NIC

— Nova Investment Club —

Newsletter

May 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 Tiago Marques evaluates Private Debt as an attractive alternative financing in a deteriorating credit cycle, while Nick Dörner highlights recent developments in Lithium production in Chile.

Our Investment Banking Division will guide you through April's M&A overall activity. Moreover, read about Comcast´s bid for Sky, Takeda's bid for Shire and Marathon Petroleum's bid for Andeavor. Additionally, read a detailed overview on what happened to Volkswagen and Deutsche Bank. Lastly, get an insight on how Concordia International reaches an agreement with its debtholders , written by our analyst Mathieu Bourque.

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. As this is the last issue of the class of 2018, Julius Nimtz will take a look back on the last months of the project and give a comprehensive overview.

Looking forward, Johannes Weissensteiner takes a view on correlation between bonds and equities and how recent behavior might lead into a regime change.
Lastly, Inês Patrício examines the imminent trade war by Donald Trump. She will talk about that Donald Trump's delayed verdict poses a mere tactic to postpone an imminent trade war for another 30 days, in which US allies are given more time to renegotiate the deals with the Trump administration.

Macro Overview

Monthly

May 5th, 2018

Deeper Dive

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Market Moves

S&P 500	2,677	0.24%	-5.21%	0.11%
DJIA	24,425	-0.10%	-6.60%	-1.19%
Nasdaq	7,265	1.91%	-1.98%	5.23%
MSCI World	2,963	-0.44%	-4.84%	-0.55%
MSCI EM	4,248	-2.92%	-9.64%	-3.75%
Russell 2000	1,577	0.98%	0.16%	2.73%
Euro Stoxx 50	3,560	1.33%	-1.37%	1.59%
FTSE 100	7,567	2.27%	0.45%	-1.57%
Nikkei 225	22,467	1.72%	-2.73%	-1.31%
Hang Seng	29,994	-0.86%	-8.80%	0.25%
Dollar Index	92.81	2.05%	4.13%	0.75%
EUR/USD	1.193	-2.33%	-3.94%	-0.67%
GBP/`EUR	1.138	-0.37%	-0.48%	1.04%
GBP/USD	1.357	-2.68%	-4.40%	0.40%
USD/JPY	109.22	0.47%	0.03%	-3.08%
USD/CHF	1.003	2.53%	7.69%	2.94%
Brent Crude	75.78	1.43%	9.75%	13.32%
Gold	1,313.7	-0.67%	-1.89%	0.34%

In Focus

April

US 10-year´s Treasury yields surpassed the 3% threshold. For the first time since 2014, US Treasury yields on 10 year papers surpassed the 3% mark in April. Supported by good economic data in form of a strong labour market and good growth numbers, the benchmark rate shows less appetite by investors for risky assets and higher expected. Higher rates going forward are supported by growing hourly earnings in the US which expanded 2.7% in March.

French President Emmanuel Macron is the first state guest hosted by President Donald Trump.
On April 24th French President Emmanuel Macron was welcomed as the first formal state visit by President Donald Trump. Over the course of three days, the two had multiple meetings and interviews. Besides these meetings Macron also was allowed to address a joint session of Congress, making it the first time in a decade that a French leader was given this privilege. The two main objectives of the French Presidents were to prevent an escalating trade conflicting between the US and the EU and to keep the US in the Iran nuclear deal framework. While the two Presidents have a good personal relation, the visit might not bear fruits as the Trump administration is expanding its aggressive rhetoric against Iran. After Macron´s visit, German chancellor Angela Merkel followed him for a work lunch with similar goals.

IMF released the World Economic outlook
On April 9th the IMF released its world economic outlook, indicating higher global GDP growth for the upcoming years. Worldwide expansion is forecasted to be just below 4%. Growth in the US will peak within the next two year's, with a forecast of 2.9% for this and 2.5% for next year, while the Euro zone will not see expansion above 2%. The good growth expectations for the US are mainly fuelled by recent tax cuts. However, potential trade wars pose a threat to this forecast. Furthermore, aging populations in developed economies and rising scepticism about policy maker's ability to generate growth for all income levels poses the threat of more populism, threating growth in the long run.

Saudi Crown Prince Mohammed bin Salman expects higher oil prices
As the Saudi Aramco floatation is expected to be held in 2019, government officials have indicated in private talks that they would aim to an oil price of at least 80$ a barrel. This move would prop up valuations for the IPO as Riyadh would like to see a 2 trillion USD valuation for the company. Brent, the global benchmark, gained 7% over the month and is now trading at 75.17$ per barrel.

William Dudley, leaving NY Fed President expects higher rates.
William Dudley, who will leave the New York Fed in June, sees two uncertainties for the future course for the FED. While he feels confident that the FOMC is close to its two objectives, full employment and price stability, he sees risks from the ongoing threat of trade war between the US, Europe and China. Furthermore, the accommodative fiscal policy and the increasing budget deficit, poses a challenge for the FED as it increases inflation. He noted that while the median projects of interest rates from the FED pointed toward three hikes, there were some people expecting four hikes in 2018.

US earnings season. About a third of the US market cap have reported first quarter earnings in April with an average increase of EPS by 23%. However, markets seem to expect even more as many companies trade weaker after earnings.

Anna Averina
Financial Markets Division

Deeper Dive

Private Debt: An attractive alternative financing in a deteriorating credit cycle

Tiago Marques
Investment Banking Division

Firms are seeking alternative financiers as they prepare themselves for an eventual downturn in the credit cycle. Private debt and direct lending are in the sights of borrowers as these products can be customized for special situations and complex business models.

What's more, with all the regulatory and structural advantages, these debt instruments are having a higher demand from investors, making this type of financing to grow considerably more than traditional lending.

The current credit cycle is having a different dynamic from previous ones as we are going through a much longer period of low-interest rates and an extraordinary amount of monetary stimulus by central banks. The expansionist program of the ECB and its impact on the interest rates made debt cheaper for borrowers, highly incentivizing them to increase their leverage. However, this long-lasting period of excess borrowing is now worrying banks as they put a break on financing. This is an important indicator of the beginning of a downturn in the credit cycle since tighter lending policies are often the result of an expected slower economy. Because of that, some corporations are now searching for alternative financing mechanisms as they prepare themselves for a harsher economic environment.

On the investors' side, euro-denominated government bonds and senior debt have been trading at very low yields as the ECB continues its quantitative easing program. This policy has also influenced the yields on junior debt instruments, lowering the risk premium investors used to have. In fact, these tighter credit spreads (yield difference between safe debt and high-risk debt) are at a record low since 2000, according to ICE Benchmark Administration, making traditional credit less attractive for investors and increasing their desire for alternatives.

This is where private debt and direct lending comes in. Firms negotiate with these funds instead of banks which are not as competitive or simply not interested in lending because of specific characteristics of the firm. Direct lending is also operated by non regulated funds making them not subject to capital requirements as banks are (although EU authorities are calling for pre-emptive regulation on direct lending) and so they are able to lend to companies with higher leverage, which means higher interest (usually, at least 2.00% more) for investors if the deal is successful. Nonetheless, private debt is structurally more protected when compared with traditional bank debt because it has a more detailed and rigorous due diligence process and a comprehensive scenario analysis to assess the company's capability of performing in different market environments. The search for higher returns from investors such as pension funds increases the demand for these direct lending and private debt products, thereby magnifying the ability of fund managers to structure bigger loans, which, in turn, widen the range of clients and increase revenue, making this a "virtuous cycle".

On the other side of the transaction, private debt funds deal can work with a wide range of borrowers, including those that are too small to get the typical financing from debt or equity markets, private equity firms acquiring precisely this type of mid-cap firms and healthy companies that are facing business-specific problems that banks are not be able to deal with due to their restrictions. In the private debt and direct lending space, the funds can also provide several funding rounds by firstly issuing a long-term loan and then provide "extra" financing to facilitate the firm's growth. These funds can even focus on a single type of debt such as mezzanine debt.

Direct lending can be much more customized than bank financing, which turns out to be quite useful for complex projects and business models, and for companies in special situations. Not only that, direct lenders are, as a rule of thumb, faster to make decisions on financing and, therefore, good for projects with higher liquidity risk. This win-win situation means that the direct lending and private debt area is growing more than traditional bank lending. Europe is following the U.S. trend where non-bank debt represents now 75.00% of total corporate lending, compared to 10.00% in the Eurozone and 28.00% in the UK, according to Preqin.

Tiago Marques
Investment Banking Division

Regional View

Lithium struggle in Chile

Nick Dörner
Financial Markets Division

"(The intervention of the Chilean government) leaves negative influences on the development of economic and commercial relations between both countries."

– Xu Bu, Chinese ambassador

Lithium is one of the most mysterious elements in the universe to scientist, but it is also a growing commodity for industries which rely on re-chargeable batteries. As governments all over the word try to shift their energy production into a more sustainable direction, energy storage, especially in the form of batteries, becomes heavily involved.

Not only did demand for the metal sky rocket during the last decade, but also did the price. There's an estimated 39 million tons of lithium on Earth, but only about one-third of that is in a form that humans can mine in an economically-feasible way. The vast majority of the global lithium reserves is located in Chile (50%), China (21%) and Australia (18%). Since the reserves of the metal are focused on a few regions, a change in ownership of the main mines can influence global supply and prices, subsequently leading to geopolitical tension between the main supplying nations.

Recently, China's Tianqi, the world's biggest suppliers of lithium, tried to buy 32% of Chile's SQM, the second largest producer of the commodity. The sale of the USD 5 bn stake was for the time being blocked by the Chilean government, which argues that it would leave Tianqi with a dominant influence on global supplies of lithium, just as carmakers are pouring billions of dollars into ramping up production of electric cars.

Shenzhen-listed Tianqi's influence is already immense due to its ownership of the Talison Lithium mine in Western Australia and other major lithium mines. What makes SQM special is that they can produce at the lowest cost, due to the use of fierce sunlight in the Atacama Desert to extract the metal from brine. According to analyst at Scotiabank, SQM could supply half of the world's demand for lithium by 2025.

Chile's national development agency, filed a petition with Chile's antitrust regulator, urging it to block Tianqi's bid, arguing that "Interlocking of companies that represent a significant participation of a given market is a considered a risk to competition according with the law, [and] therefore has to be investigated". The ultimate verdict will come from Chile's National Economic Prosecutor's Office, which has until August to decide.

The intervention was accordingly criticized by the Chinese government, which argues that it could harm bilateral relations and that the totally commercial action was turned into a political issue.

The struggle over Lithium adds pressure to the new administration of President Sebastián Piñera, who has vowed increase the amount of foreign investments to Chile. China is the largest buyer of copper from the country, but has invested less in Chile compared with other South American countries such as Brazil.

Regardless of the outcome, this showcases again how tightly commercial and political actions are intertwined, especially when it comes to earths depletable rescources.

Nick Dörner
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

The U.S. local primaries

The month of May finds the U.S in the middle of the primary midterm elections, featuring local primaries of Southern states. The elections will culminate on November 6, when ruling the decision on composition of the Congress.

Colombian Presidential Elections

On **May 27th**, the Colombia will hold presidential elections. If no candidate receives a majority of the vote, a second round will be held on 17 June. Incumbent Colombian President Juan Manuel Santos is ineligible for re-election, having already served two terms.

Parliamentary elections in Iraq

Parliamentary elections are scheduled to be held in Iraq on **12th of May**. The elections decide the 329 members of the Council of Representatives who will in turn elect the Iraqi President and Prime Minister.

Central Bank decisions

Bank of England rates decision

On **May 10th**, BoE will hold a monetary policy meeting, announcing of the interest rate decision. Weak 1Q UK GDP growth and purchasing managers' surveys point to a limited pick-up in activity, with high probability of interest rates remaining at 0.5%.

BoJ Minutes

On **May 7th**, Bank of Japan releases Minutes of the Monetary Policy Meeting held on March 8th and 9th. Struggling to reach the 2% inflation target, the central bank kept overnight interest rates at minus 0.1% and 10-year bond yields capped at about 0%.

FOMC Meeting

On **May 2nd**, Federal Reserve will hold a Federal Open Market Committee meeting. As signaled in the Beige Book, released in April, FED is getting more confident in the inflation outlook as it prepares for further increases in short-term interest rates in the coming months, however no hike is priced by the markets in May.

Inflation and Deflation

U.K. inflation report

On **May 10th**, BoE will release its quarterly inflation report. The report sets out the economic analysis and projections that the Monetary Policy Committee uses to make its interest rate decisions. In March, UK CPI fell more sharply than expected, to 2.5%.

Eurozone Consumer Price Index

On **May 16th**, Eurozone CPI is being published. The market expects prices growing at 1.2% in May, down from the previous month's inflation of 1.4%.

Japanese Core CPI Release

The Japan's national CPI figures will be released on **May 17th**. With prior inflation rate of 1.1%, the CPI figures become central to BoJ's decision-making.

Labour Market

U.S. labour statistics

The US unemployment report is released on **May 4th**, with rising Nonfarm Payrolls at consensus estimate of 193k (previous is 103k), decreasing unemployment rate at 4.0% consensus (previous is 4.1%), and accelerating Initial Jobless Claims, estimated at 225k (previous is 209k).

Eurozone Wage Growth

A swift rebound in hiring in the April jobs report will confirm that the March results were a fluke, and not a signal of an emerging economic soft patch. Analysts expect the pace of job creation to build momentum throughout the first half of the year amid the backdrop of accelerating economic growth.

Japan's Jobless Rate

The European unemployment rate will be released on **May 5th**. Despite the soft economic data and sluggish production figures, analysts forecast the rate decreasing to 5.9% from 6.1% in the previous month.

Anna Averina
Financial Markets Division

Investment Banking

M&A

Overall Activity

Global

The aggregate value of global mergers and acquisitions (M&A) increased in Q1 2018, with deals worth a combined approximately USD 1.5 tn announced during the first three months of the year, compared to USD 1.4 tn in Q4 2017. This is in contrast to volume, which declined 13% from 25,814 to 22,491 over the same timeframe. The same pattern was evident in a year-on-year comparison, with value increasing despite a drop in volume from Q1 2017, when there were 25,573 deals worth a combined USD 1.2 tn announced. Q1 2018 has been particularly pleasing given that value reached its highest level since the final quarter of 2015, when deals worth USD 1.5 tn were announced. Given that 2015 proved to be a record year for M&A value, this bodes well for the remainder of 2018. The US was once again the most frequently-targeted country during the quarter under review and also led the way by value. In all, companies based in the country were targeted in 5,143 deals worth a combined USD 413 bn. Interestingly, and in contrast with the overall trend detected across global M&A, this actually represents a quarter-on-quarter improvement in volume and a decline in value over the same timeframe; in Q4 2017, the US was targeted in 4,926 deals worth a combined USD 475 bn.

Selected Regions

North America

North America´s deal activity decreased by roughly 50% during April. This shrinkage was mainly due to US' poor performance since Canada saw more deals happening this month. The sector attracting the largest value over the past month was machinery, equipment, furniture and recycling, accounting up to USD 11.3 bn. Although the overall M&A activity was fading, Private Equity continued to rise in value, reaching USD 26.8 bn in the US alone.

EMEA

In April, Europe was the global leading region in both total number and volume of transactions. Despite registering lower values than in the previous period, Europe's April activity was highlighted by the largest deal of the month – Takeda Pharmaceutical that acquired Shire for USD 64.0 bn. Private Equity and Venture Capital also underperformed in comparison to the previous month – 30% down in value. Additionally, Germany was the most active European country.

Asia

Following a global trend, Asian countries had a remarkable first quarter of the year, as deal activity across the region has risen by 65% when compared to Q1 2017. Despite the good start, the deal flow slowed down last April throughout Asia. Subsequent to the China-US expected trade war, cross-border M&A activity is expected to remain quiet and negligible, given that several companies still remain uncertain about the way trade disputes will progress.

M&A

Deals of the Month

Announced Date	Target	Buyer	Target region	Target business	Value (USD m)	Status
25 April 18	Shire PLC	Takeda Pharmaceutical Company Ltd	UK	Pharmaceutical	64,000.00	Announced
25 April 18	Sky PLC	Comcast Corporation	UK	Media and telecommunications	40,907.00	Announced
30 April 18	Andeavor	Marathon Petroleum Corporation	US	Oil and Gas	23,300.00	Announced
9 April 18	AveXis Inc.	Novartis AM Merger Corporation	US	Health sector	8,700.00	Pending
23 April 18	Vectren Corporation	CenterPoint Energy Inc.	US	Energy sector	8,481.00	Pending
27 April 18	Innogy SE	EON Verwaltungs SE	DE	Energy sector	5,686.00	Pending
10 April 18	Federa-Mogul Corporation	Tenneco Inc.	US	Powertrain and automobile parts manufacturer	5,400.00	Pending
2 April 18	Shanghai Lashasi Information Technoology	Alibaba	CN	Online Food order/delivery	5,400.00	Pending
9 April 18	Anida Grupo Inmobiliario SL	Promontoria Marina SL	ES	Real Estate	4,800.00	Pending
21 April 18	Sky Betting & Gaming	The Stars Group Inc.	UK	Gambling	4,593.00	Announced

Hoang Nguyen & José Paula
Investment Banking Division

M&A: Top Deals

Comcast´s bid for Sky

The American telecommunications company Comcast submitted on the 25th of April an official offer for Sky of GBP 12.50 per share with an underlying valuation of GBP 22 bn. This puts pressure on the pending GBP 10.75 per share offer from Fox.

Buyer vs Seller

Comcast Corporation is a large global media and technology company with a total market capitalization of approximately USD144 bn. Its main business segment are Comcast Cable, one of the US´s biggest video, high-speed internet and phone providers, and NBCUniversal, the operator of multiple new, entertainment, and sports cable networks. On the other hand, Sky is a British pay-television company founded by Rupert Murdoch that operates in Europe.

Industry Overview

The cable business, which is one of Comcast´s major business segments, is becoming an increasingly competitive environment through the growth of Netflix and Amazon Prime Video. The offer by Fox for Sky that was initially published in December 2016 is still under inspection by the Competition and Markets Authority (CMA) in the UK. Comcast´s overbid sends shockwaves to Fox, which already has a 39% in Sky.

Peers	Currency	Market Cap (CUR m)
NOS SGPS SA	EUR	2,530.47
Modern Times Group MTG AB	SEK	24,329.43
Liberty Global PLC	USD	23,789.24
Cyfrowy Polsat SA	PLN	16,372.38
Tele Columbus AG	EUR	970.70

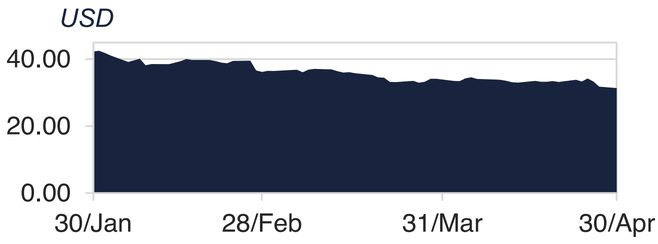
Deal Rationale

In the previous years, Comast suffered from the increasing competition in the American market, which makes up 91% of the revenues. In Contrast, Sky has 29m customers globally and is clearly in a dominant position in Italy, Germany, and the UK. With the proposed deal, Comcast wants to diversify itself by entering the European pay-television market. Comcast expects to become an organization that is ready to grow in the increasingly global competitive landscape and enhances the entertainment, content creation, distribution, and technology leadership of Comcast. The sum of expected cost and revenue synergies is USD 500m.

Market reaction

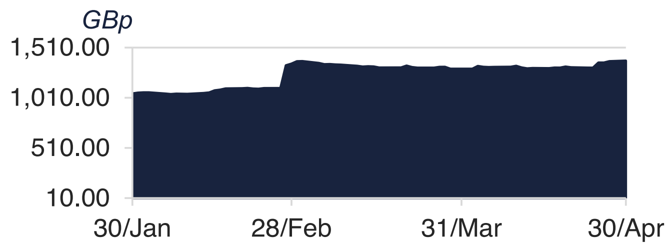
Comcast

After a continuous decline over the past month, Comcast´s share price rose by 3.5% on the 25th of April, the official announcement date of the bid.



Sky

Sky´s share price closed on the 25th of April up by 4%, after the announcement to GBP 12.50 per share bid, to a value of GBP 13.59.



Future Challenges

The outcome of the proposed acquisition is heavily dependent on the reaction of Fox to the bid. Disney, which acquired Fox in 2017, plans to create a global direct-to-consumer streaming service that should ideally compete with Netflix and Amazon. With its 29m customers in Europe, the acquisition of Sky was part of that plan. Hence, a bidding war between Comcast and Fox is definitely possible. Furthermore, the CMA will be a major question mark for the future development of the deal.

Christoph Beck
Investment Banking Division

M&A: Top Deals

Takeda to acquire Shire

Japan's Takeda Pharmaceutical's preliminary agreement to buy Irish drugmaker Shire takes it into pharma groups' top ranks. The deal for the Irish drugmaker is valued at about GBP 46 bn. It would make it the largest foreign acquisition for a Japanese company.

Buyer vs Seller

Takeda Pharmaceutical in engaged in research and development, manufacturing, sales and marketing, and import and export of pharmaceutical drugs. The company focuses on the core therapeutic areas of oncology and central nervous system disease. Shire PLC is a global biotechnology group focused on serving people with rare diseases and other specialized conditions. The company develop products across core therapeutic areas.

Industry Overview

Analysts call for sales growth that's in-line with 2017 for U.S. mature and profitable growth biotechs. Last year was sparse in terms of notable acquisitions due to political uncertainties in Europe and US, but the situation may take a turn in 2018 as more big biotech and pharma companies have urgent needs to fill that can only be satiated by M&A. If this unfolds, it would elevate small and mid-cap biotech valuations..

Peers	Currency	Market Cap (CUR m)
H Lundbeck A/S	DKK	72 894,48
Swedish Orphan Biovitrum AB	SEK	49 841,66
Endo International PLC	USD	1 215,16
Laboratorios Farmaceuticos Rov	EUR	862,50
Mallinckrodt PLC	USD	1 042,70

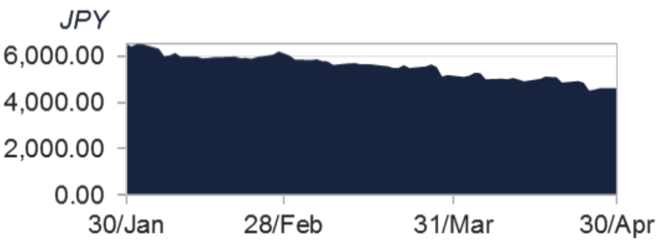
Deal Rationale

The bid represents a 59.6% premium to Shire's close on March 27th, before Takeda's first bid. If completed, the deal would rank as one of the largest Pharmaceutical acquisitions ever. The Shire board finally acceded to its latest bid, a cash and stock offer that values the London-listed group at about GBP 49 per share. The Japanese group Takeda would become a truly global pharmaceutical company. The deal would enable Takeda to compete with US rivals like AbbVie and Pfizer. Moreover, the acquisition is adding to Takeda's product pipeline some lucrative rare disease products.

Market reaction

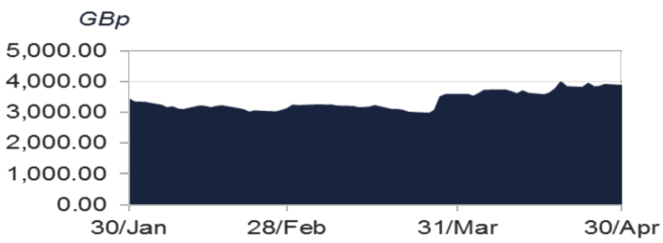
Takeda

Since the first bid on March 27th, the share price of Takeda decreased by 18%. Moreover, Takeda's 2022 dollar bond- a benchmark for the group-, climbed over the last weeks.



Shire PLC

The share price of Shire PLC increased by 26% since Takeda's initial bid on March 27th.



Future Challenges

The deal remains preliminary while the two company carry out further due diligence. Rising debt costs are a danger for Takeda. The expensive acquisition of US drugmaker Ariad in January has already reduced Takeda's credit rating. The combined balance sheet of the two companies will include USD 58 bn of debt, amounting to 5 times future earnings before standard deductions.

Raphaël Agbanrin
Investment Banking Division

M&A: Top Deals

Marathon Petroleum to acquire Andeavor

Marathon Petroleum, an American operator of integrated refining, marketing and transportation system, has entered a definitive agreement to acquire Andeavor, an American operator of refineries, for total equity value of USD 23.3 bn.

Buyer vs Seller

Marathon Petroleum Corporation was created in 2011 through a spin-off from Marathon Oil. It owns seven refineries and 2,770 retail outlets operated in the Midwest, Northeast, East Coast, Southeast and Gulf Coast regions of the U.S. Andeavor, formerly known as Tesoro Corporation, was founded in 1968. It operates ten refineries across Alaska, California, Minnesota, New Mexico, North Dakota, Texas, Utah, and Washington with more than 3,100 retail sites.

Industry Overview

Refiners experienced high growth in 2018 due to the increased U.S. crude production from shale oil fields. Such production boom puts light crude refineries, such as Andeavor, in a unique position as they can capture the upside potential. The U.S. has become the top worldwide fuel exporter with more than 3 m barrels of gasoline and diesel per day shipped. The U.S. fuel demand hit record high in 2017 at 9.3 m barrels per day.

Peers	Currency	Market Cap (CUR m)
Marathon Petroleum Corp	USD	33,670.96
Phillips 66	USD	52,103.86
Delek US Holdings Inc	USD	3,974.72
CVR Refining LP	USD	2,560.86
PBF Energy Inc	USD	4,259.11

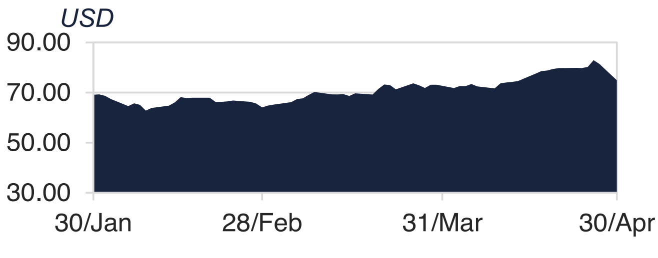
Deal Rationale

The acquisition will create the sixth largest global refinery according to its capacity, as it will be able to process 3.1 m of barrels per day of crude oil into gasoline. Marathon Petroleum will gain exposure to the rise in production through Andeavor's terminal operations and logistics while diversifying its presence in the U.S. and Mexico. Additionally, the transaction is expected to create USD 1 bn of tangible synergies within three years as well as largely enhance cash flows of more than USD 5 bn over the first five years. Marathon Petroleum is paying USD 35.6 bn to hold 66.00% of the total combined worth of approximately USD 58 bn.

Market Reaction

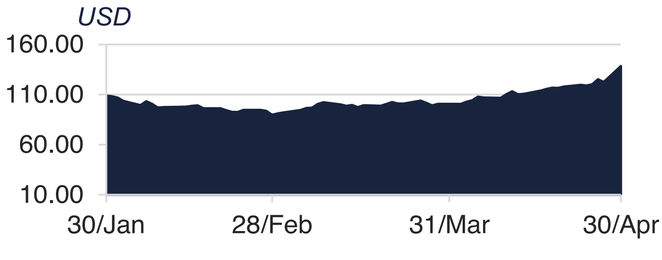
Marathon Petroleum

On the announcement date, April 30th, the stock price decreased by 8.00% to USD 74.91. Additionally, Marathon Petroleum missed the Wall Street forecast of its quarterly profit accelerating the decrease further.



Andeavor

There was a positive reaction to the acquisition announcement in the market as the stock increased by 13.00% to USD 138.32 showing shareholders' optimism about the deal.



Future Challenges

It is believed that due to the location of Marathon Petroleum's and Andeavor's operations the transaction will avoid antitrust challenges. However, the deal is still awaiting the approval by Marathon Petroleum's shareholders of the new MPC shares issued in the transaction, the Hart-Scott-Rodino Antitrust Improvement Act of 1976 and the receipt of other required regulatory approvals. Moreover, analysts question the speed at which the joined company can combine its subsidiaries logistics.

Katerina Rybarova
Investment Banking Division

What happened to

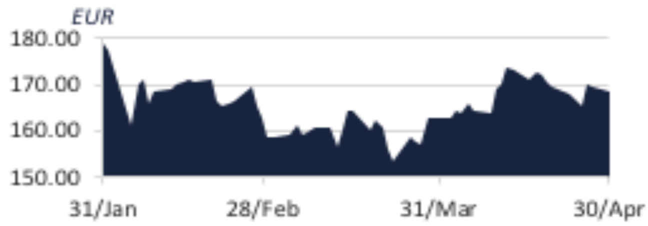
Volkswagen

Volkwagen emerged strong from the Dieselgate scandal. Two chaotic years later the firm is not only more profitable than before but also pushed into new technologies, while outperforming competitors such as BMW and Daimler. According to Ex-CEO Matthias Müller, who led the firm out of the crisis, the scandal induced the firm to take long overdue actions to reshape Volkswagen.

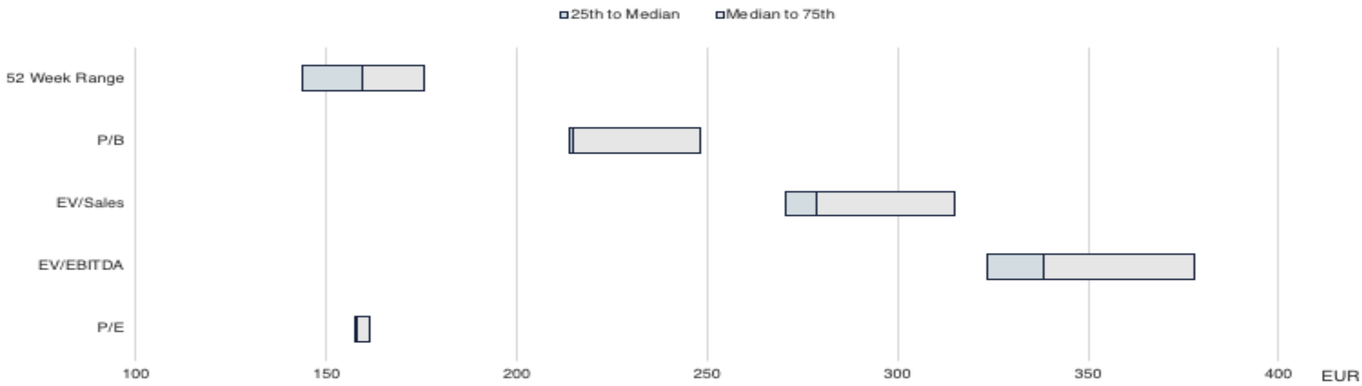
Corporate News

This month Ex-CEO Martin Wintercorn, who resigned in 2015 when the scandal became public, was charged with conspiracy for Volkwagen rigging of diesel cars to comply with federal pollution standards. The firm keeps insisting that management did not know about the emission fraud. The firm's top-down management style makes this an implausible excuse. Last year in December Oliver Schmidt, then a Michigan based high ranking VW executive was jailed for seven years. Although it is unlikely that the German government will extradite Winterkorn, it weakens the companies defence in an ongoing shareholder law suit, potentially adding another few millions to the damaging costs. On April 10th the share price up jumped by 4.5% as rumours were confirmed that CEO Matthias Müller is leaving the firm. He started to decentralise the firm and sold of peripheral businesses while pushing forward development of electric vehicles and investments in shared mobility and self-driving cars.

Price (30 Apr 18, EUR)	169.40
Targe Price (EUR)	213.50
3M Performance	-5.26%
Market Cap (EUR m)	85,608.14
Enterprise Value (EUR m)	79,414.14
**Target Price is for 12 months*	



Valuation Analysis



With a market capitalization of EUR 85bn the firm is back to pre crisis level. In 2017 Volkswagen brand car sales broke records with 6.23 m, this trend continued with record sales of 1.53 m cars in Q1 of 2018. The strong growth in China and the U.S offsets decreasing sales in Western Europe. Compared to a day before the Diesel scandal, VW share price is up by 10%. However, after setting a record high earlier this year in January, the share prices since fell down to EUR 171.10.

Newly appointed CEO Herbert Diess, who entered VW in 2015 called his first priority to reshape the corporate culture to an open one with greater compliance principles and a better whistle-blower systems. Challenges remain around improving competitiveness and profitability, while dealing with powerful trade unions who previously blocked brand sales. Reposting VW at the forefront of a disrupted automobile industry as a electric car producer is another one.

Peers	Currency	Market Cap (Cur m)
Bayerische Motoren Werke AG	EUR	59,528.39
Renault SA	EUR	26,437.57
Fiat Chrysler Automobiles NV	USD	35,306.56
Daimler AG	EUR	70,898.13
Peugeot SA	EUR	18,187.05

Manuela Böck
Investment Banking Division

What happened to

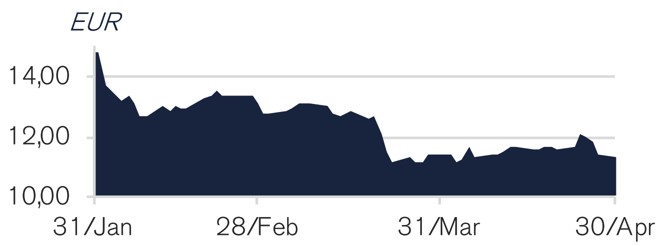
Deutsche Bank AG

Three changes in the board, including a new CEO, disappointing quarterly earnings and a new strategy, Germany's biggest bank is once again in turmoil. John Cyan's quiet leadership style did not lead to the desired results, now Christian Sewing plans to bring Deutsche Bank back to its roots, serving multinationals around the world, and shrink the investment banking division.

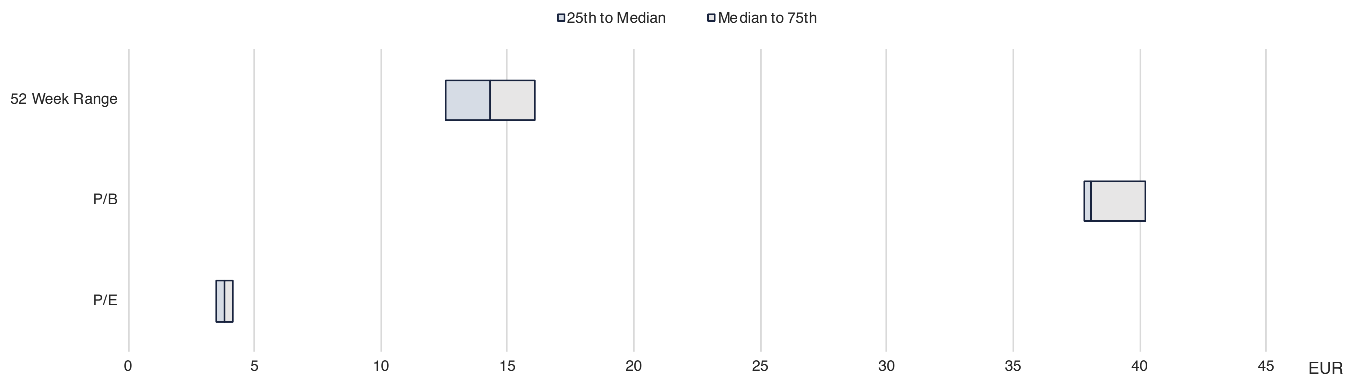
Corporate News

The last month was – again – characterized by chaos at Deutsche Bank. First, the head of the supervisory board, Paul Achleitner, replaced CEO John Cyan with Christian Sewing in the beginning of April. Second, the board member responsible for IT, Kim Hammonds, who infamously called Deutsche Bank the "most dysfunctional" company she has ever worked for, was fired. Additionally, the Head of IBD, Marcus Schenck, will leave the bank and will be replaced by Garth Ritchie. Third, the earnings for the first quarter disappointed. The bank was only able to earn EUR 120m, compared to EUR 575m in the same period in 2017. Christian Sewing called the current returns for shareholders "simply unacceptable". Furthermore, he announced drastic strategic changes. In the future, the bank wants to focus less on the investment banking but more stable business areas such as private and corporate clients in Europe, additionally he plans to cut 1000 jobs in the US mainly traders.

Price (30 Apr 18, EUR)	11.32
Targe Price (EUR)	12.00
3M Performance	-23.56%
Market Cap (EUR m)	23,387.60
Enterprise Value (EUR m)	-
**Target Price is for 12 months*	



Valuation Analysis



After the announcement of the first quarter earnings, Deutsche Bank shares plummeted. On the day of the announcement, the price fell 1.3% and the day after the trend continued with an additional 4.5% loss in equity value. This signals strong scepticism of shareholders regarding the new restructuring strategy of the young CEO. When looking at the stock's performance over the last 52 weeks, Deutsche Bank has lost 21.3% of value, year-to-date the stock is the biggest looser in the DAX.

The bank's continuing problems and past financial results make it hard to justify the ambition to be one of the leading global banks. With a market cap of EUR 23 bn, Deutsche Bank is only a fraction of the leading global banks. BAML, for example, more than 10 times and Goldman Sachs more than 3 times the size of the German bank. Therefore, CEO Sewing's focus on Europe can be seen as only a consequence of the lost battle for global relevance.

Peers	Currency	Market Cap (Cur m)
Goldman Sachs Group Inc/The	USD	93,814.13
Morgan Stanley	USD	91,571.22
Citigroup Inc	USD	174,081.67
Bank of America Corp	USD	303,369.48
JPMorgan Chase & Co	USD	

Philipp P. Breitbach
Investment Banking Division

NIC's view on

Concordia International Reaches an Agreement with Debtholders

Mathieu Bourque
Investment Banking Division

The Concordia International Corporation will undergo a recapitalization after reaching a deal with its creditor to restructure its debt. Debtholders agreed with the company to cut its debt load by USD 2.4 bn. The agreement will outs the current CEO, Allan Oberman, and replace him with an interim CEO, Graeme Duncan, who previously oversaw Concordia's international division. The restructuration of Concordia will virtually wipe out the current shareholder's stake in the company. If approved, they will be left with approximately 0.35% of the company's outstanding shares.

Concordia International is a Canadian based specialty pharmaceutical company focused on generic and legacy pharmaceutical products. The corporation sells its product in more than 90 countries and has a diversified portfolio of more than 200 products including a newly approved treatment called *Photofrin* for some rare types of cancer. The company operates out of facilities in Canada, Barbados, England and India. The company became infamous a few years ago when the controversy around drug prices exploded. The company was aggressively pursuing acquisitions fuelled by leverage and then significantly increased drug prices to pay down their debt. With the controversy becoming mainstream, Concordia's business model, which was similar to Valeant's , became under heavy fire and investors flee the company.

Facing increased scrutiny on its business practices and a highly levered balance sheet, the firm revisited its business model. In the Spring of 2017, the company announced a strategic review. Concordia implemented a five year plan that outlines the company ambition to become a leading European specialty "off-patent" medicines player. However, the company remained financially stretched and investors feared of a looming liquidity crisis. In October 2017, Concordia decided to explore restructuring plan after missing interest payment.

The ongoing restructuring efforts can be interpreted as a necessary action in order to keep the company away from bankruptcy. Furthermore, realigning the company balance sheet was also outline in their five year strategy plan. The proposed deal will give Concordia more time to turnaround the company and pull it away from distressed. The deal also include a cut of USD 171 m in interest payment. This will give the company more liquidity and allow it to continue its operations. However, in our view, Concordia strategy plan does not go far enough to address the company's troubles. The latest agreement which do alleviate some of the financial burden of the company, it is hard to see how the company will remain competitive. By aggressively pursuing acquisition and neglecting research and development, the company drug pipeline has been depleted. Hence with diminishing revenues and a shrinking asset base, the firm will have to rely on acquisitions to pursue growth.

This will be difficult given the firm's current financial situation which will make future financing unlikely and extremely expensive. By focusing on "off-patent" drugs in the European market, the company's business model will remain relatively the same. Concordia will still be dependent on acquisitions and high drug prices. Instead, we believe that the company should take the opportunity to rethink fundamentally their business. They could tackle the generic drug market with a focus on finding the best alternatives for their client. They could potentially take market share with Teva Pharmaceutical, the biggest player in the industry, currently struggling with its own set of problem. Without a complete turnaround, we do not see Concordia coming out of this restructuration process.

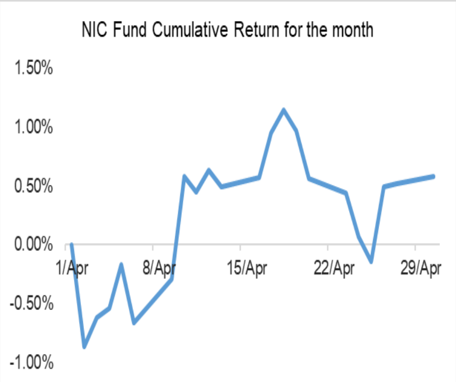
Date	Recent News
02 May 18	Announcement of the agreement with debtholders leadership changes ***Source:*** *concordiarx.com*
20 Oct 17	Concordia announce it will commence proceedings under CBCA ***Source:*** *maerskoil.com*
16 Oct 17	Concordia miss interest payment ***Source:*** *Bloomberg.com*
22 Sep 16	Announcement of the new strategic plan, DELIVER ***Source:*** *concordiarx.com*

Mathieu Bourque
Investment Banking Division

NIC Fund

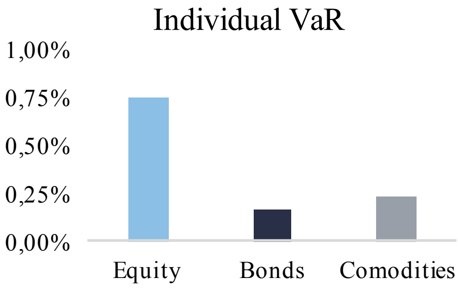
NIC Fund

Portfolio Overview



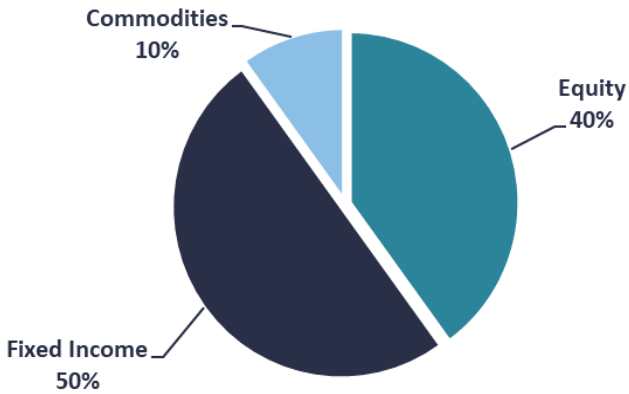
Portfolio Statistics	
Cumulative Return	3.66%
Annualized Return	6.28%
Annualized St. Dev	7.00%
Info Sharpe	0.56
Skew (Daily)	-1.17
Kurtosis (Daily)	2.74

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



Portfolio Snapshot

April did not see major changes in our overall global outlook, hence the weights remain unchanged. We kept 50%, 40% and 10% of the portfolio invested in fixed income, equities and commodities, respectively. We foresee a positive trend in the oil price due to fundamental change and we therefore slightly increase our previous position. Note that to reduce risk, we are still underweighting our duration in fixed income.



Return Metrics

The overall performance of the portfolio was positive and above the benchmark. Equites and in particular commodities performed best, in contrast with a disappointing fixed income market harshly hit by the changing macroeconomic environment. Commodities contributed positively 0.64% to our performance while equities contributed around 0.28%.

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Our overweight in European equities paid off as the Stoxx Europe 600 outperformed the MSCI World by 177 bps, gaining 2.51%.
Our investment in Brent gained 8.41% over the month, contributing 0.09%, while our bet on a weaker Brazilian Real contributed 24 bps. Negative contribution was mainly due to single stock picks with Goldman Sachs dropping 5.37%, Tencent slipping 4.54% and General Electric loosing 4.16%, contributing 5bps, 4 bps and 4 bps each negatively.

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 is the asset class with the highest individual VaR, which is around 0.76%. Bond has an unchanged VaR of 0.17% while Commodities reported an increase to 0.20%.

Giovanni Parravicini
Financial Markets Division

NIC Fund

Assets in brief

Asset Class	Symbol	Comments
Commodities	Brent	The previous month we bought Brent contracts due to geopolitical reasons because we have seen comparative price advantages compared to WTI price. Since we believe the full potential of this asset is still not completely priced by the market, we increase our position on Brent future contracts for an overall 1% of the Portfolio.
Currency	Real/USD	We decided to short the Brazilian economy channeling our investment through the currency market as short term horizon. Our goal was to get advantage from current external factors, as the strengthening of the dollar and the increase in US interest rate, and domestic future factors in particular the volatility preceding the election debates in late 2018.
Fixed Income	SHY	We hold 10% of the Portfolio in 1-3 years I-SHARES Treasury. This trade allowed us to reduce the duration of our positions to decrease our exposures to interest rates.
EM Equity	HDFCB	We entered a long position in HDFC Bank, because we liked the low NPL exposure compared to its peers and because we believe in the important role of financials in the Indian's growing economy.
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	AMZN	Amazon was the top performer of the month contributing 8.21% to our Portfolio, after reporting a huge unexpected sales beat deriving mainly from AWS and advertising. Respectively the company's revenue grew in North America 46% to $30.7 Billions and in Europe 34% to $14.8Billions. The company announced to raise the price of its Prime membership to $119 per year, generating further sales growth.
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	DPZ	We entered a position in Domino's Pizza, increasing our exposure to US Consumers Discretionary, after reviewing the successful franchising policy of the company and its decision to expand toward emerging markets. The strategy began after the turnaround in 2015 led Domino's pizza to improve the quality of its products and boosting the revenue allowing the management to open over than 1800 new locations only in the US. In 2017, the company grew international sales by 14.6% with 11.2% coming from new stores.
EU Equity	UMI	Umicore generates its revenues from clean technologies, such as emission control catalysts, materials for rechargeable batteries and recycling. Resource scarcity offers growth opportunities for the company as well as the push into electronic vehicles. The legacy business, supplying catalyst, is essential in ensuring low emissions in traditional cars.

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

Giovanni Parravicini
Financial Markets Division

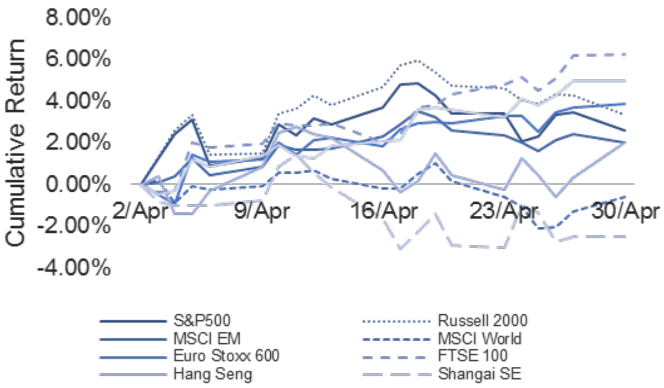
NIC Fund

Equities

World Equities

The month started off shaky with markets still scared about a possible implications of a trade war between two of the biggest economies in the world: the US and China. The U.S. benchmarks, however, performed positively over the month and the S&P 500 was up 2.62%. During the US earnings season, *tech* companies were the main market movers. FAANGs, the group of tech stocks made up of Facebook, Apple, Amazon, Netflix and Google, after being put under pressure by scandals, regulators and tweets, are back on track with earnings releases beating expectations and showing that there is more growth to come. Besides Technology Information, Energy, driven by higher oil prices, was one of the winning sectors.

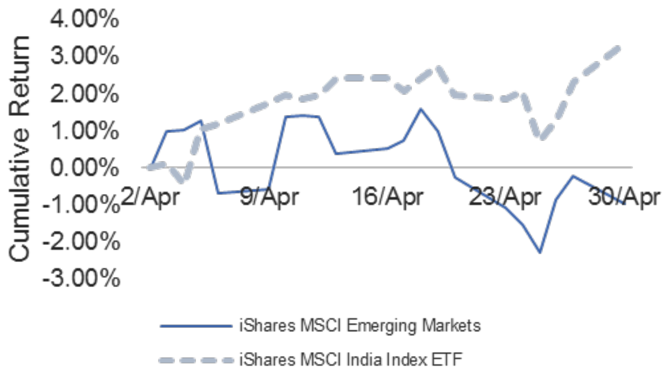
Mainly driven by Bank of Japan's plans to inject $1.4 trillion into the economy in two years time, the NIKKEI 225 had a cumulative performance of 4.96%, its best April performance since 1993. Pushed by a stronger dollar, the STOXX Europe 600 Index returned 3.87% in April, while U.K.'s FTSE 100 Index advanced 6.28% on the monthly basis, being the best performer among the indexes analyzed. Shangai SE was the worst performer in April with a cumulative lost of 2.50%



In depth

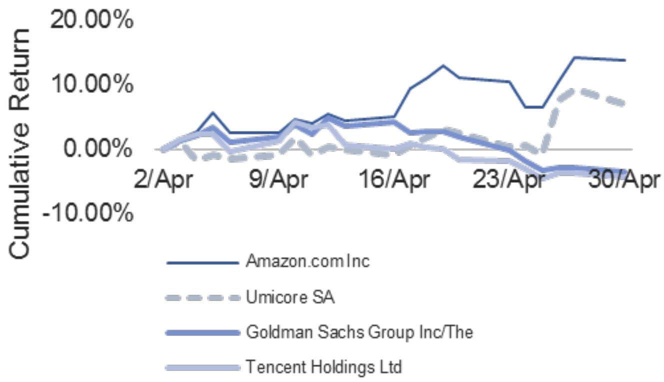
In April, emerging markets had a negative cumulative performance. After the IMF warned about the high indebtedness of the world overall, and of emerging countries in specific, this asset class seems to be losing its attractiveness. The iShares MSCI EM returned negative 96bp. Increasing interest rates in the US and a stronger dollar meant less attractive dollar-denominated EM bonds and higher debt burdens.

However, when looking to specific emerging market regions, one can consider India as a potentially profitable choice for portfolio diversification. iShares MSCI India ETF has had a cumulative performance of around 3% in this last month. As a high growth potential country, India was the major economy growing the fastest in the 1st quarter of the year with a close to 7% growth rate. High growth potential aligned with a young population and economic reforms, leading to the development of its services sector and improvement of labour market, can stimulate India into growing further and dethroning forever China.



Our performance

In April, equities' contribution to the overall portfolio performance was positive, with 0.28% cumulative return. Among the top performers were Umicore and Amazon and among the worst performers were Tencent, which was negatively affected by a EM sell-off and Goldman Sachs which regardless of showing improved trading revenue did not satisfy investors.

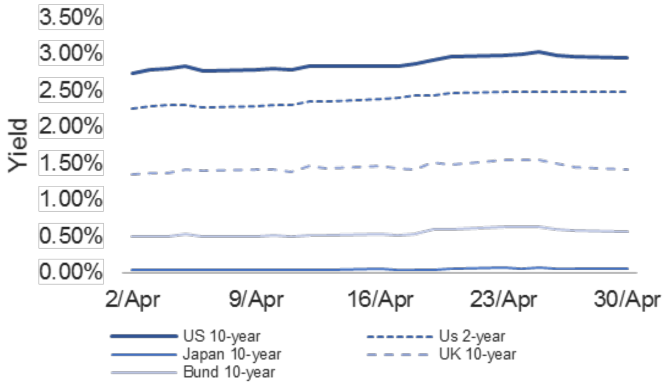


Sofia dos Santos Nunes
Financial Markets Division

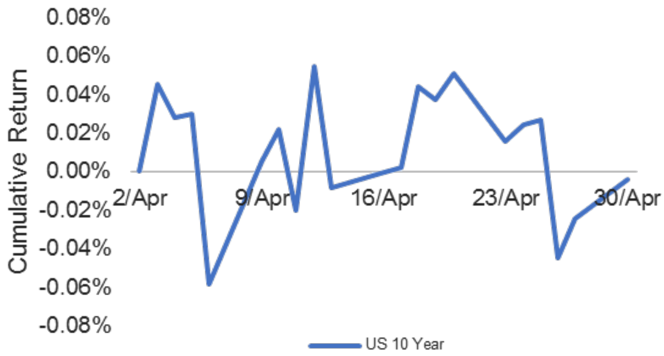
NIC Fund

Fixed Income

World Yields

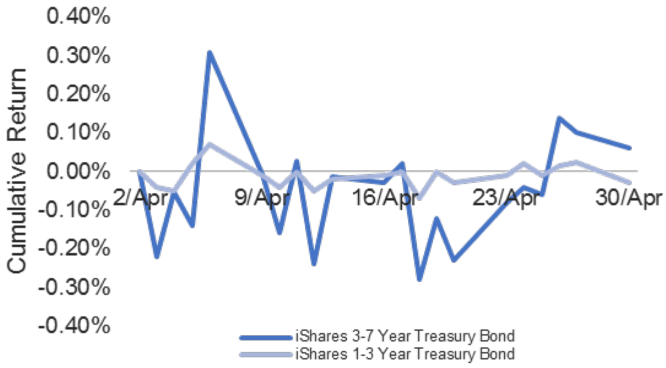


In the US, the 10-year treasury yield edged over the psychological 3% level for the first time since January 2014 before modestly retracing. US bonds notably underperformed their developed-market peers. US economic data was generally encouraging, subduing concerns about a potential rollover in growth. The consumer confidence index increased 1.7 points to 128.7, (where a modest decline was expected) keeping it close to cycle highs. New single-family home sales also surprised to the upside, increasing by 4%. The 'flash' PMIs for April were below expectations, with the headline composite index decreasing to 55.8 from 55.9. In Europe, the European Central Bank (ECB) meeting offered little insight as to the likely path of monetary policy for the second half of the year. ECB President Mario Draghi appeared to play down concerns related to recent disappointments in economic indicators, emphasizing that data still remains historically strong. Having increased in line with US treasuries earlier in the month, bund yields fell following the meeting. Economic data was mixed, with the German IFO survey continuing to slide from its record lows and French Q4 GDP falling to 0.3%. In the UK, senior MPs called a (non-binding) motion for the UK to seek an effective customs union arrangement with the EU, opposing the UK's current Brexit policy. Gilt yields largely followed other markets, ending between 2bps and 4bps lower. Emerging market debt was relatively volatile given the moves in developed market rates. US dollar strength weighed on local currencies. Idiosyncratic news stories drove some dispersion in performance, as the Turkish monetary policy committee delivered a 75 bps rate hike (above market expectations of 50bps) and US rhetoric indicated sanctions relief for Russia. Markets also closely watched the historical inter-Korean summit, where a "complete denuclearization" of North Korea and an end to the 65-year Korean War was agreed.



In depth

Regarding the next months, global bond fund managers are classifying yields on 10-year US Treasury notes as "attractive" now that this important benchmark for financial markets has risen above the "symbolic" 3% threshold for the first time since early 2014. Long-term investors such as pension funds and insurers are likely to start buying bonds in more significant quantities, especially US corporate bonds for the relatively attractive income streams, therefore supporting prices. Other investors support the view that US Treasury yields are near a top. With more uncertainty in Emerging Markets, safe 3% in the US might be interesting for developed and emerging markets investors alike.



Our performance

Our current position in the IEI ETF, tracking 3-7 year US Treasury Bonds, is 40% overweight and our position in SHY EFT, tracking 1-3 year US Treasuries, is 10% overweight. Over the month, the IEI index lost 0.77% and the SHY index lost 0.23%, leading to a total negative contribution of 33 bps in our portfolio.

Mahomed Vali
Financial Markets Division

NIC Fund

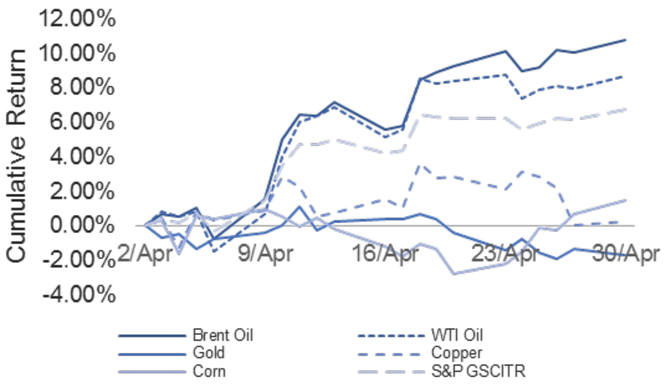
Commodities

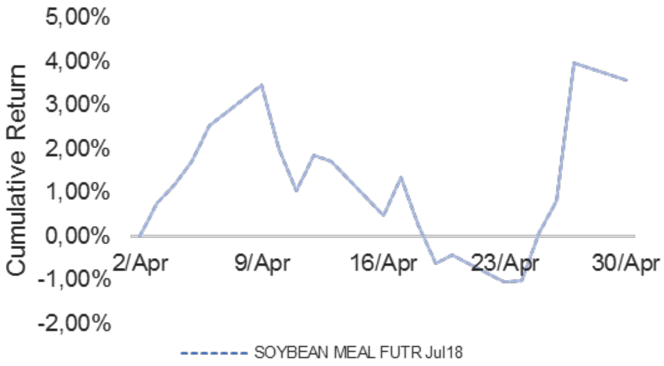
World Currencies

Earlier this month, **oil** prices have hit their highest level for three years amid geopolitical tensions in the Middle East. In the metals' sector, **Gold** has remained disappointedly range-bound through equity turmoil and rising geopolitical tensions. Moreover, hawkish Fed minutes did not help its performance.

In the agricultural commodities, China's retaliation against US tariffs earlier in April included, to the surprise of many, US **soybeans**, which sent the soybean market plunging downwards as the Chinese are responsible for 1/3 of the global consumption. Soybeans account for 2/3 of US agricultural exports and the soybean futures recovered at the end of the month on expectations that the US will increase its share of the soybean export market share due to harvest shortfalls in Argentina. Still in the agricultural commodities, the **coffee** market struggled as hedge funds took bearish bets in the aftermath of record Brazil crop and high stocks leading to low volatility.

Last month, speculative funds and computer trading dramatically influenced the **price of cocoa in the US**, which diverged in the longstanding price relationship with the London market. Since the start of the year the price of the commodity in New York is up 50%, while it has only risen 34% in London. This divergence comes as a result of trading on momentum by speculative funds, which are rippling several soft commodities markets.

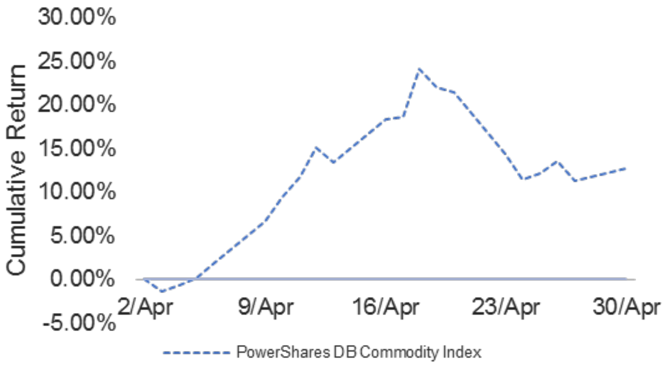




Outlook for May

After years of low market volatility and weak global growth, in the face of a **trade war** threat and as the market gets more comfortable with the **global economic growth** theme, the commodities market is expected to continue to **move higher** in the near future. Higher commodity prices will also affect the overall economy and central banks' policy decisions as it directly impacts inflation expectations.

In the energy market, it seems that the rebound in the oil price has been a Saudi Arabia's tactical victory. The 2016 agreement between OPEC and other large producers, restricting oil supply, has supported the steady rise of prices. In April, Brent crude hit USD 75 a barrel, and is now at a level that will enable Saudi Arabia to cover government spending. However, as the Kingdom wants to IPO part of Saudi Aramco, Saudi officials had been suggesting they would like to see oil between USD 80 and USD 100 a barrel. Nevertheless, for a market that is looking more constructive, one of the downside risks remains the US. In fact, Donald Trump already said that OPEC is keeping oil prices **'artificially very high'**. But higher prices also stimulate investment in oil supply, namely in the **US shale industry**, which is already running hot. Likewise, the **May 12** deadline to Trump's decision on whether to keep waiving sanctions on Iran will be a major market mover.



Our performance

In April, the Brent futures contract added a 0.09% gain to the overall portfolio performance.

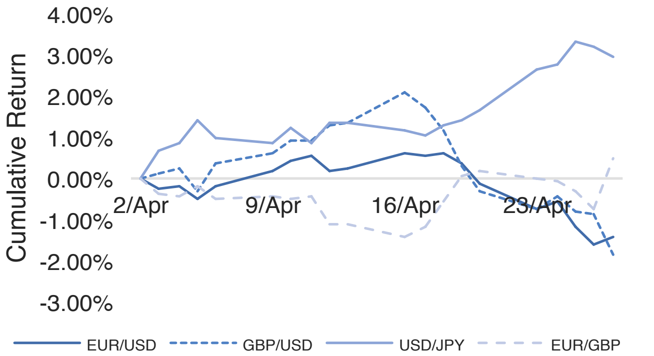
Tomás Ambrósio
Financial Markets Division

NIC Fund

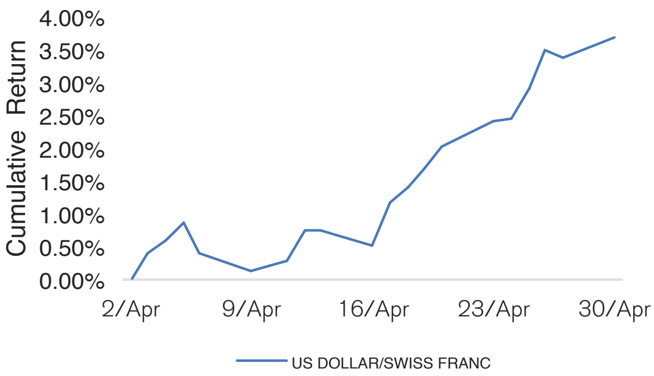
Currencies

World Currencies

The Sterling has begun to dive into bearish territory. The concerns regarding the economic slowdown was confirmed by the latest Purchasing Manager's Index survey (UK manufacturing data) which slipped to its lowest level in 17 months, postponing the chances of another interest hike to August. GBP/USD has accumulated over 800 pips of straight losses ever since hitting 1.4339 mid-April and amounting a loss of 1.999% for the month. The upcoming move will mostly depend on the next Fed's statement and the market reaction.
The uncertainty around the Eurozone's economic outlook make it difficult for the ECB to curb its lavish monetary stimulus. The EUR/USD pair continues to fall, mainly due to a rally in the USD, closing the month with 1.826% loss. The expected higher oil price could boost inflation in Europe in the coming month.



In Asia, the dollar continues to get firmer against the Japanese yen. The Bank of Japan had its April meeting and left all policy rates unchanged and most importantly, dropped its timeframe on the 2% inflation target. This change suggests that the BoJ would continue with negative interest rates in the near term. With limited news headlines and developments from Japan, the yen is mostly trading as a function of bond yields. While higher US yields have failed to weaken the yen in the past, interest rates have been driving currency markets since late March. The USD/JPY pair gained 3.222% in April as the Japanese yen depreciated against the US dollar for a fifth consecutive week.
Bitcoin appreciated by 33% in April with a jump from USD 6,926.02 to USD 9,244.32, making it the best month of 2018. As a reminder, Bitcoin's price fell overall in January and March, and only rose 1.4% in February. Having said that, investors fear remain high as the volatility of this risky asset make prediction in short-term a real challenge.



In depth

The USD climbed 3.692% versus Swiss franc to 0.9909 USD and this rally is driven by the USD. Indeed, the rising US Treasury yields and inflation was supported by positive macroeconomic data leading to a strong demand for the dollar. Investors are for the moment pricing in that the Fed will hike in June. However, the dollar can negatively be impacted by the next FOMC meeting that will occur at the beginning of May if the Fed express any doubts towards the expected 3 rate hikes this year. Moreover, the non-farm payroll and more importantly the wage growth announcement are expected to entrain another market move.
On the other hand, positive geopolitical development in the Korean Peninsula do not favour safe-haven currencies such as Swiss franc and Japanese yen.

Our performance

We are currently in a short position of the Brazilian Real against the US-Dollar. This position contributed 24 bps with the currency falling 5.7% over the month.

Sophie Pourinet
Financial Markets Division

Extras

Review of the NIC Fund

Julius Nimtz
Financial Markets Division

Thanks to all members of the Financial Markets Division, we were able to outperform our benchmark by 1.55% over the last 6 months.

Over the last half-a-year, the members of the Financial Markets Division managed the NIC fund, giving you monthly updates. As this is the last newsletter of the class of 2018, we would like to give you an overall summary of our work within the fund. We are looking back on an interesting period of time for financial markets, witnessing soaring markets driven by technology for the first half of our reporting period till volatility returned in the beginning of February. With volatility being more prevalent in the markets, more people were focusing on higher rates which ultimate closed above 3% on 10-year US bonds. Making money in this new environment is harder from an asset allocation perspective but offers opportunities for stock selection. Overall, we learnt much from being exposed to such a regime change.

Taking over this project from the previous class who initiated this project, we developed it further by changing the benchmark from being allocated with 60% to 3 till 7 year's bonds, 30% S&P 500 and 10% commodities to its current shape. We see this benchmark as more challenging as it covers more markets but also encouraged us to learn more about different financial markets and asset classes. Over time, we set up positions in all asset classes and regions we cover. In our weekly meeting we brought together our different expertises and backgrounds to evaluate our current portfolio and develop new ideas. Combining a bottom-up and top-down approach we allocate between asset classes and regions while picking individual stocks, too. Furthermore, we put an emphasize on mid to long term ideas to reduce our trading volume. This prevents us from chasing short term returns or be scared by short term over reactions of the market but rather focus on long-term opportunities.

With this investment approach, we were able to outperform our benchmark by 155 bps, gaining 2.08% since December compared to 0.53% for the benchmark. For the first half of our reporting horizon, we underweighted bonds favouring equities through a10% overweight. After closing this position and increasing the bond weight in our portfolio, we were still underweighting duration to be less exposed to increasing rates in the US. Both views helped us to generate outperformance. Besides this asset allocation, a sizeable return contribution comes from trades in commodities and currencies, we gained 15 bps by entering a long position on Brent in March and shorting the Brazilian Real which gained us 24 bps.

In terms of stock selection, overall we had 20 stocks in our portfolio, although not all of them are still hold as we cut losses and locked profits consequently. On average, 9% of the fund were in single stock invested over time, returning 15.04%, contributing 51 bps to the overall performance. Investments in Micron, Amazon, Adidas and Everbridge stand out with returns of 23.99%, 19.99%, 16.37% and 15.71% over the holding period. Our investments in Blackstone and Goldman Sachs lost 10.53% and 10.69% respectively. While we do not incur costs as normal portfolio managers do, we still see these results as impressive and a evidence that active management can generate value.

As Head of the Financial Markets Division, I would like to thank every member for her individual contribution to this project. As we are leaving university to go for summer internships we will reduce some risk positions in the fund to guarantee a smooth transition to the next class who will inform you about future performance.

Julius Nimtz
Financial Markets Division

Extras

Hot Topic

Increasing Equity-Bond Correlations

Johannes Weissensteiner
Financial Markets Division

The observed correlation is the result of a very dynamic interaction of a multitude of macroeconomic factors and until now there is no economic theory or empirical model that comprehensively captures this dynamism.

During past decades the inverse relationship between equities and bonds was key to the benefits of several portfolio setups. The recent simultaneous drop in bond and stock prices, however, marks a worrying break with the trend reigning since the '90s. Recently, movements of both asset classes into the same direction have become more frequent. During the past month there was an increased amount of days where the S&P 500 lost more than 0.5% and the 30-year US Treasury bond yield rose at least 3 basis points and also the S&P 500 index and the Bloomberg Barclays Aggregate, a well-known bond index, both headed to the same direction.

For many portfolio investors this is alarming. When looking back over previous decades, both asset classes have generally performed well. Times of increased pressure on stocks' prices usually also entailed an outperformance of high-quality bonds, thus, equity-bond portfolios were mostly stabilised in such periods. However, from a historical perspective this negative correlation is everything else than law of the markets. When examining the past 140 years, equity-bond correlation has gone through many regimes. For instance, the recent period of negative correlation started in the '90s. Before that, there was a time stretch of 40 years of positive correlation. The observed correlation is the result of a very dynamic interaction of a multitude of macroeconomic factors and until now there is no economic theory or empirical model that comprehensively captures this dynamism.

Now, as some investors expect more inflationary pressure, there is increased concern that the beneficial balance of the two asset classes is vanishing. The calculation goes as follows: Increased inflation negatively affects the return of bonds. Moreover, inflation indirectly affects bond markets by causing central banks to increase short-term rates. Rising inflation expectations, which are caused by stronger economic growth figures, should usually be good for equities. However, the increase in bond yields also implies higher borrowing costs for companies, thus stock prices will look less appealing compared to safer alternative investments.

Now, the rise in correlation already weighs on several popular investment strategies. Just look at the risk of a typical balanced 60/40 portfolio, with 60 per cent invested in equities and 40 per cent invested in bonds. Volatility has picked up in both asset classes as both have become more sensible to any data that indicate inflation could accelerate. But, the increase in positive correlation would especially affect risk parity strategies. Risk parity portfolios use leverage to ensure that both asset classes contribute the same risk. In short, this means, the fixed-income part of the portfolio is leveraged up. If current circumstances would force risk parity portfolios to deleverage their investments, this could even deteriorate to the headwinds. Positive correlations for a short period of time is no major issue. If the trend continues, however, over an extended time span there is concern that this could cause systemic waves in the structure of financial markets. Thus, as the market mostly stares at the development of volatility in the markets, the effects of increased correlation should not be underestimated when evaluating the performance and robustness of the bond and equity parts of portfolios.

Johannes Weissensteiner
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Hot Topic

The Imminent Trade War

Inês Patrício
Investment Banking Division

" Considering the complexity of international supply chains, many market participants are on edge that new tariffs might have damaging unintended consequences."

– S&P Global

Under concerns of "national security", the proposed tariffs on steel and aluminium will remain a key priority for the Trump Administration throughout 2018. The White House is noticeably running on an "America First" basis, claiming the import duties are crucial to safeguard domestic metal producers from arbitrary competitors as well as to boost national reassurance among redundant surplus of both steel and aluminium – a result of China's past excessive production. Although common views argue the duties will mostly impact China and US, Chinese activists are expected to seize on tariffs as an opportunity to accelerate domestic reforms, hence promoting the Asian economy in a surprising manner.

In fact, the impact of such a dispute has already been made crystal-clear across financial markets, notably by prompting executives at the IMF and ECB to alert that the on-going excessive protectionist environment could eventually turn out to be a hitch for the global economy recovery.

In an opposite manner, the US President has given its allies, namely EU, Canada and Mexico, another month reprieve from new tariffs, deferring the controversy generated by the measures until early June. Nonetheless, one may argue that Donald Trump's delayed verdict poses a mere tactic to postpone an imminent trade war for another 30 days, in which US confederates are given more time to renegotiate the deals with the Trump administration. On the other side, the decision may also come together with certain perks, particularly with the possibility of winning concessions from these countries, thus avoiding future retaliation. In spite of that, the duties rescheduling over its allies have failed to attenuate transatlantic tensions so far, as all parties remain simply concerned with finding a manner of encouraging the White House to make exemptions permanent.

In this sense, the million-dollar question markets are currently asking themselves consists in whether Trump's forthcoming move will effectively extend tariffs to US allies or if his action plan solely intended, from the very beginning, to getting Europe to lower trade barriers on American industrials (e.g. cars). Although EU represents its largest and longest-standing partner, US is still objecting against the "unfair" European auto tariffs. As a result, the scope of the continued dialogues between two sides is more narrowed than ever before: on the one hand, there is EU waiting for perpetual immunity out of trade tariffs, whilst on the other hand there is US pushing to offer increasingly favourable transatlantic trading terms.

In brief, despite frustration in most of EU, the region has consistently revealed its interest to discuss existing market access, insisting that it is still set for solid economic growth that can be compromised by latent Donald Trump's trade policies. As a matter of fact, most of EU's current risks derive from its correlation with the US, particularly in what concerns to fiscal stimulus, increasing FED interest rates and prospects of a trade war.

All in all, while individual countries are fretted with their own nation-wise consequences resulting from the imposed tariffs, one may not disregard the "biggest loser" out of the trade war: China. By extension, all economies might have their credit profiles hurt over the long-run, considering the complexity across international supply chains and the trade relationship that has been seized over the past among all market participants.

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Thank you!

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

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