NIC

— Nova Investment Club —

Newsletter

April 2018

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 economics news from the past month. In our Deeper Dive section Johannes Weisensteiner takes a look on inflation and the FED policy, while Hoang Nguyen examines how Brussels plans crackdown against ‘fake news’ on social media. As an ongoing trend, Nick Dörner writes about Smart Beta ETFs.

Our Investment Banking Division will guide you through March’s M&A overall activity. Moreover, read about E.ON’s bid for Innogy, Cigna’s bid for Express Scripts and AXA’s bid for XL Group. Additionally, read a detailed overview on what happened to the Broadcom-Qualcomm deal and Tesla Motors. Lastly, get an insight on Dropbox’s debut week on the stock market, written by our analyst José Paula.

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. In addition, the analysts will provide commentary on each of the four major asset classes through analysis of the past month´s major market moves. Over the course of the month the fund engaged in more less traditional management approaches. This is also highlighted by the Hot Topic of Giovanni Parravicini who introduces algorithm in portfolio management and how we will integrate this into the club.

Lastly, Raphaël Agbanrin examines Facebook’s turmoil and its implications. He will look at Facebook’s reputational crisis triggered by the revelations concerning Cambridge Analytica, the political consultancy firm which obtained detailed data of 50 m Facebook users in a possibly illegal way.

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There is still a light at the end of the tunnel for Brazil

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Market Moves

		Last Close	-1W	-3M	YTD
	S&P 500	2 641	2,03%	9,14%	17,96%
	DJIA	24 103	2,42%	13,23%	21,96%
	Nasdaq	7 063	1,01%	14,96%	31,21%
	MSCI World	2 934	1,19%	7,53%	19,18%
	MSCI EM	4 386	0,15%	10,48%	27,20%
	Russell 2000	1 529	1,28%	8,00%	12,70%
	Euro Stoxx 50	3 362	1,92%	-3,16%	2,16%
	FTSE 100	7 057	1,95%	-4,00%	-1,21%
	Nikkei 225	21 454	4,06%	6,10%	12,24%
	Hang Seng	30 093	-0,71%	15,90%	36,78%
basis points	US 10Y Yield	2,739%	-7,46	47,23	29,46
	GER 10Y Yield	0,497%	-3,00	4,50	28,90
	JPY 10Y Yield	0,049%	2,50	-1,40	0,30
	UK 10Y Yield	1,350%	-9,50	10,00	11,10
	PT 10Y Yield	1,609%	-11,20	-142,50	-215,50
	Dollar Index	89,97	0,60%	-5,91%	-11,97%
	EUR/USD	1,232	-0,23%	7,72%	17,18%
	GBP/EUR	1,138	-0,53%	0,07%	-3,02%
	GBP/USD	1,402	-0,83%	7,75%	13,57%
	USD/JPY	106,28	1,47%	-5,26%	-9,13%
	USD/CHF	0,954	0,70%	-0,20%	-6,38%
	Brent Crude	69,34	-1,58%	46,23%	22,03%
	Gold	1 322,8	-2,01%	6,18%	14,86%

**Source: Bloomberg, as of 2018-03-30*

In Focus

March

President Trump imposes tariffs on Chinese goods. Trade war fears came back into the mix on the 22nd of March after President Trump signed a presidential memorandum that allows for tariffs on up to 60 bn worth of Chinese goods. The tariffs, which the president says are punishment for China's alleged intellectual property theft against US tech companies, prompted a retaliation response from China, which said it plans to levy duties of up to USD 3 bn on US imports.

Facebook's data scandal. Facebook decreased nearly 7.0% following reports that research firm Cambridge Analytica mined the data of 50 million Facebook users without their consent, and then used that data to deliver targeted pro-Trump advertisement during the 2016 presidential campaign. The incident has given new life to proponents of data regulation and, in turn, been a headwind for shares of social media companies, which would likely see a decline in profits due to potential new regulations.

ECB did not change interest rates. The European Central Bank left its key policy rates unchanged, as expected, and removed from its policy statement a promise to increase its bond purchases if needed. The latter move was seen as a small step towards normalization following years of ultra-accommodative policy. In addition, the ECB reaffirmed that its net asset purchases will remain at a monthly pace of EUR 30 bn until the end of September 2018, or beyond, if necessary.

Possible historical meeting between Donald Trump and Kim Jong Un. North Korean leader Kim Jong Un extended an invitation to meet with President Trump, which Mr. Trump accepted. The summit, which will reportedly take place by the end of May, would mark the first face-to-face meeting between a sitting US president and a sitting North Korean leader.

German unemployment falls to new low. Germany's unemployment rate fell from 5.4% in February to 5.3% in March, the lowest level since reunification in 1990. Additionally, German inflation came in at 1.5% for the most recent 12-month period. The number was lower than expected but it was the highest reading since the end of 2017.

Bond yields decline. Eurozone government bond yields generally declined this month, tracking US Treasury interest rates. The yield on the 10-year German government bond fell below 0.5% for the first time since January, and Spanish government bond yields fell and prices rallied as rating agency S&P upgraded the country's sovereign credit rating.

Nvidia shuts down its experiments with autonomous cars. Worries about the safety of self-driving cars following a fatal pedestrian accident caused semiconductor maker Nvidia to announce that it was suspending its own experiments with the technology, leading to a sharp drop in the shares of one of 2017's top market performers. Tesla shares also sank as investors reacted to a fatal crash in one its cars, although it remained unclear whether the vehicle's self-driving mode had been engaged at the time.

FED continues with hike cycle
On the 21st the FED increased main refinancing rates in the US by another 25 bps to a new target rate ranging from 1.50% to 1.75%. This move came in line with market expectations.

Mahomed Vali
Financial Markets Division

Deeper Dive

Inflation concerns and the Fed’s policy

Johannes Weissensteiner
Financial Markets Division

The rate hike itself, was not actually the biggest news of the meeting, as the market was already pricing in about a 95% chance that a hike would happen. Rather, the focus was on the Fed’s release of the dot plot - the Fed’s projection of the next three years of interest rates and what it forecasts to happen over the long run.

In line with recent monetary measures by the Federal Reserve, US inflation reached its strongest level since almost a year. The high level strongly supports expectations that a healthy US economy and a tight labour market are leading the growth in consumer prices towards the Fed’s target level of 2%. During the beginning of the year, investors became increasingly worried about inflation development in 2018. But what exactly sparked the recent inflation worry?

A key event for the negative reaction of the market was the US government’s monthly employment report for January, released on 2nd of February, which showed the highest wage increases since eight and-a-half years. The market concluded that the US moves to full employment and thus, inflation will increase much more rapid than what was expected. The announcement caused a selloff in securities, which led to a surge in volatility. The CBOE Market Volatility Index (VIX) almost tripled from 13.47 to 37.32 in just two trading days in the beginning of February. However, the index cooled down over the next two weeks to a level of around 20.0. Looking at more recent figures, growth in CPI slowed down somewhat from 0.5% in January to 0.2% in February. On a YoY view, the consumer price index rose 2.2%. Personal Consumption Expenditure (PCE), the Fed’s preferred measure which excludes food and energy prices due to their utterly high volatility, was up 1.8% on an annualized basis, thus, in line with investors’ expectations.

What remains, however, is the fear that an accelerating price pressure could cause the Fed to raise rates more rapid than anticipated to prevent the economy from overheating. These concerns are further supported by the recent US tax overhaul by the Trump administration, which reduced the corporate income tax rate and cut personal income tax rates. These measures are likely to prompt the Fed to become more hawkish than anticipated on its 2018 course of interest rate hikes.

Eventually, the Fed, under its new chairman, Jerome Powell, took action at its March meeting, rising rates from 1.25% to 1.50%. However, the rate hike itself, was not actually the biggest news of the meeting, as the market was already pricing in about a 95% chance that a hike would happen. Rather, the focus was on the Fed’s release of the dot plot, a document that is released 4 times a year, containing the Fed’s projection of the next three years of interest rates and what it forecasts to happen over the long run. As the Fed usually does not like to surprise the market – as became obvious from the taper tantrum in 2013, where the Fed announced to step down asset purchases, leading to a price decrease of bonds, risk assets and especially emerging markets – the Fed wants investors to know where it is going and where it sees the economy going. At the March meeting the Fed expects rates rising to 2.1% this year. For 2019, however, the target increased considerably from 2.7% to 2.9% and the 2020 forecast has been adjusted from 3.1% to 3.4%. From these figures, one can derive that the Fed is progressively more hawkish in order to keep the US economy at a stable level.

So, where does the Fed go in 2018? How fast inflation will hit its target will determine how fast the Fed will realise further rate hikes. For now, the Fed sticks to a ‘middle of the road’ approach, as chairman Powell stated. At some point, however, it is likely Fed policymakers will shift away from their gradual adjustment of their policy and lift official rates faster and to higher levels than currently stated in the dot plot, thus, pushing real rate closer to the 2% target.

Johannes Weissensteiner
Financial Markets Division

Regional View

EU tech regulation – Brussels plans crackdown on ‘fake news’ in social media

Hoang Nguyen
Investment Banking Division

The cyber-security threat is changing from one primarily targeting systems to one that is also increasingly about deploying cyber means to manipulate behavior, deepen societal divides and subvert democratic systems. Hence, Brussels plans to crackdown on ‘fake news’ in social media.

Brussels is preparing to crack down on social media companies who have been accused of spreading “fake news”, issuing a stark warning that scandals such as the Facebook data leak threaten to “subvert our democratic systems”.

The European Commission fears that next year’s elections to the European Parliament are vulnerable to mass Eurosceptic online “disinformation”. Its concern sharpened after a whistle-blower alleged that Cambridge Analytica gathered personal information from up to 50 m Facebook users and used it to target voters in the US presidential election. Cambridge Analytica has denied using Facebook data in its modelling.

Julian King, European commissioner for security, is demanding a “clear game plan” for how social media companies can operate during sensitive election periods — starting with European Parliament polls in May 2019. A letter from Sir Julian to Mariya Gabriel, commissioner for the digital economy, calls for more transparency on the internal algorithms that internet platforms use to promote stories, limits on the “harvesting” of personal information for political purposes, and disclosure by tech companies of who funds “sponsored content” on their websites. Sir Julian proposes a “more binding approach” than self-regulation, including “clearly and carefully defined performance indicators”. His proposals have backing from the other commissioners who are drawing up the EU’s first policy on how to fight “online disinformation” to be published later this month.

The Cambridge Analytica revelations have turbo-charged the debate, with EU officials pushing for stronger guidance on how platforms should behave to safeguard democracy. The “psychometric targeting activities” such as those of Cambridge Analytica, a data analysis company, are just a “preview of the profoundly disturbing effects such disinformation could have on the functioning of liberal democracies”, Sir Julian wrote in the letter dated March 19.

Brussels’ warning comes as a number of EU member states are drawing up “anti-fake news laws” amid a host of allegations over Russian interference in European elections in the past year.

France is preparing legislation to allow its judges to remove and block false viral content during national election campaigns. Emmanuel Macron, French president, has railed against the “defamatory untruths” and “deceitful propaganda” of Kremlin-backed media organisations such as RT and Sputnik, which both have French-language websites.

Earlier this year, Germany introduced its first “hate speech law” that forces platforms to quickly remove terrorist content, xenophobia and fake news or face fines of up to EUR 50 m. EU officials are worried that next year’s European elections will be hijacked by populist and Eurosceptic forces using platforms to spread conspiracy theories, false news and doctored videos.

An EU-wide survey last month found that more than a third of European citizens came across fake news every day, with 83% saying it was a threat to democracy, according to Eurobarometer. But critics of the commission’s approach say it could backfire if the EU ends up shutting down legitimate debate — or is successfully portrayed by its opponents as doing so.

Marietje Schaake, a liberal European Parliament member who focuses on digital governance, said there was a strong argument for tougher disclosure rules for “black box” algorithms and website owners whose anonymity meant they had “zero accountability”. But she also warned of the potential for the wider online crackdown to backfire if it was seen an attempt by the EU to curb criticism. “It does put a spotlight on speech,” she said. “You have to wonder if that’s something desirable.”

Hoang Nguyen
Investment Banking Division

Current trends

Smart Beta – or is it?

Nick Dörner
Financial Markets Division

"ETFs and passive investments, by their very nature, are beginning to build inefficiency in the market, and I don't believe that will be resolved happily."

Art Cashin, UBS

The marketing concept of smart beta has taken the finance world by storm. It is not merely a topic of university research but has amassed a big group of investment managers who believe in this idea. Subsequently, they pump money into funds that track indices based on factors other than companies' market capitalisation.

Smart beta gives those who missed out on the profitable business of passively managed exchange-traded funds the opportunity to catch up. According to BlackRock approximately 100 companies sponsor smart beta ETF's at the moment. BlackRock itself has accumulated smart beta assets amounting to USD 288 bn over the past five years, which is an increase of almost 180%, leaving rival asset managers scrambling to close the gap on the world's largest fund house.

This trend is perceived by some as a relief since passive indexing has come to dominate flows into equity markets, and concerns have grown that market cap-weighted funds distort asset prices; leaving investors over-concentrated in larger companies. Smart beta, on the other hand, leans against this direction and might resolve the issue of inefficiency in the market.

What is smart beta?

Smart beta investing, can be seen as a hybrid between active and passive management, where funds take a passive strategy and modify it according to a single or multiple factors such as momentum, stock price or dividend payouts in order to get better returns. Many of these strategies were hothoused within universities, yielding research and publicity.

Factors – as the finance world also calls the array of theories about why stock and bond prices move – are used to direct more than USD 850 bn of the US ETF market, which is equal to approximately 20%.

Investors favour smart beta strategies over the traditional stock-picking manager due to promised better returns and simultaneously lower fees, especially in times where regulators and research providers have questioned the value of the active approach. Smart beta managers have therefore been stealing assets from their active counterparts, and AUM are forecasted to hit USD 1 tn by the end of 2018.

One big aspect that is also contributing to the popularity of the smart alternative is academia. Big names from numerous universities are collaborating directly with the leading asset managers. Oppenheimer Fund's recruited directly from Havard Business School and the LSE; Blackrock hired from Columbia and so on. All this big firepower matters according to the funds. It gives credibility and their research is also a core selling point that differentiates the firm from its rivals.

But all that knowledge and expertise has to amount to more than window-dressing. According to various investment managers, the success of smart beta has yet to be proven, as the providers' extremely positive forecasted returns are based on so-called backtesting. This backtesting might be prone to data-mining, where performance data are tested until the desired result is achieved. This is especially critical since there are no established benchmarks and common terminology.

As with any product, there are risks. It is key for investors to understand the strategy, especially with increasingly complex solutions.

Nick Dörner
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

IMF World Economic Outlook

On **April 9th**, the IMF World Economic Outlook will be released by. This report is created by IMF staff and usually published twice a year. It presents IMF economists' analyses of global economic developments during the near and medium term.

ASEAN Summit Singapore

From **April 25th** to **April 28th**, the ASEAN Summit will be held in Singapore. It is a semiannual meeting held by the members of the Association of Southeast Asian Nations. In this meeting, economic, political, and socio-cultural development of Southeast Asian countries are discussed.

Hungarian Parliamentary Elections

The next Hungarian parliamentary elections will be held on **April 8th**. Victor Orban's re-election could bring about further clashes with the EU, as Budapest has already signaled it would veto any sanctions against regional neighbor Poland over its reforms affecting the judiciary system.

Central Bank decisions

ECB Council Meeting

On **April 26th,** the ECB will hold a monetary policy meeting in Frankfurt, followed by a press conference. Decisions regarding the European central bank's base rate for deposits and refinancing will one of the key topics to be discussed.

BoJ Meeting

On **April 27th**, the BoJ will have a two-day monetary policy meeting. In the last meeting, Haruhiko Kuroda said the central bank could engineer a smooth exit from its ultra-loose monetary policy, but said it was too early to debate specifics with inflation still distant from its target.

US Federal Reserve Releases Beige Book

On **April 18th**, the Federal Reserve will release the Beige Book. This report on economic conditions is used at FOMC meetings, where the Fed sets interest rate policy.

Inflation and Deflation

Russia Consumer Price Index

On **April 6th**, the Russia CPI will be published, which is the main economic indicator for inflation in the country. The markets are anticipating the indicator to be at 2.4%, which is 0.2% above last period.

South Korea Consumer Price Index

On **April 3rd**, the Central Bank of Korea will publish the CPI report, which is expected to remain the same as the previous period (1.4%).

Poland Core CPI Release

On **April 4th**, Poland will release its CPI report. Last CPI results were 1.4%. However, analysts are expecting this value to increase to 1.7% in April.

Labour Market

US Employment Situation

The ultimate market mover is the employment report from the US, published on **April 6th**. Investors lay great importance on it and are helped determining in which economic sectors they intend to invest. Also wage trends and implications for inflation can be derived from this economic indicator. 195,000 new jobs are expected to be announced.

Canada Unemployment Rate

On **April 6th**, the Bank of Canada will release data regarding the unemployment rate in March, which is expected to be at 5.8%

ADP Employment Report

On **April 4th**, the Automated Data Processing employment survey will be published with a great amount of detailed employment situation insights. The report is a measure of non-farm private sector employment which is obtained by utilizing an anonymous subset of roughly 500,000 US businesses, which are clients of ADP. Analyst are expecting 205,000 jobs to be created.

Mahomed Vali
Financial Markets Division

Investment Banking

M&A
Overall Activity

Global

The trend observed in the first months of 2018 continues in March 2018, global M&A activity is rising and especially megadeals account for more volume than before. In general, the first quarter of 2018 was the strongest start into the year ever as global mergers and acquisition account for USD 1.2 tn. This represents a value increase for the first quarter of 67.00%, on a year-to-year basis, while the number of deals decreased by 10.00%. Emphasizing that deals, on average, are getting bigger. Main drivers are the US tax reform and faster economic growth in Europe. The better macro-environment in Europe has created greater confidence in deal success. Managers sense that now is a good time for transformative deals, one such example being the deal between the German utility giants RWE's Innogy SE and E.ON. Overall market valuations are still at a high level, although companies are pursuing deals that make strong strategic sense. The US administration's threat of a trade war with China has led managers to question the ability of Chinese deal participants to deliver.

Selected Regions

North America
Asia Pacific's cross-border deals dropped by 32% both in value and number of deals – a fall led by China, home to the region's most active buyers since 2015, whose companies launched nearly 20% fewer cross-border deals than by this time last year, mostly due to the impact of the geopolitical backdrop and the increasing trade war rhetoric coming from the U.S.

EMEA
Deals in Europe have increased more than 100% from 2017 levels, led by intensified activity in the UK, Germany, Spain and the Netherlands. Divestitures are expected to accelerate as well, posing new deal opportunities for private equity groups. That was apparent in a EUR 10.1 bn deal (EV), completed this week between Carlyle and Akzo Nobel, in the chemicals business. The acquisition is one of the largest European private equity deals closed in recent years.

Asia
Asia Pacific's cross-border deals dropped by 32% both in value and number of deals – a fall led by China, home to the region's most active buyers since 2015, whose companies launched nearly 20% fewer cross-border deals than by this time last year, mostly due to the impact of the geopolitical backdrop and the increasing trade war rhetoric coming from the U.S.

M&A
Deals of the Month

Announnced Date	Target	Buyer	Target region	Target business	Value (USD m)	Premium (%)
08. Mar 18	Express Scripts Holding Company	Cigna	US	Healthcare	67,000.00	-
12. Aug 18	Innogy SE	E.ON	Germany	Electricity provider	40,654.00	-
19. Mar 18	Abertis Infraestructuras SA	ACS and Atlantia	Europe	Toll road operator	22,338.00	5.00%
05. Mar 18	XL Group Ltd	AXA	Bermuda	Insurance	15,300.00	33.00%
12. Mar 18	GKN plc	Melrose	UK	Manufacturing	11,167.00	-
06. Mar 18	Smurfit Kappa Group plc	International Paper Company	Europe	Manufacturing	10,666.00	-
21. Mar 18	Telenor Telecommunications Services	PPF Group	Europe	Telecommunications	3,429.00	-
16. Mar 18	LifeScan Inc.	Platinum Equity	US	Healthcare	2,100.00	-

Philipp P. Breitbach & Tiago Marques
Investment Banking Division

M&A: Top Deals

E.ON to acquire Innogy

The German utility company E.ON has announced a EUR 43 bn deal that includes the acquisition of 76.8% of the competitor Innogy. In return, Innogy´s controlling shareholder RWE will receive the renewable energy business of Innogy and E.ON.

Buyer vs Seller

In October 2016 RWE decided to spin-off the renewable energy, grid, and retail business into the newly created Innogy. The break-up of Innogy is certainly expected to send shockwaves across the European utility sector. After the deal went through, E.ON will be Europe´s largest operator of electricity grids and retail, while RWE will be the continent´s second-largest producer of green energy. Due to the complexity of the transactions, the deal is not expected to close until the third quarter of 2019.

Industry Overview

Germany´s decision to move away from nuclear to renewable energy sources in 2011 and the European Union subsidization of renewable energies hit hard the nuclear-generation business of utility companies. As a result, vertically integrated utility companies had major write-downs in there nuclear and fossil fuel power plants. RWE and EON reacted by carving out their traditional business from the renewable energy business.

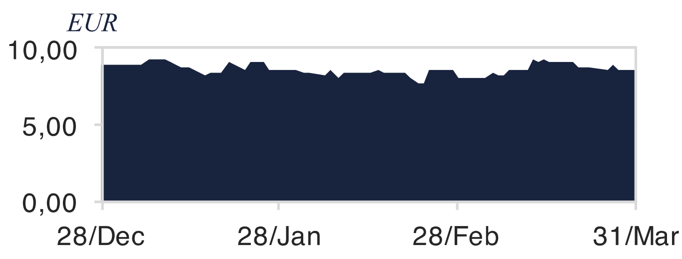
Peers	Currency	Market Cap (CUR m)
Gelsenwasser AG	EUR	2.921,88
MVV Energie AG	EUR	1.601,54
Lechwerke AG	EUR	3.154,57
Innogy SE	EUR	21.372,20
Mainova AG	EUR	2.068,32

Deal Rationale

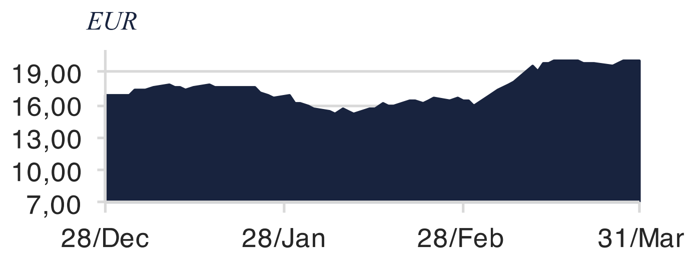
With the proposed deal, the long-term rivals E.ON and RWE start a new era in the utility sector. E.ON´s new focus on the grid and retail business will lead to increased efficiency and economies of scale. The total cost-side synergies for E.ON are expected to be around EUR 700 m. On the other hand, RWE should be able to offset its dwindling nuclear and lignite business with its new promising position in the renewable energy market. Cash exchanged in the deal includes about EUR 5 bn for E.ON to buy out Innogy's minority shareholders, and RWE paying E.ON EUR 1.5 bn with the rest of the deal valued in shares and asset swaps.

Market Reaction

E.ON
After the announcement on March 11th 2018, shares of E.ON rose as much as 7.4% to EUR 8.91 per share, the most since February 2016.



RWE
RWE´s share price rose by 7% after the announcement to EUR 19.65 per share, the highest share price since December 2017.



Future Challenges

Due to the magnitude of the deal and the affected regulated assets, the risk of regulatory hurdles must be kept in mind. In addition, the minority shareholders of Innogy can still reject the 16% premium that is offered from E.ON for the respective shares putting E.ON in a difficult position. Looking forward it is likely that other European utility providers will take this deal as a template and focus on one specific segment of the utility value chain in the future.

Christoph Beck
Investment Banking Division

M&A: Top Deals

Cigna to acquire Express Scripts

Cigna is an American provider of global health insurance and Express Scripts offers pharmacy benefits covering medicine in the United States. The deal amounts to USD 52 bn and Cigna will pay for it USD 48.75 bn in cash and USD 0.25 bn in shares.

Buyer vs Seller

Cigna was created in 1982 through a merger of Connecticut General Life Insurance Company and INA Corporation. It focuses in areas such as dental, health and supplemental insurance and medical care plans for individuals, families and businesses. Express Scripts resulted in 1986 from a joint venture of Medicare Glaser and Sanus Corporation Health Systems. It is the largest pharmacy benefit management (PBM) organization in the United States.

Industry Overview

There is a lack of transparency in the industry, which in turn led to backlash from the Trump administration about whether the prescription discounts to pharmacy businesses from large providers are passed on to consumers. Therefore, such questioning put firms under pressure to find new ways of increasing their profits, which resulted into a consolidation of the industry to lower costs.

Peers	Currency	Market Cap (CUR m)
CVS Health Corp	USD	62,495.18
Premier Inc	USD	4,268.87
Henry Schein Inc	USD	10,073.12
Cardinal Health Inc	USD	19,543.30

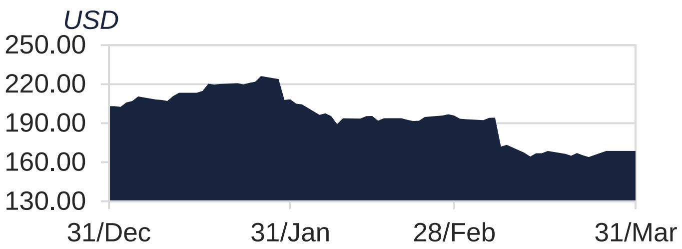
Deal Rationale

According to Cigna and Express Scripts the acquisition will allow to lower costs for corporate clients through increased coordination between medical care and pharmacy benefits, especially in the area of expensive specialty drugs. The company predicts to decrease annual costs by USD 600 m. By managing more closely the prescription and delivery of the premium drug segment Cigna hopes to increase the barriers to entry for new competitors such as Amazon. Additionally, by bringing together the patients' medical and pharmacy histories the companies could improve the quality of treatments.

Market Reaction

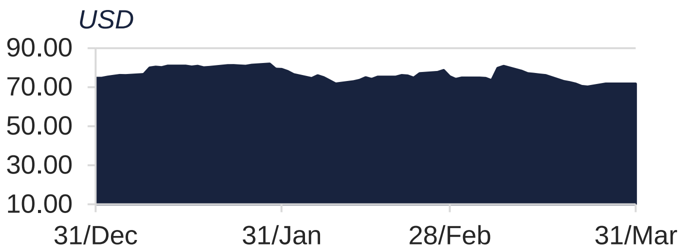
Cigna Corp

The stock price decreased by 11.50% on the announcement date, March 8th 2018, to USD 171.86. The price fell even further ever since to USD 164 per share reflecting the shareholders' scepticism.



Express Scripts

Express Scripts' shares increased by 8.00% to USD 79.29. However, the stock price decreased since the announcement date to approximately USD 70 as investors are unsure about the likelihood of closing the deal.



Future Challenges

As there is currently another major healthcare deal under review in the United States, the one of CVS and Aetna, antitrust experts say there is a high probability of the deal getting challenged and potentially getting cancelled to protect the U.S. market from consolidation. As the deal of the insurer and PBM is a vertical integration it could lead to limitation of choice of large employers that manage both insurance and medical benefits for their employees as currently separate firms are used for such services.

Katerina Rybarova
Investment Banking Division

M&A: Top Deals

AXA agrees to acquire XL Group

AXA came to an agreement to buy Bermuda-based property and casualty (P&C) insurer XL Group at a deal valued USD 15.3 m. AXA will finance the deal with USD 4.32 m in cash at hand and with USD 7.41 m through an upcoming IPO of the firm's American operations. The remaining part consists of USD 3.71 m in subordinated debt and USD 11.1 m of backup bridge financing.

Buyer vs Seller

XL Group acts as reinsurer and insurer by underwriting policies in the U.S. but also globally. The firm reported a combined ratio of 108.3% due to losses in both business units. Headquartered in Paris AXA is a global insurer, investment manager and offers additional financial services. The firm delivered a strong performance in 2017 which an 7% increase in earnings per share and a record high reported net income. The firm links its success to its consistent strategic plan, Ambition 2020.

Industry Overview

Overall 2017 has been a rough year for insurance companies as hurricane and storm-related losses hit the entire sector. Even before disaster claims due to hurricanes, net income was down 29% during H1 of 2017 because of higher catastrophe and auto claims. In the U.S. losses in the P&C sector more than doubled to USD 5.1 bn during Q1 of 2017 compared to the same period a year ago.

Peers	Currency	Market Cap (CUR m)
Arch Capital Group Ltd	USD	11,724.31
Navigators Group Inc/The	USD	1,687.60
Argo Group International Holdi	USD	1,671.30
WR Berkley Corp	USD	8,737.65
American Financial Group Inc/O	USD	9,777.26

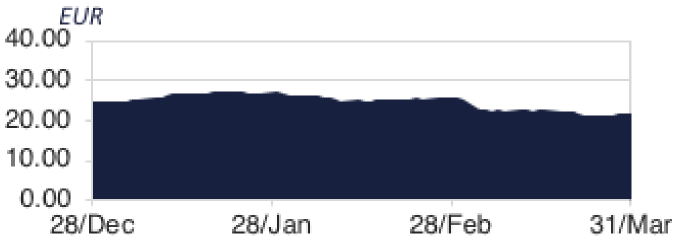
Deal Rationale

Europe's second-biggest insurer AXA sees the deal as a way to create a world leader in P&C insurance. Insurer's stocks fell sharply during 2017 due to natural disasters. This combined with tougher regulations and disappointing return from investment in financial markets makes insurers turn to takeovers to strengthen their business. The deal will provide AXA exposure to global commercial P&C lines exposure, while it enable AXA to exist volatile business lines in their American portfolio. It is consistent with AXA long-term goal to decrease exposure to financial markets, while benefiting from cost synergies of USD 400 m per year.

Market Reaction

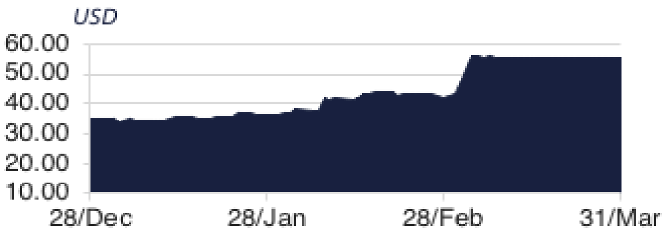
AXA

Critics argued that the deal is inconsistent with AXA's plans to expand in Asia, and overpriced even when counting in synergy effects and AXA's debt ratio. AXA shares decreased by 9.4% to USD 27.92 (EUR 22.66).



XL Group

XL Group's shares surged by 29.8% to USD 56.23 after the announcement, as shareholders are happy to see that shares sell at a premium. With a multiple of 11x earnings AXA value per share for XL Group is USD 57.60.



Future Challenges

Together both firms face the challenge to modernise and digitalise their business models while keeping expenses and costs at reasonable levels. This remains a risky endeavour as insurers already face high costs. Yet continuous investment is key as competition increases from all sides with new market entrants and other sectors of financial services. It will be challenging for AXA's leadership to meet shareholders expectations while spending on ventures that will deliver less at first.

Manuela Boeck
Investment Banking Division

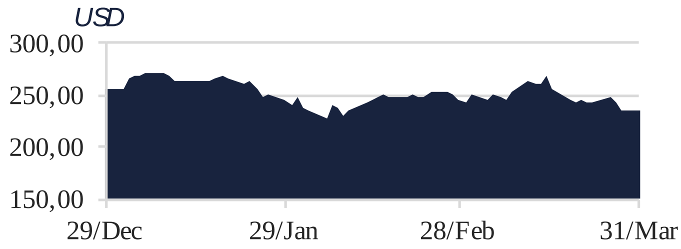
What happened to
Broadcom-Qualcomm deal

The deal saga began in November 2017, when Broadcom made a hostile takeover bid of USD 130 bn to buy Qualcomm, consisting of USD 60 per share in cash and USD 10 per share in stock. Given that Broadcom is headquartered in Singapore, the potential acquisition was subject to robust scrutiny regarding national security concerns, namely from CFIUS – Committee on Foreign Investment in the US.

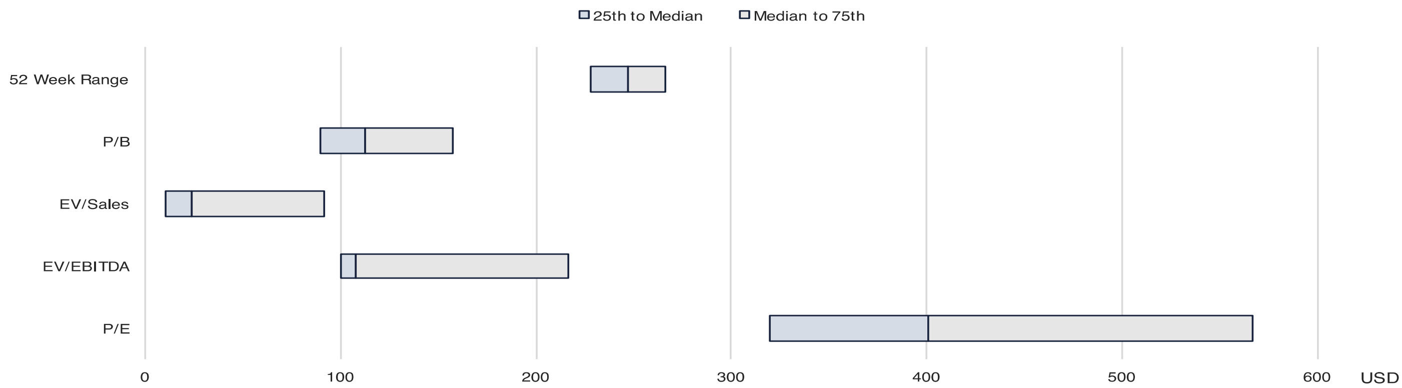
Corporate News

On March 12, President Trump killed Broadcom's anticipated purchase of chipmaker Qualcomm, citing national security grounds. If materialized, the deal would have enabled Broadcom to become a leading chip supplier, eventually one of the largest producers behind Intel and Samsung. Before the deal's denial, Qualcomm presented fears on the regulatory issues involved, suggesting that the initially proposed bid was too low given its dominant position and future growth prospects. As a result, in February 2018 Broadcom sweetened its offer to USD 82 per share, which Qualcomm immediately turned down, judging it was worth more than what has been quantified in this latest bid. Later on, after Qualcomm had shown interest in buying NXP Semiconductors, Broadcom had no other choice than dropping the offer price to USD 79 per share. Upon block of the transaction, Qualcomm shares fell nearly 5%, whereas Broadcom' soared around 1% in extended trading, after briefly plunging.

Price (31 Mar 18, USD)	232,58
Targe Price (USD)	325,00
3M Performance	-9,47%
Market Cap (USD m)	95.532,74
Enterprise Value (USD m)	109.228,74
*Target Price is for 12 months	



Valuation Analysis



News on the takeover considerably shifted investors sentiment, driving Broadcom's volatility up, although its fair relative valuation remains more relevant, as in the above football-field. Broadcom's PE ratio of 12.4x underweights Qualcomm's of 12.9x, indicating that the former is undervalued in comparison to its peer. Besides regulation, the backdrop caused by tech-space wars between the US and China – intending to develop 5G networks – significantly impacted Trump's ultimate verdict to impede Broadcom's buyout.

Large debt amounts would be required to finance the deal, which could lead to an objectionable focus on profitability in the upcoming years, rather than in R&D to advance the 5G network capabilities. Being the second time Trump blocks a major global transaction to safeguard the US national security, one clearly foresees the progressively antagonistic regulation seen from 2018 onwards, particularly when in regards to cyber-space and China.

Peers	Currency	Market Cap (Cur m)
Dialog Semiconductor PLC	EUR	1.474,18
Anpec Electronics Corp	TWD	4.891,50
Rohm Co Ltd	JPY	1.134.240,00
ams AG	CHF	8.430,16
Macroblock Inc	TWD	2.922,71

Inês Patrício
Investment Banking Division

What happened to

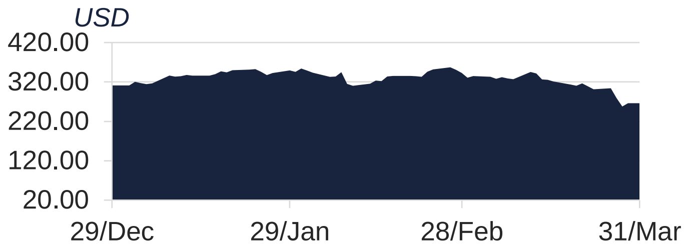
Tesla Motors

Tesla Motors, the rising star in the car manufacturing industry, experience numerous operational missteps and a lagging stock performance since the start of 2018. Investors kept pouring money into the golden child of the automotive sector which for a lot of them is an investment in Elon Musk vision and capabilities to disrupt the industry.

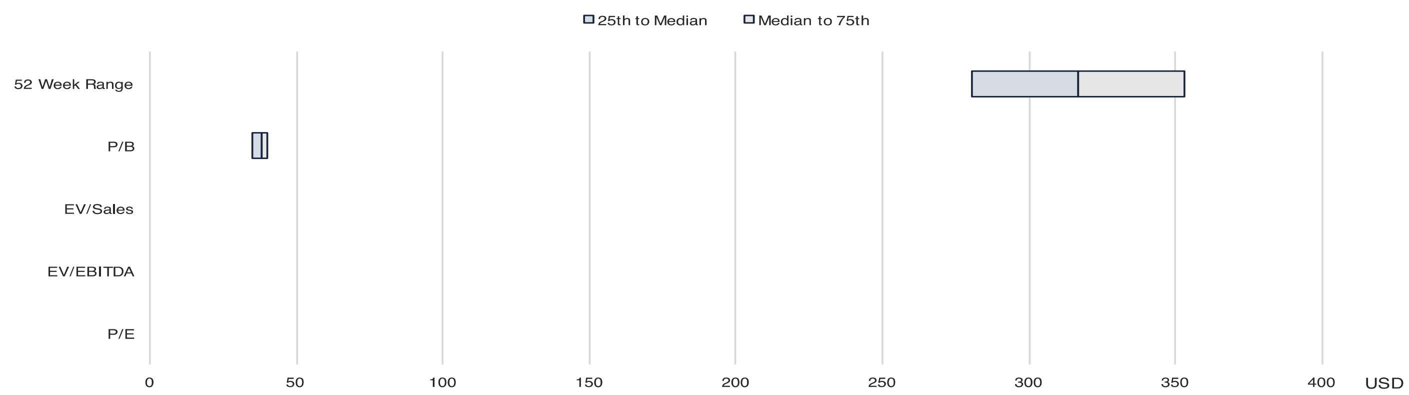
Corporate News

Since the beginning of the year, Tesla has been hit by numerous negative headlines. The month of March have been pretty disastrous for Tesla's bull, with the firm registering its worst monthly performance in over seven years. First, the company announced a on more than 123,000 Model S vehicles due to a potential flaw in a power steering component. The month of March also saw Tesla's bonds being downgraded by Moody's reflecting the significant shortfall in the Model 3 production rate combine with its significant cash burning rate that would force Tesla to raise additional funds, most likely with equity, to avoid a liquidity shortfall. Furthermore, at the end of the month, the company Autopilot came under heavy scrutiny after an accident that resulted in a fatality. This is the second fatal accident involving autopiloting car in March which cast more shadow onto the regulatory approval of self-driving car and its potential to effectively disrupt the current market, which Tesla is betting on.

Price (31 Mar 18, USD)	27064%
Targe Price (USD)	36500%
3M Performance	-13%
Market Cap (USD m)	4571649%
Enterprise Value (USD m)	5395843%
**Target Price is for 12 months*	



Valuation Analysis



These negative headlines seems to have considerably shifted investors sentiment, driving stock price's down. Tesla's fundamental remains practically non-existent. The company fails to generate any cash flow and is burning cash extremely fast, which will force it to raise funds. As its multiple suggest, Tesla is clearly the outliner and the most expensive car manufacturer on the stock market. Its valuation even surpassing Ford market capitalization while only producing a fraction of Ford's total production.

However, even if its normal for a growth company to have such weak fundamentals, Tesla investor is starting to become more impatient and sceptical about Musk ability to create shareholder value. Tesla is becoming more and more of a show me story that continue to pile up operational missteps and evidence of bad governance (e.g. SolarCity acquisition). This might be a turning point in investor sentiment by finally deciding their investment according to fundamentals instead of investing in Musk vision.

Peers	Currency	Market Cap (Cur m)
Fiat Chrysler Automobiles NV	USD	33,466.15
General Motors Co	USD	51,315.21
Ford Motor Co	USD	44,384.10

Mathieu Bourque
Investment Banking Division

NIC's view on

Dropbox's debut week on the stock market

José Paula
Investment Banking Division

Dropbox Inc. saw its share price increase about 36% on the offering day. Despite NASDAQ's bad performance, the newly listed cloud services provider enjoyed an extremely successful trading debut, igniting tremendous appetite for more tech IPOs.
Dropbox danced through an extremely volatile week in the stock markets, specially in the NASDAQ, leaving Venture Capitalists excited for the appearance of new "Unicorns". Dropbox's management team is now under the spotlight, pressured to perform, after all the hype created around the company since its strong start in the stock market.

Dropbox Inc. is a US based company who provides cloud storage, file synchronization, personal cloud and client software. The firm was created in 2007 under a different name, Evenflow, being later replaced by the current name, in 2009. Dropbox works under a freemium business model where clients get the service for free until a certain amount of storage. In order to get higher capacity, clients have to upgrade their subscription plan to one of the paid solutions offered by the company. Dropbox has now over 500 m users in 180 countries – 11 m of which are paying subscribers. With USD 1.1 bn in revenues last year, Dropbox has been enjoying large increases in sales (increased over 31% in relation to 2016).

On the 23rd of February, the Silicon Valley company filled for an IPO, with an offering size of USD 500 m. Initially, Dropbox Inc. intended to sell its shares at USD 16-18, 30.00% lower than its highest private valuation in 2014. The expected price range was then lifted, after some road shows, to USD 18-20. The shares were ultimately offered at USD 21 which allowed the company to raise USD 756 m and valued the company at USD 9.2 bn, still placing the IPO as a down-round compared to prior private valuations. On the day of the offering, the stock closed at USD 28.48, 36% higher. In fact, the expectation surrounding this particular IPO was extremely high as investors were eager to see exciting companies going public.

Dropbox is yet to be profitable but, accordingly to its prospectus, next year may be finally the year that Dropbox makes a profit. Actually, the cloud services company has little customer acquisition costs when compared to its peers since 90% of the company's revenues come from individual subscribers who sign up for themselves. In fact, if the company is now successfully converting free into paying subscribers at a low cost, the proceeds from the public offering can boost even more the number of paying clients through marketing campaigns and new technology developments.

A week has passed, and Dropbox managed to successfully punch through a week of tremendous volatility in the stock markets, on its debut days. Accordingly to Sequoia's partner, Bryan Schreier, Dropbox's strong debut week indicates the long-term vision he has been witnessing while working closely with the company since a decade ago. The venture capitalist praised the firm's business model and team, stating he personally believed the firm has a world-class team with superb character, starting with the founders, Andrew Houston and Arash Ferdowsi.

The IPO tech market was long ago needy for a successful offering and, Dropbox's debut has finally restored some glamour back to the sector. Venture Capitalists are radiant with the way the IPO worked for the cloud services company since tech companies tend to move in unison. Bearing this in mind, Dropbox's success will possibly have a positive effect on the following tech public offerings thus, forthcoming IPOs are expected to attract many investors trying to put their hands on the next "Unicorn".

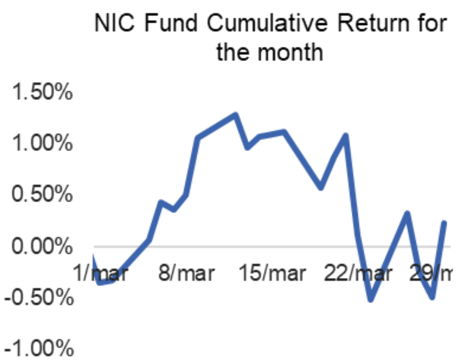
Date	Recent News
23 Mar 18	Dropbox shares soar as much as 48% in market debut ***Source:*** *bloomberg.com*
22 Mar 18	Dropbox announces pricing of initial public offering ***Source:*** *investors.dropbox.com*
22 Mar 18	Dropbox sets IPO price at $21 a share ***Source:*** *ft.com*
9 Mar 18	Dropbox and salesforce form strategic partnership ***Source:*** *investors.dropbox.com*

José Paula
Investment Banking Division

NIC Fund

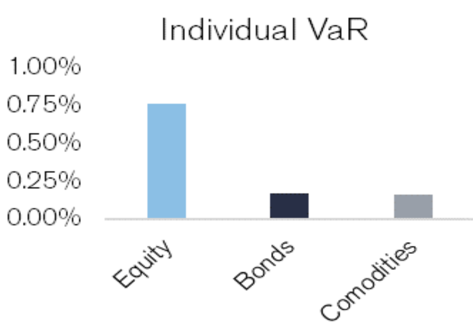
NIC Fund

Portfolio Overview



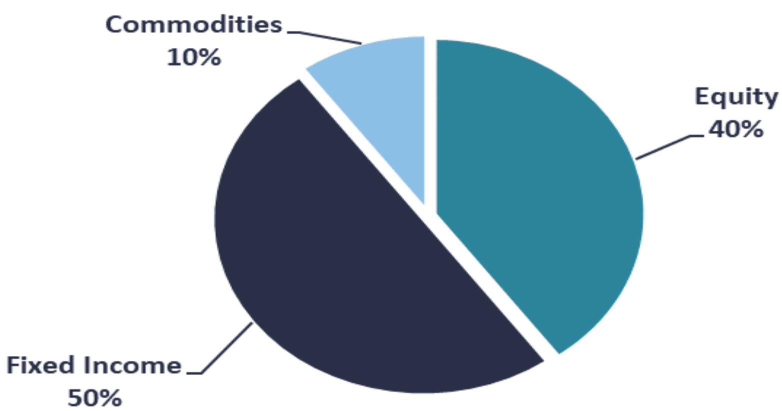
Portfolio Statistics	
Cumulative Return	3.08%
Annualized Return	6.15%
Annualized St. Dev	7.16%
Info Sharpe	0.86
Skew (Daily)	-1.34
Kurtosis (Daily)	3.02

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



Portfolio Snapshot

During March, 40% of the fund remained devoted to Equities, 50% to Fixed Income and 10% to Commodities, equaling the benchmark weights. Yet, 11% of the Equities were allocated to elven specific stocks across the US, Hong Kong and Europe, using an equally weighted strategy, at the end of the month. In March, three stocks were sold while one was bought. In commodities we continued to overweight Crude oil. To reduce risk, we lowered our duration in the bond portfolio and entered a Volatility hedge in the beginning of the month.



Return Metrics

The overall performance of the portfolio was slightly positive amidst continued market turmoil, with a cumulative return of 0.22%. Equities had the worst performance, contributing with a negative return of 0.36%. Bonds and commodities had a positive contribution of 0.27% and 0.32%, respectively.

In equities, out of the 14 stocks that were part of the portfolio, the best performers were Everbridge, Micron and Adidas AG with a performance of 14.70%, 11.06% and 8.52% respectively, which translated in a contribution to the portfolio of 0.14%, 0.11% and 0.09%. On the other hand, Umicore, Blackstone and Tencent were the worst performers, with a negative return of -6.94%, -6.22% and -5.50%. Our overweight in European equities paid off as the Euro Stoxx 600 outperformed the MSCI World by 68 bps, dropping 1.02%. The MSCI Emerging Markets gained 0.54% over the month, contributing 0.02%. Our investment in Brent gained 8.56% over the month, contributing 0.09%, while the reduction of duration reduced performance as the 1-3 Year Treasuries appreciated less than 3-7 Year Treasuries.

Risk Metrics

In terms of risk, our portfolio registered a daily VaR of 0.72%, taking into consideration the benefits of diversification. On the other hand, also during the same period under analysis, the non-diversified VaR was at 1.09%, below the maximum established threshold of 2.5%.

Equities were the asset class with the highest individual VaR, which was around 0.76%. On the other hand, Bonds and Commodities had slightly lower VaRs of 0.17% and 0.16%, respectively.

Julius Nimtz
Financial Markets Division

NIC Fund

Assets in brief

Asset Class	Symbol	Comments
Exotic	**VSTOXX**	For the first five days of March we entered a long position in the index tracking European Volatility, ahead of political events in Germany and Italy. Entering the position at a relatively low point of the index compared to the turmoil of February and persisted uncertainty in Europe, we saw this as a short term hedge. As the US administration announced the introduction of new tariffs, our hedge paid of, returning 4.83%.
Commodities	**BRENT**	Our overweight on oil, in particular Brent, is based on a set of assumptions. The prolonged OPEC-Russia output cut is pushing up prices by curbing supply while the demand side is growing stronger in hand with stronger global growth. Furthermore, output in Venezuela is dropping amid the political crisis of the country. Finally, we prefer Brent over WTI as Brent is more sensitive to political risk in the Middle East.
Fixed Income	**SHY**	As the Federal Reserve is continuing its rate hiking path, we decided to reduce the overall duration of our bond portfolio. We invested 10% of the total fund, or a fifth of the bond portfolio, into the ISHARES 1-3 Year Treasury ETF, tracking Treasuries with a shorter maturity than our benchmark. The lower duration of the portfolio should suffer less losses when rates go up further, as we expect 4 rate hikes in total for 2018.
US Equity	**MU**	Micron's stock price increased 28.24% in March measuring from the beginning to the high of the month. With this appreciation, the stock had reached our price target and we decided to put a stop-loss at USD 55 which was reached, thus the stock sold.
US Equity	**EVBG**	The company’s stock increased 14.70% during the month. After the good annual results, analyst had increased their targets and the stock continued to appreciate. The firm had revenue of USD 29.18 m during the quarter, compared to analyst estimates of USD 28.49 m, showing positive revenue growth surprise during the period. Overall, we stay optimistic for customer demand in all three business lines,. This includes public security, corporate security and cyber security.
US Equity	**BX**	Blackstone decreased 6.24% in March. As turbulent conditions on financial markets impact M&A negatively as uncertainty increases, we came to the conclusion that our investment thesis did not pay off over the short run and closed the position to prevent further losses.
EU Equity	**VOW3**	Volkswagen, the largest European car manufacturer, is set to continue its recovery from past scandals. In 2017, sales grew 6.2% to EUR 230.7 bn with a unit growth of 4.3%. Operating income was EUR 17 bn. The Company had a net cash flow of EUR -6 bn, but this number includes EUR 16.1 bn of Diesel litigation charges. The vast experience in car manufacturing will help the company to catch up with technology leaders in autonomous driving as well as electric vehicles as the company will invest USD 66 bn over the next three years, 1.5 times the current market capitalisation of Tesla.
EU Equity	**ADS**	Adidas released annual numbers for 2017, showing revenue growth of 16% (without FX effects and a 120 bps increase in operating margin. This resulted in an EPS growth of 31% to EUR 7.05. While the company is set to benefit from sports events this year, especially the football world cup, we believe that this is already reflected in the price. Furthermore, first signs of retailers in the US show that customers are less enthusiastic about active apparel. Thus we sell on strong numbers.
EU Equity	**SXXPIEX**	We are holding the view that European equities, are exposed to better growth perspectives than other geographies, overweighting them in our portfolio by 4%. On an macroeconomic level, the recovery of Europe is set to continue and is less advanced than in the US. Multinationals are more globally exposed, benefitting from global GDP expansion. Finally, they trade at a discount to the S&P 500 with a forward P/E of 14.2 compared to 17.5.

*Besides these stocks, the portfolio was also allocated in Visa, NVIDIA, Walt Disney. Bank of America, Goldman Sachs, Alibaba, Tencent, Umicore and Amazon

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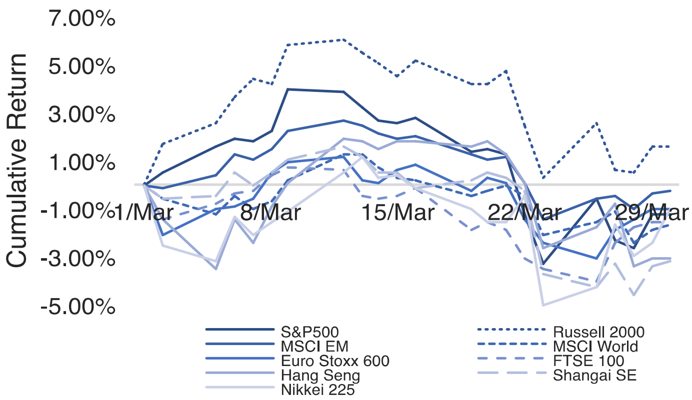
Financial Markets Division

NIC Fund

Equities

World Equities

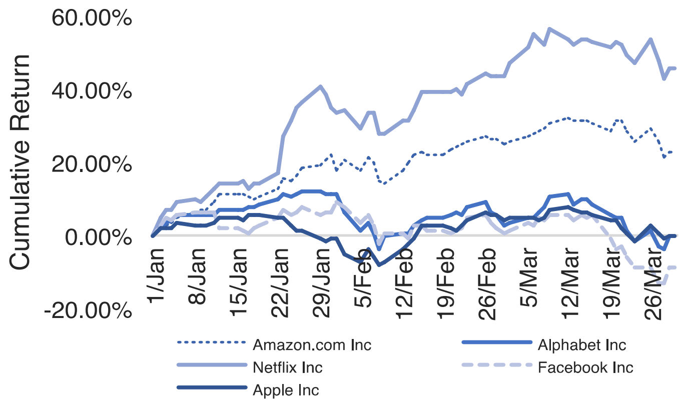
Equities have had a volatile quarter to start off 2018. In March, tensions of an ensuing trade war between the US and China spread to the Europe and Asia. Moreover, US technology shares came under heavy selling pressure on concerns about tighter industry regulations late March. This was mainly owe to Facebook and its use of customers' data. The stock was down 13.34% since the Cambridge Analytica scandal broke in earlier in March before gaining 4.94% at the end of the month. The S&P 500 Tech sector has underperformed the broad index and all of the other 10 sectors. The S&P 500 lost 1.23% while the tech-heavy Nasdaq lumped as much as 2.51%. German and French stocks led European equities higher in late March (+0.44%) but the broader market could not avoid losses for March and the first quarter of 2018. The Germany's DAX rose by 1.31% and France's CAC 40 gained 0.75%. This recent gain was partially owe to the shares of car marker Renault SA which closed up 5.8% after the news that the company could merge with Japan's Nissan Motor Co. The Euro Stoxx 600 entered correction territory at the end of March falling more than 10% from its peak in late January. On the other hand, the UK stock market continues to loose attractiveness and returned -1.61% in March. Asian stocks ended broadly lower at the end of the month after trade-related tensions also kept investors nervous. The Shangai SE declined by 3.61% whereas the Japanese Nikkei 225 lost 1.00%.



In depth

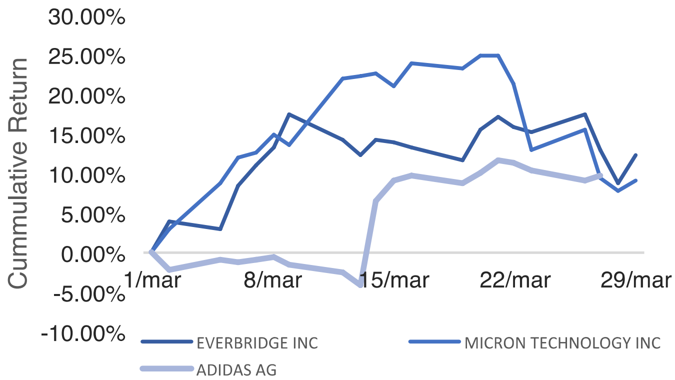
The US economy is booming and the labor market continues to grow as the latest ADP data shows, that the private sector added far more jobs than expected once again in February (235,000 against 200,000 expected jobs). Having said that, it makes sense that most investors remain bullish regarding US stocks in the future, regardless of the current uncertainty in the market. The VIX index jumped 81% this quarter. It is the biggest move since the third quarter of 2011. Facebook, Apple, Amazon, Netflix and Google (the Faang) make up more than 11% of the S&P 500 index with a current market value of nearly USD 3 tr which means they have a significant influence on the index.

Those 5 key companies led the selling in the US on fears that deeper regulatory scrutiny could alter the long-term prospects of the sector, which was one of the main drivers of the market's climb to record highs in January. Despite the concerns regarding political risk for the big tech companies such as the tax treatment of Amazon, yet 48 among 51 analysts covering Amazon rate it a buy and yet 44 out of 48 analysts recommended buying Facebook according to Bloomberg data. Lastly, although the end of March pullback along with the broader market, Netflix Inc. is up 31.06% YTD supporting the believe for continuing growth among the Faang.



Our Performance

Our equities portfolio negatively returned -0.36% during the month of March. Among the best performers were Everbridge, Micron, and Adidas.



Sophie Pourinet
Financial Markets Division

NIC Fund

Fixed Income

World Yields

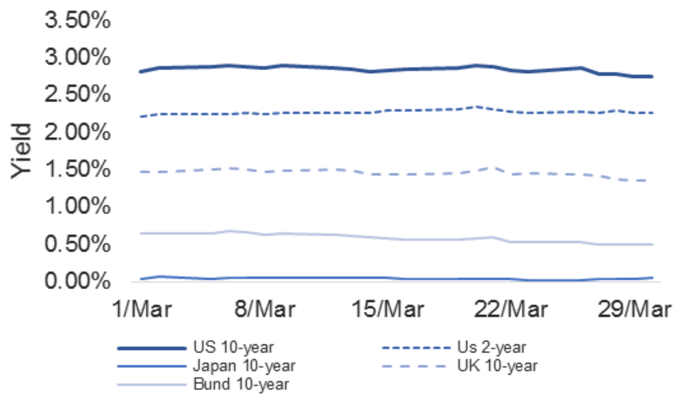
In March, the spread between the US two and ten-year government bond yield decreased. This phenomenon was clear, with the two-year yield increasing after the Federal Reserve hiked its federal funds' rate target by a quarter point to 1.5-1.75%. This bond yield reached in March the highest level since 2008, being influenced by expectations of further rate hikes (in 2018 the market is pricing a total of 3 rate hikes). The 10-year government bonds, on the other hand, fell 3 bps, fuelled by an increase in demand as investors looked for a safe-haven amid stock market turbulence and a decrease in fears regarding inflation. Yield curve flattening is considered to be an indicator of a future recession. In the UK bond market, the BoE kept its target rate, delaying further any future rate hikes for the month of May. A faster than expected decrease in the growth rate of UK Inflation in February, which hints for lower future inflation, acted as a trigger for the decrease in long-term government bond yields in the UK. During the month, a potential trade war between the US and China, as well as rising geo-political tensions with Russia have led to the healthy increase in demand for so called safe investments, such as the 10-year German Bund, leading to the decrease of yields of this asset to levels below 0.5%. The Japanese 10-year bond overall movement in March was null.

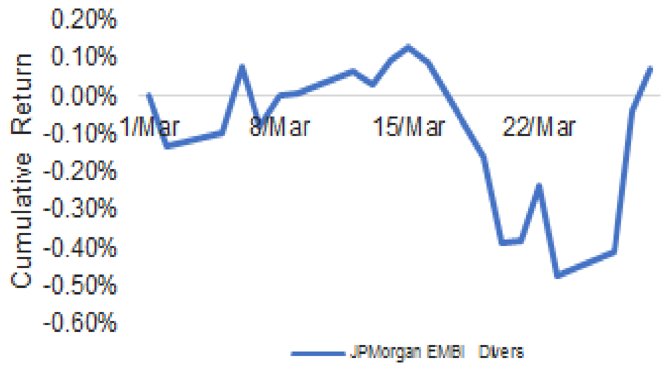
In depth

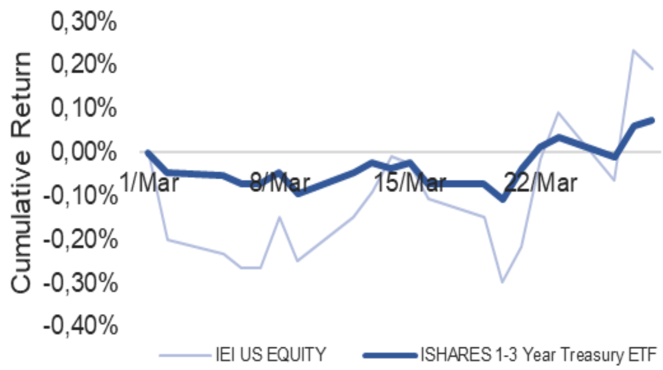
On March 22nd, the IMF warned investors to a faster indebting made by poor countries. According to the research, fiscal deficits rose between 2013 and 2017 in nearly 75% of the nations investigated and in almost half of those cases, investment decreased in the same period, hinting for the creation of deficits that do not generate sustainable economic benefits. These indicators show that poor countries are, therefore, more likely to experience a debt crisis. After a year in which debt issuance by EM countries had reached, in the first quarter, around USD 116 bn and funds such as JPMorgan global EM bond index reached a 9.1% in total return for the year, investing nowadays in EM debt can still generate profits, but it needs to be done more carefully than ever. Looking for high growth countries which still experience low levels of expected inflation is a must but also, investing in debt issued in foreign currencies such as the US dollar may be advisable, due to a high probability of future domestic currencies depreciation.

Our performance

Notice that the IEI ETF, tracking 3-7 year US Treasury Bonds, performed positively during March, earning a cumulative return of near 0.3%. However, having into account future increases in interest rates, we decreased our exposure to duration which will hurt our fixed income performance for the month.







Sofia dos Santos Nunes
Financial Markets Division

NIC Fund

Commodities

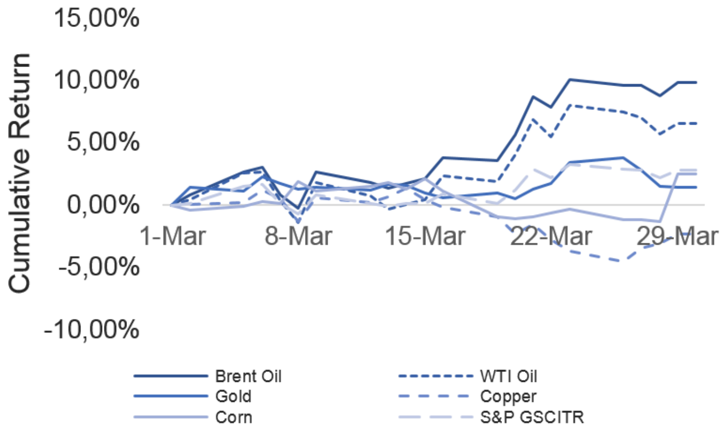
World Commodities

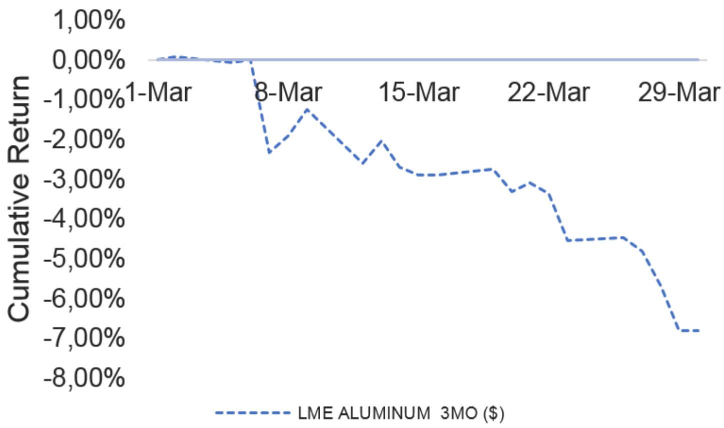
During the past month, the oil majors have experienced turbulence amid the shale pickup, production imbalances, and political developments. Followed by the US Energy Information Administration update on US shale production, the conventional marks retreated in the threat of renewed oversupply in world markets, as the EIA projected strong growth for US shale in April. By the end of March, however, West Texas Intermediate and its counterpart, Brent crude, soared more than 5% amid the rising chances of Iran nuclear deal collapse, that would hit crude exports from Iran, as well as due to OPEC and Russia's effort to extend the production cuts, and Venezuela exports' curbs. The May WTI contract has closed the month 6.81% up, at USD 64.94, while respective Brent futures gained 10.09%, settling at USD 70.27.

The price of gold, a well-established inflation hedge, touched its highest level since mid-February, as the Federal Reserve raised interest rates in the light of higher inflation expectations for incoming years. This, combined with concerns over the tariffs on Chinese imports pushed forward by the Trump administration, had prompted a safe haven rally, with a spike on March 26 (+2.77%). Gold locked a 0.65% March gain, finishing the month at USD 1325.54 per troy ounce.

On the grounds of the very same event, the announcement of global tariffs against steel and aluminium exports, LME aluminium 3-month futures lost as much as 6.64% in March, hitting the USD 2004.50 level.

Finally, the US government survey released on March 29, suggests that US farmers plan to plant less corn and soybeans this year, sending grain prices up. November soybean futures jumped 3.07% to USD 1047.75, locking monthly gain of 0.94%, while December corn rose 3.65% to USD 411.5 a bushel (+1.67% in a month).





Outlook for April

Following the evolution of US-China tariff backlash, the prices of aluminium are expected to hold the center stage of commodity investors' attention in April. Beijing's counter tariffs, announced on Friday 24th, included sectors, such as pork and steel pipe, that were already oversupplied in China and unlikely to hurt domestic consumers. As such, analysts closely watch the soybeans as well, as retaliating against this commodity is Beijing's last resort and it would have a major impact on US farmers. Over the last year, 37% of the total soybeans consumed in China are shipped from the US.

Our performance

In March, the Brent futures 3-month contract added a 0.09% gain to the overall portfolio performance. NIC Fund analysts remain a positive outlook for the crude oil prices development and retain a 10% share of NAV in commodity asset class.

Anna Averina
Financial Markets Division

NIC Fund

Currencies

World Currencies

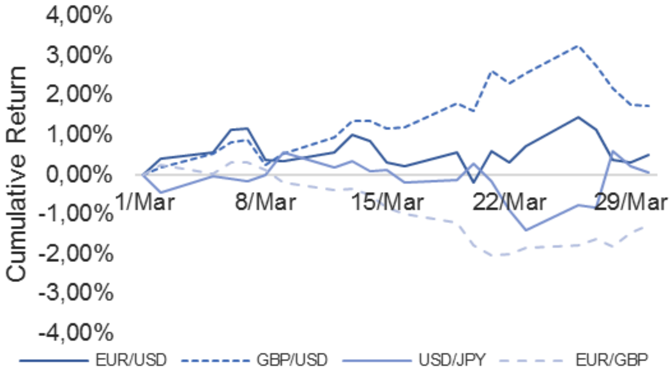
In March, the most noteworthy market move was the appreciation of the British Pound against the US Dollar. Hopes of a transition deal on Britain's departure from the European Union - which was eventually agreed earlier this month - and growing expectations that the Bank of England could soon raise interest rates have propelled the pound this year to its highest since the Brexit vote.

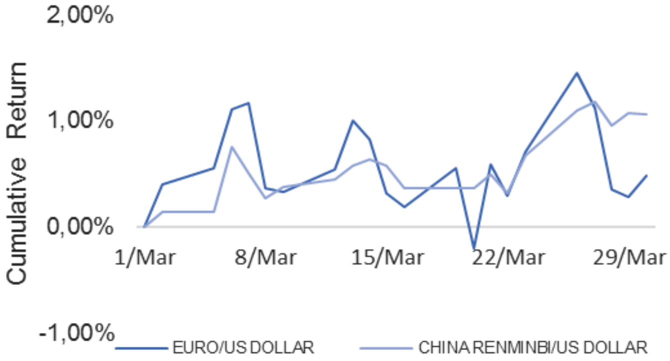
On the Eurozone, the single currency rose against the majority of other currencies after the release of the March policy decision document in which a language change saw the ECB announcing its willingness to extend its quantitative easing programme if needed. The President of the European Central Bank, Mario Draghi, added that the strong momentum could lead to positive growth surprises, but there are downside risks related to global factors. Further exuberance was contained by the view that underlying inflation remains subdued and has yet to show convincing signs of a sustained upward trend.

As such, the ECB kept its inflation forecasts for 2018 at 1.4% but revised slightly down its projection for inflation in 2019 to 1.4% from 1.5%. This is probably the most bearish element of the event for the Euro.

Geopolitical events such as the return of tensions between the United States and Iran, as well as the diplomatic crisis between the United Kingdom and Russia, but also the threats on duties carried on by President Trump, are still a major source of uncertainty for world currencies.

Bitcoin has fallen below USD 7,500 in what has been a terrible quarter for cryptocurrencies. The downward pressure on cryptocurrencies is largely the result of regulatory fears. As such, not only many retail investors pull out of the emerging asset class, but also several social media websites have banned cryptocurrency adverts in what is presumably an attempt to please regulators that are coming after them for their failures to monitor fake news.





In depth

Investors should closely watch the ongoing political situation in Italy, as it might weigh down the value of the Euro in April. On the other hand, the European Central Bank meeting next month might signal a more hawkish policy from the Eurozone monetary authority.

The euro might also be impacted by the developments on the trade tariffs rhetoric coming from both sides of the Atlantic. In the same way, the Chinese Renminbi is likely to be impacted by the rising trade tensions with the White House.

Other currencies, such as the Mexican Peso and the South Korean Won are also the most vulnerable to trade wars.

Our performance

At the end of the month we entered our first currency position, shorting the Brazilian Real against the USD as we believe that the political turmoil will impact the risk premia of the country and weight on its currency.

Tomás Ambrósio
Financial Markets Division

Extras

Hot Topic

Algos

Giovanni Parravicini
Financial Markets Division

The Nova Investment Club decided to implement part of the NIC Portfolio with algorithmic trading strategies.

Is there a risk of a market crack up due to hidden exposures or unpredictable interactions between robots? If human trading continues to decline, will markets detach from economic fundamentals? Algorithmic trading programs are different from humans in three big ways: **scale, speed, and complexity**. Human trading is prone to crack-ups, from the paper crisis of the 1960s to black Tuesday in the 1980s, from the DotCom to the Great Recession. The question is not whether there will be **quant crashes** (there already has been at least one significant one), but whether they will be **even worse than human blow-ups**. Will we be able to understand it and manage it? This dilemma is not about Active vs Passive (about whether a manager is able to generate alpha), this is about the man vs the machine: the man´s supremacy is undoubtedly put under discussion given the recent trends in favour both of passive and automated trading.

Let's focus for a moment on what brought us historically at this point. Let's split the investment history in four phases, from Benjamin Graham to nowadays context: **Phase one** (1960-1980): active managers compete principally against individuals and conservative mutual funds and trust institutions achieving 200 to 300 basis points of superior performance. Index funds get no attention. **Phase two** (1980-2000): active managers ride a strong bull market, but can only achieve enough incremental performance to offset their costs and fees. **Phase three** (2000-2010): active managers no longer earn back all their operating costs and fees. Index funds experience increasing interest and demand. Switching from active management to indexing increases from a low base level. **Phase four** (2010-2017): increasing numbers of active managers underperform an almost completely professionalised market, with returns averaging only 7%. Objective observers conclude that fees and other costs can no longer be dismissed as "inconsequential". Demand for low-cost indexing accelerates steadily and the need of innovative investing arises.

Such dramatic trends ultimately led investors between two beliefs: who would see the cause of the underperformance in the high fees and therefore opt for passive investment, basically mimicking an index, allowing the asset management firm to charge low fees; and who would see the cause of the underperformance in what I call "lack of ideas and creativity", therefore choosing to give the ball to machines and their superior capacity to analyse data. Indeed two particular features have changed in our society since the great recession: **the amount and the quality of data**. The benefits of a new automatization in trading has many potential benefits: trades executed at the best possible price; instant and accurate trade order placement; reduced transaction costs; simultaneous automated checks on multiple market conditions; reduced risk of manual errors in placing the trades; backtesting the algorithm, based on historical and real-time data; no behavioural bias.

For these reasons, **the Nova Investment Club decided to implement part of the NIC Portfolio with algorithmic trading strategies**. A group of dedicated students is indeed undertaking researches and coding an algorithm sustained by basic machine learning with the only goal of presenting it to you. If you are interested stay tuned. Our goal is to produce knowledge for our members and the Nova's students. When the algorithm is completed and back-tested, you will receive an invitation to our first Python for Finance event.

Giovanni Parravicini
Financial Markets Division

Extras

Hot Topic

Facebook's turmoil and its implications

Raphaël Agbanrin
Investment Banking Division

On March 28, Facebook's stock fell off more than 17% since March 16th following the revelation of the Cambridge Analytica controversy. Investors and shareholders are worried about the political risk and potential onerous restrictions that may come up in Europe and America.

Facebook is facing a reputational crisis triggered by the revelations concerning Cambridge Analytica, the political consultancy firm which obtained detailed data of 50 m Facebook users in a possibly illegal way. The firm is accused to have shared these data with President Donald Trump's 2016 campaign. Cambridge Analytica received fundings of USD 15 m from Robert Mercer, a US businessman and one of the largest donors to the Republican Party. Steve Bannon, former campaign manager for Donald Trump, was himself an investor and vice president of Cambridge Analytica.

This scandal follows a series of other controversies related to the peddling of fake news and enabling Russian manipulation of American voters. An investigation was launched by the Federal Trade Commission (FTC), and Mark Zuckerberg, Facebook's CEO, was called by Republicans and Democrats alike to testify before the Senate. The UK and European authorities also launched investigations, a British Parliamentary Commission and the European Parliament have summoned Mark Zuckerberg to testify.

The scandal triggered a crisis of confidence among Facebook users. The movement "#DeleteFacebook" launched by Brian Acton, a co-founder of WhatsApp, encouraged people to stop using the social network. Opinion polls released in late March in the US, Canada and Germany cast doubt on the trust people have in Facebook. According to a Reuters / Ipsos poll, less than half of Americans trust Facebook to comply with US privacy laws. Bild am Sonntag, Germany's top-selling German newspaper, reveals that 60% of Germans fear that Facebook and other social networks will have a negative impact on democracy.

In order to face this confidence crises, Facebook announced that it will launch, in the coming weeks, many measures to offer users a simplified and maximum control of their privacy settings. "We need to make our privacy settings easier to understand, find and use," said the world's largest social network.

But the major threat to Facebook business model comes from the regulatory side. If regulators limit Facebook abilities to collect data and restrict how they are able to sell it, the business model would have to be reshaped. As customers become better informed of the manipulation of their data against profit, the service-for-data agreement might be overturned. Customers may become eager to ask compensation for it, or instead, pay a minimal fee to have ad-free platforms.

Moreover, there are wider concerns that the use of data risks degrading democratic debate. From Barack Obama's 2012 campaign to Donald Trump's victory four years later, micro-targeting of voters has continued to rise. It remains unclear, however, how influential these techniques are on polling day.

Raphaël Agbanrin
Investment Banking Division

Thank you!

Visit www.**novainvestmentclub.com** for more updates.

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