-quarter results, which were better than expected.



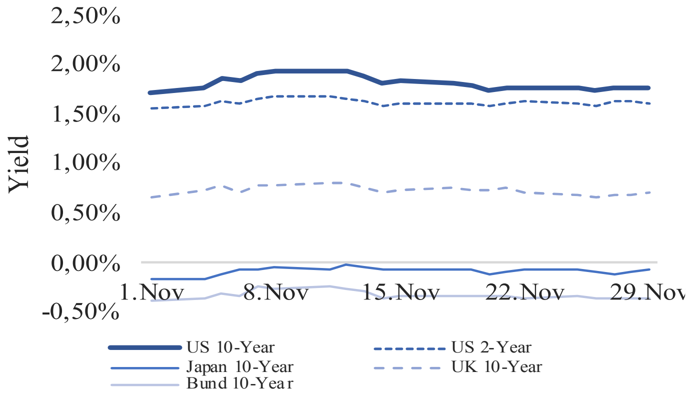
Francisca Fernandes
Financial Markets Division

NIC Fund

Fixed Income

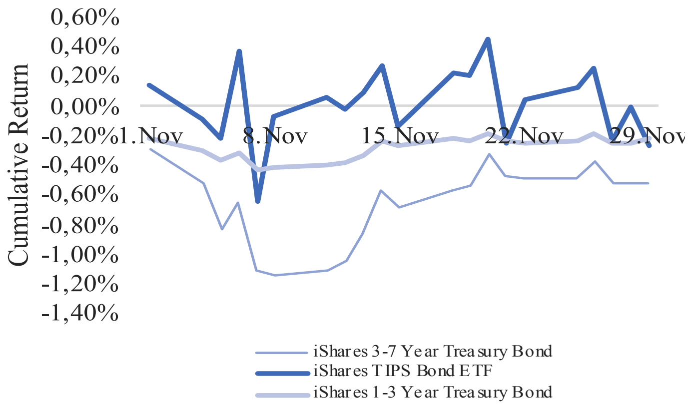
World Yields

During this month we saw China loosening its monetary policy in an attempt to counter the slowing growth of its economy. As a result, interest rates on both one and five-year loan prime rates were cut by 5bps from 4.20% to 4.15% and 4.85% to 4.80% respectively. After officially entering a technical recession, Mexico also proceeded to cut its benchmark rate by 25 bps. Meanwhile, in the face of uncertainty concerning Brexit and with general elections around the corner, the Bank of England left its rates unchanged at 0.75%. The yield on Germany's 10-year bond climbed from -0.41% at the end of October to -0.36% at the end of November, reflecting a falling in the bond prices. Similarly, the yield of the US 10-year bond rose from 1.69% to 1.78% since the end of the previous month. Interest rates in the Eurozone and in the US remain unchanged as the next meetings following the September and October rate cuts are to take place in December. Surprisingly, during November, inflation in the Eurozone rose more than expected, up to 1% from 0.7%. Despite this jump, inflation it is not yet expected to continue steadily rising up to the 2% target over the next months. Therefore we expect that low interest rates and quantitative easing are here to stay as a measure to counter the slowing growth of the Eurozone and to try to get closer to the 2% inflation target.



In Depth: The Rise of Emerging Markets Debt

As the Fed and the ECB continue to drag interest rates down with their dovish policies, investors are turning to more risky bonds that offer higher returns. A perfect example of this trend is Angola's latest USD 3 bn bond issuance earlier this month. It consisted of one 10-year and one 30-year bond yielding 8% and 9.12% respectively. Such is the demand for these high-yielding bonds, that they attracted over USD 8 bn of orders. Similarly, investors were eager to get their hands on China's largest to date dollar-denominated government bond. Yielding about 3.2%, the Chinese 10-year bond offers a promising alternative to its 10-year US counterpart, which is only yielding 1.8%. As the trend of investing in emerging markets debt continues, yield-seeking investors are reminded of the true risk behind such strategies. Argentina has defaulted on its sovereign debt yet again and Ecuador may be on a similar path as it is failing to comply with the IMF's austerity measures after being bailed-out earlier this year.



Our Performance

In November, 51.53% of the NIC Funds were invested in fixed income instruments. iShares 1-3 Year Treasury Bond ETF yielded just 0.01%, thereby having a negligible contribution to our portfolio return. In addition, iShares 3-7 Year Treasury Bond ETF, our benchmark fund for fixed income, had a negative return this month of 0.24%, slightly worse than October, contributing to our portfolio with a performance of -0.08%. The iShares Tips Bond ETF registered a positive return of 0.15%, with a total contribution of 0.02% to our portfolio.

Patricio Drexhagen
Financial Markets Division

NIC Fund

Commodities

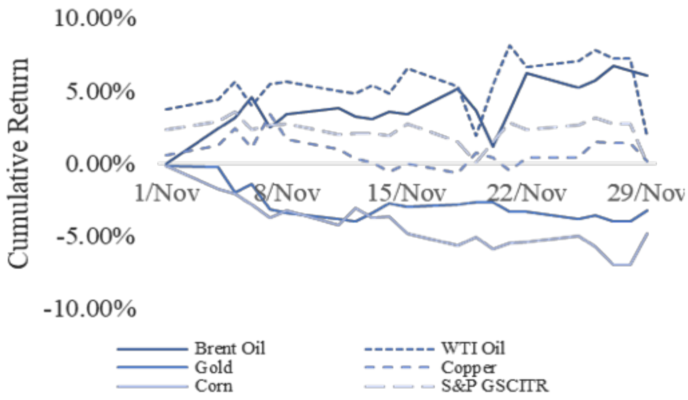
November Round-Up

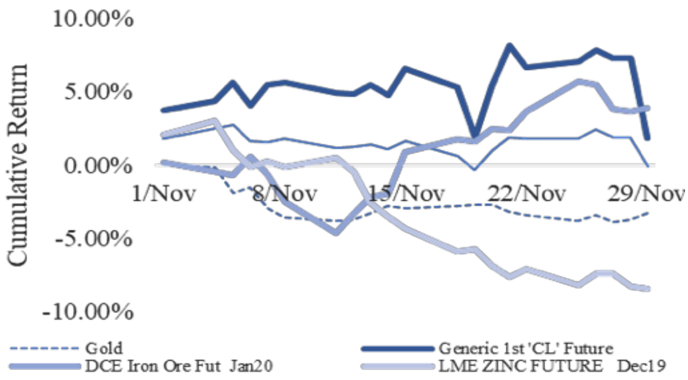
Oil prices have felt some unease due to the status of US-China trade talks increased uncertainty. Higher prices came on signs of a tighter physical market and more rumours that OPEC would extend the production cuts. OPEC and its Russia-led non-OPEC partners in the production cut deal may roll over in early December the current cuts into June 2020, as Russia will likely support the cartel's efforts to raise the price of oil. The course of US shale oil output remains the top issue for oil prices, for record highs in oil production but also for negative cash flows.

Iron ore has moved briefly into the USD 70s per tonne earlier this month, the spot price is slowly increasing to USD 90 per ton. Although plenty of ore is arriving in China's ports – last 4 weeks annualized at 1,077 metric tonnes – robust demand is keeping the market tight. This tightness is highlighted by the stalling replenishment of China's port stocks since late October. With demand momentum still strong, low steel mill ore inventories and near-term supply growth constrained, due to the ongoing uncertainty resulting from the again intensified trade war between US and China.

Looking at Zinc, prices are down, and exchange inventories are at lows due to smelter disruptions and an underperformance of Mainland China. However, many of these smelter issues are temporary, and China's smelter outputs are likely to trend higher, offsetting some of the losses.

Gold has experienced a sideway movement losses in Mainland China after the downward trend in September and October. However, after Donald Trump's signing of a sanctions bill in support of Hong Kong, which seems likely to put a dent in what had been a week of progress in trade talks with China, the closing trading day of the month (November 29th) cash market was the first chance for major US investors to trade that news. Therefore, gold prices have moved with strength to just below USD 1465 per oz (gold spot prices are trading at a net gain for the week and roughly USD 10 higher for the day).





Outlook for December

The expected implementation of tariffs on the 15th of December between US and China will particularly impact the price of gold, as it acts as a safe haven instrument, as well as soybeans. A quick resolution to the trade war could lead to a further upside movement. Moreover, OPEC+ will be meeting in Vienna on 6th of December, when investors are likely to get a clearer view of the group's 2020 strategy and the consequent impact on oil prices.

Our Performance

In November, we maintained an allocation of 7.87% in the Invesco DB Commodities Benchmark ETF, which is 2.13% below our benchmark weight of 10%. The index's poor performance diminished the return of our portfolio by 0.01%.

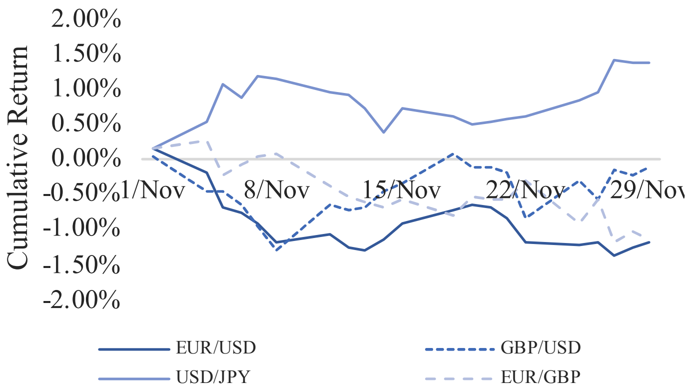
Valentina Heimann
Financial Markets Division

NIC Fund

Currencies

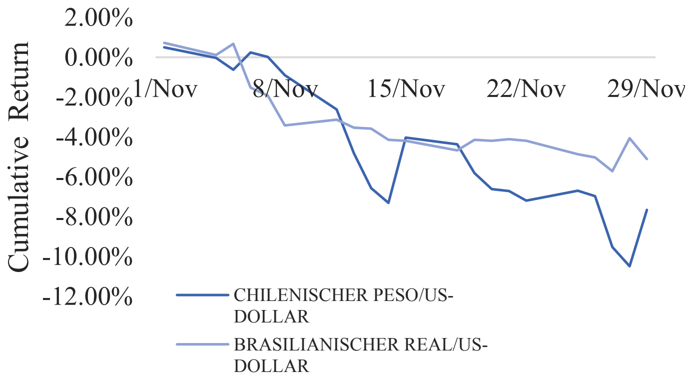
World Currencies

The hope of a trade deal between the United States and China supported the Dollar, which gained 1.35% over the month against the Japanese Yen. Some setbacks occurred, as doubts about the certainty of an agreement came up. The Euro lost 1.2% against the USD and weakened by 1.13% compared to the GBP. The pound slightly depreciated by loosing 0.13% against the USD. The USD stays strong as investors continue to fear market uncertainty regarding the trade war, the political unrest in Latin America and Brexit and therefore invest in the USD as a safe haven. The GBP is strengthened by the current polls which view Conservatives as leading ahead of Labour. A win of Boris Johnson would give the markets certainty about Brexit as opposed to a win of Jeremy Corbin who wants to renegotiate the current Brexit deal and initiate another referendum. The Bank of Japan indicated that it is open to lower interest rates even further if needed in order to support the weakening economy which grew just at an annualized rate of 0.2% in the third quarter. In November, as a result of the ECB maintaining its bond-buying program, the Euro continued its devaluation against the Dollar. As a result, the EUR continued its devaluation against the USD. Despite all efforts, experts do not see the ECB reaching their inflation goal of 2%.



In Depth

Political stability is harmed in Latin America which makes investors nervous again. The Real and the Peso fell to record lows against the USD in November as violent protests occurred all over the continent. Following the violent protests in the region, the Brazilian Real and the Chilean Peso devaluated respectively by 5.11% and 7.66% against the USD. In Chile, over 13,000 citizens were injured and 26 died in the protests. The tensions were triggered mid-October because people were angry about the raise in the Santiago Metro's subway fare. Since then, the protests did not quiet down as people want to express their general dissatisfaction with the increased cost of living, privatisation and the general inequality prevalent in the country. Besides Chile, Colombia, Bolivia, Ecuador and Peru are also rattled by protests. The central banks of Brazil and Chile intervened in order to increase the value of their currencies. The Chilean central bank sold USD 20 bn in international currencies, which amounts to approximately half of its international reserves, with the aim of stabilizing the Peso. The central bank of Colombia is considering interventions as well. Donald Trump seems not to be satisfied with the actions of the Brazilian government and announced the reintroduction of tariffs on steel and aluminium imports from Brazil as well as Argentina. He accuses Brazil and Argentina of actively devaluing their currencies in order to enhance the competitiveness of their economies.



Our Performance

We currently hold no FX related assets in our portfolio.

Oliver Schoch
Financial Markets Division

Extras

Hot Topic

Saudi Aramco came up short of the USD 2 trillion valuation but can still walk tall

Francisca Fernandes
Financial Markets Division

"Political and strategic risks are high for any firm operating in the region, not least one which is an arm of the Saudi state. Aramco also has limited control in output policy, a key part of Saudi Arabia's Opec management."

– Chris Beauchamp, IG Chief Market Analyst

Saudi Aramco launched its long-awaited initial public offering at the beginning of this month, kicking off the focus of Crown Prince Mohammed bin Salman's ambitious plan to overhaul the kingdom's oil-dependent economy.

The Aramco IPO was delayed in 2018, reportedly over Saudi officials' concerns about public inspection of the company's finances. A drone and missile strike in September temporarily knocked out more than half of Saudi Arabia's oil output, though officials stressed at the time that the Aramco IPO scheduling was not impacted.

Saudi Aramco is worth USD 1.2 tn, according to analysis from financial news service Bloomberg, although Riyadh valuated at USD 2 tn, which is also one of the reasons the company's share sale has been delayed a number of times.

The low valuations illustrate the risks facing the publicly listed shares of the IPO when they are put up for sale in early December. Many investors are sceptical and they outline a long list of risks such as concerns on Aramco's profitability in a world of volatile oil prices and a region of geopolitical tensions. Another wrinkle in the crown prince's plan is the surge in anti-fossil fuel sentiment around the world, plus the comparatively low oil price compared to late last year, when prices were above USD 80.

Chris Beauchamp, chief market analyst at derivatives traders IG Group, said: "Political and strategic risks are high for any firm operating in the region, not least one which is an arm of the Saudi state. Aramco also has limited control in output policy, a key part of Saudi Arabia's Opec management."

Another big risk concerns the amount of influence shareholders will have compared with the company's dominant shareholder, the Saudi government, who owns between 95% and 98%.

Saudi Arabia's state oil company said the offering period will be from November 17 until December 4. It will price its shares on December 5, with trading on the Saudi stock exchange, the Tadawul, expected to start in mid-December, according to its prospectus. The company will just sell 1.5% of its shares, about half of the amount that had been considered. As well as reducing the deal, the Saudi authorities relaxed lending limits to ensure sufficient local demand to get the share sale done.

The deal will not be marked in the US, Canada or Japan and last week all the planned roadshow events happening in many European cities were cancelled. On November 17th, the company revealed a price range at SAR 30 to SAR 32 per share, valuing the company between USD 1.6 tn and USD 1.7 tn.

Currently, Aramco pays out USD 75 billion in annual dividends. At the company's desired USD 2 tn valuation, that is a dividend yield of just 3.75%. Even at the company's base valuation of around USD 1.7 tn, the yield would be just 4.4%. Aramco executives have signalled that the company may boost the initial dividend payout to USD 80 bn and could later elevate it to USD 100 bn, generating yields of 4% and 5% respectively.

Saudi Aramco's IPO promised that it would not only unleash the world's most valuable company but it would make the kingdom more liberal and transparent. "He is opening Saudi Arabia to the world," as the posters displayed on the prince's international diplomatic visits, which at the end does not correspond to the current situation.

Francisca Fernandes
Financial Markets Division

Extras

Hot Topic

BlackRock to launch Europe's first high yield ESG ETF

Raphael Salimi
Investment Banking Division

"Environmental, social, and governance (ESG) factors relevant to a company's business can provide essential insights into management effectiveness and thus a company's long-term prospects." – Larry Fink, Chairman and CEO, BlackRock

Environmental, social and governance (ESG) investing is gaining importance that according to FactSet, the term ESG was used 100% more within S&P 500 corporate earnings calls in the second quarter of 2019 compared with the first quarter.

BlackRock is set to launch two new high yield ETFs with an environmental, social and governance (ESG) tilt. The world's largest asset manager (USD 7.0 tn) has made a big push in the ESG ETF market this year with the launch of an enhanced equity suite in March, which track MSCI indices.

The new funds, formally named iShares EUR High Yield Corp Bond ESG UCITS ETF (EHYD) and iShares USD High Yield Corp Bond ESG UCITS ETF (DHYD) are designed to offer investors the ability to achieve a more sustainable high-yield exposure through debt issued by companies with the strongest commitment to ESG. At the same time they allow investors to screen out companies involved in controversial business activities. The investment objective of the Fund is to provide investors with a total return, taking into account both capital and income returns, by tracking respectively the Bloomberg Barclays MSCI Euro Corporate High Yield SRI and Sustainable BB+ Bond Index and the Bloomberg Barclays MSCI US Corporate High Yield SRI and Sustainable BB+ Bond Index.

Brett Olson, head of iShares fixed income, EMEA, at BlackRock, commented: "While the conversation around sustainability started out in equities, innovation in ESG bond indices is picking up pace and with it the ability to build ESG-centered multi-asset portfolios.". He also said that "In tandem, bond ETFs themselves are becoming ubiquitous as efficient tools for all types of investors. These two factors make this asset class ripe for future growth."
Follow the launch of these 2 ETFs Meaghan Muldoon, head of sustainable investing EMEA at BlackRock, explained that sustainability-related factors can help investors build more resilient portfolios. This new trend shows that we are moving into an era in which sustainable investing will be the standard way to invest. She emphasized "Against a backdrop of a search for yield, and enhanced coverage across the credit and geographic spectrum, more and more investors can now invest in fixed income strategies while meeting their sustainability goals."

BlackRock and UBS are nowadays that 2 dominant players in the ESG ETF space in Europe. Indeed in April 2019, UBS Asset Management has announced the launch of the UBS ETF S&P 500 ESG UCITS ETF in Europe which provides a passive vehicle for socially responsible investment into the US large-cap equity market. Michael Baldinger, Head of Sustainable & Impact Investing at UBS Asset Management, said, "UBS's goal is to be the world's leading sustainable financial provider by developing innovative products and solutions to meet the evolving needs of our clients."
Only this year the two issuers have taken in €1.7bn and €1.6bn, respectively. Overall, ESG ETFs account for 15.70% of total passive sustainable assets versus just 6.50% five years ago, according to data from Morningstar.

BlackRock said a growing number of bond investors are seeking ways to integrate ESG criteria in their investment portfolio, mainly due to new country-level legislation, growing societal awareness and demographic change.

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Thank you!

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