NIC

— Nova Investment Club —

# Newsletter

**March 2020**

NIC

Nova Investment Club

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# Foreword

**This Month:**

In our Macro Overview section, Analysts from both divisions will cover broad macro themes while reviewing major economic news from the past month. In our Deeper Dive section, Federico Farina elaborates on Bob Chapek to succeed long-time Disney CEO Bob Iger. Moreover, in our Regional View, Francisca Fernandes examines the measures European Central Bank is taking in response to the impact of coronavirus.

Our Investment Banking Division will guide you through February's M&A overall activity. Read about Dialog Semiconductor to acquire Adesto Technologies, Amundi to acquire Sabadell's Asset Management Unit and PepsiCo to acquire Be & Cheery. Additionally, get a detailed overview on what happened to Domino's, as well as consider our opinion on CAC 40 Index.

Our Financial Markets Division will present the monthly results of the NIC Fund, an active relative return fund investing across four different asset classes: Equities, Fixed Income, Commodities and Currencies. The analysts will also provide commentary on each of the four major asset classes through analysis of the past month's major market moves. The overall performance of the NIC Fund in February was negative, with a cumulative return of -2.52%. This loss was mainly attributed to a decline in Equities and Commodities.

On the Hot Topic of this month, Valentina Heimann examines about first step between US and Taliban towards peace in Afghanistan and, Rafael Santos elaborates on Blackrock's move on finance's fundamental shift. Lastly, Raphael Salimi will be heralding our new partnership with Nordea Asset Management. We have added a new section regarding ESG to our newsletter since NIC believes in the importance of growing attention in topics related to environment and human rights as they are driving a radical change in the investment market. In collaboration with Nordea, Raphael's article points out how ESG commitments can create value.

# NIC
Nova Investment Club

# Macro Overview

## Monthly
March 9th, 2020

Deeper Dive
### Bob Iger stepping down as CEO of the Walt Disney Company
— p.2

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### Market Moves

**Market Moves**

*% change*

| | Last Close | -1W | -3M | YTD |
|---|---|---|---|---|
| S&P 500 | 2.954 | -11,49% | -5,95% | -8,56% |
| DJIA | 25.409 | -12,36% | -9,42% | -10,96% |
| Nasdaq | 8.567 | -10,54% | -1,13% | -4,52% |
| MSCI World | 2.762 | -10,45% | -8,81% | -11,12% |
| MSCI EM | 3.678 | -6,90% | -1,44% | -8,03% |
| Russell 2000 | 1.476 | -12,04% | -9,11% | -11,51% |
| Euro Stoxx 50 | 3.329 | -12,39% | -10,10% | -11,10% |
| FTSE 100 | 6.581 | -11,12% | -10,43% | -12,75% |
| Nikkei 225 | 21.143 | -9,59% | -9,23% | -10,63% |
| Hang Seng | 26.130 | -4,32% | -0,82% | -7,31% |
| Dollar Index | 98,13 | -1,14% | -0,14% | 1,81% |
| EUR/USD | 1,103 | 1,65% | 0,07% | -1,67% |
| GBP/EUR | 1,163% | -2,70% | -0,95% | -1,68% |
| GBP/USD | 1,282% | -1,09% | -0,79% | -3,27% |
| USD/JPY | 107,890 | -3,33% | -1,46% | -0,66% |
| USD/CHF | 0,96 | -1,36% | -3,53% | -0,18% |
| Brent Crude | 50,520 | -13,64% | -19,08% | -23,45% |
| Gold | 1.566,7 | -4,74% | 6,90% | 2,86% |

**Generic Bond Yields**

*change in bps*

| | Last Close | -1W | -3M | YTD |
|---|---|---|---|---|
| US 10Y Yield | 1,149% | -32,3 | -62,7 | -76,9 |
| GER 10Y Yield | -0,607% | -17,6 | -24,7 | -42,2 |
| JPY 10Y Yield | -0,153% | -9,7 | -8,0 | -14,2 |
| UK 10Y Yield | 0,442% | -13,1 | -25,5 | -38,0 |
| PT 10Y Yield | 0,353% | 11,6 | -4,8 | -8,9 |

**Source: Bloomberg, as of 2020-02-28*

In Focus
## February

**Coronavirus is causing stock markets to tumble.** Tech stocks were particularly as investors feared shortfall and supply chain issues. Asian and European stock exchanges, including the DAX, also made losses, whereas Gold and government bonds, traditional safe havens, experienced higher demand.

**Covid-19 impact on world economy.** Italy quarantines cities around Milan, Austria stopped train connections to Italy and all schools and universities in Italy are closed until the 15th of March. IMF Director Kristalina Georgieva reduced her global growth forecast by 0.1pp to 3.2% due to the virus outbreak. Airlines are cancelling flights and reducing schedules due to virus outbreak. The virus has caused an estimated 80% drop in travel at China's busiest airports. Chinese factories output in February is expected to be record low as quarantine efforts to contain the disease disrupted supply chains – with damaging consequences for companies around the world.

**China cut interest rates.** China's central bank cut the interest rate of medium-term lending facility (MLF) to 3.15% on Monday, 10bps lower than the previous MLF. The People's Bank of China injected CNY 200 bn (about USD 28.66 bn) into the market via the MLF.

**US and Taliban signed peace agreement.** The two sides aim to find a way out of 18 years of conflict in Afghanistan. The agreement stipulates that the USA and its NATO allies will withdraw their troops from the country within 14 months. In return, the Taliban promise not to launch any attack and not to shelter extremists in their controlled areas. Although the government in Kabul is satisfied, it also rejects some Taliban conditions.

**US Primaries: Joe Biden and Bernie Sanders as main democratic candidates.** The moderate candidate Joe Biden won 48.4% of the vote in South Carolina, making him the clear winner (Sanders: 19.9%), however, shortly afterwards, Bernie Sanders received the most votes in Nevada. Before, he has already received the support from electors after winning earlier Iowa and New Hampshire with 26% of the votes.

**Turkish soldiers die in air attack.** At least 33 soldiers died in the attack near the defeated city of Idlib. It is also unclear whether the air attack originated in Syria or Russia. President Erdogan, who already threatened to attack Syria in the past, called a special session.

**Erdogan opens Turkish borders to refugees.** Despite the agreement with the EU, Turkish President Erdogan opened borders to let refugees crossing to Greece and Bulgaria. "We have opened the gates" said Erdogan. He accused the EU of not keeping its promises in the refugee pact.

**Trump presents budget to congress.** President Trump plans to spend USD 4.8 tn in the next fiscal year. The largest single block is military spending at USD 740 bn, 0.3% higher than last year. There are, however, some sharp cuts in social benefits, development aid and environmental protection. The White House has earmarked USD 2 bn for a border wall with Mexico. Nevertheless, due to the border paragraph, the budget is likely to be rejected by Congress in its current form.

**EU sets conditions for post-Brexit relationship.** EU Parliamentarians are demanding that the UK complies with several EU regulations to enable a free trade agreement. Specifically, regulations in areas such as climate change, business subsidies and chemicals.

Valentina Heimann
Financial Markets Division

Deeper Dive

# Bob Iger: "The Ride of a Lifetime" Coming to an End

Federico Farina
Investment Banking Division

*"If you look back at the history of Disney, their most successful years were primarily when there was a creative leader, i.e. Walt Disney and business money manager, i.e. his brother Roy. The same could be said for Michael Eisner and Frank Wells during the Disney Renaissance of the 1990s. The marriage of a business side and a creative side is a part of Disney's DNA"*

– Aaron Goldberg, author of "The Disney Story"

The acquisition of Pixar, Marvel, Lucasfilm, the headlining assets of Rupert Murdoch's 21st Century Fox, the opening of Shanghai Disneyland, and the launch of Disney+. These were the milestones led by the former Disney's CEO Bob Iger, who built the largest media and entertainment company in the world. After more than 40 years serving the company and 15 as Chief Executive Officer, the 69-year-old is stepping down, ending one of the most successful tenures in media history while still having nearly two years left on his contract. "With the successful launch of Disney's direct-to-consumer businesses and the integration of Twenty-First Century Fox well underway, I believe this is the optimal time to transition to a new CEO" Iger said. But his work at Disney is not over. Iger will be staying on as executive chairman to focus on the creative side of the company. Bob Chapek, the head of parks, experiences and products unit, has been appointed as new CEO.

Focusing on the creative side of the company may seem a step down for Iger but it is not. Creativity is what made Disney great and a powerful head leading this area, is vitally important. "If you look back at the history of Disney, their most successful years were primarily when there was a creative leader, i.e. Walt Disney and business money manager, i.e. his brother Roy. The same could be said for Michael Eisner and Frank Wells during the Disney Renaissance of the 1990s. The marriage of a business side and a creative side is a part of Disney's DNA" Aaron Goldberg told CNN Business.

Looking back at Iger's career, he pushed to counter the forces of Netflix and other technology groups that have reshaped Hollywood. "Innovate or die" the former CEO is used to say, a quote that brought him to announce in 2017 that Disney would create its own streaming platform. Few weeks ago, it was reported that Disney+ already had more than 28 m subscribers, only three months after launching. However, the sector's competition is harsh, seeing names as Netflix, Amazon, AT&T and Apple spending billions on programming to attract people to their online video services.

Since Bob Iger took over in 2005, the company's stock price has increased close to 400%, with a market cap going from USD 56 bn to USD 231 bn. Under his tenure, Disney became the world's largest media company. If one of the key measure of a CEO's success is their deal making ability, Iger passed the screening at full marks. In 2006, Disney bought Pixar for USD 7.4 bn. The acquisition revived the company's animation department and brought on board figures like Steve Jobs, Ed Catmull and John Lasseter. Next was a USD 4 bn bid for Marvel Entertainment in 2009. Under Disney, Marvel movies became some of the most profitable franchises in the business, generating billions at the box office. In 2012, Iger reached an agreement with Star Wars' creator George Lucas for the acquisition of Lucasfilm. A USD 4 bn deal finding great potential in licensing and merchandising. Then came the centrepiece – a USD 71.3 bn deal to buy 21st Century Fox from the Murdochs. The move was central in the direct-to-consumer vision of Iger, taking on well-funded rivals like Netflix and Amazon.

Disney shareholders will be sad to see "the King of Hollywood" go but, with him still in the company, the new entrant Bob Chapek has time to build his skill set under Iger's mentorship and he will still report to him and the Board of directors. "The only way I was able to make sure all of our creative engines were working extremely well was passing the torch on to Bob. The authority over the business will shift to him, freeing me up to do what I think is our next big priority", Iger said. Disney comes from extraordinary successful years and Bob Chapek is called to fill not small shoes. On the response to Chapek's appointment, Iger ensured he has chosen the right man and with his bold operational moves, time will tell.

Federico Farina
Investment Banking Division

Regional View

# ECB Ready to Take Action to Address the Economic Impact of Coronavirus

Francisca Fernandes
Financial Markets Division

*"The coronavirus outbreak is a fast-developing situation, which creates risks for the economic outlook and the functioning of financial markets"*

– Christine Lagarde, President of the European Central Bank

Coronavirus is causing serious economic disruption in Europe with companies restricting staff travels, tourists calling off their plans, airlines scrapping flights, sporting events being cancelled and some factories already preparing for supplies of Chinese goods to dry up. As a consequence the Organisation for Economic Co-operation and Development cut this year's growth forecast for the eurozone from 1.1% to 0.8% but kept it unchanged for next year at 1.2%.

With almost 3,300 confirmed cases reported, Italy is the epicentre of the coronavirus in Europe and has the third-most infections in the world behind China and South Korea. The Italian government has had to confine about 50,000 people to their local areas and closed down schools and public spaces in a number of regions.

As a result of this downturn, the European Central Bank is expected to announce stimulus measures in the coming days, after the Federal Reserve surprised global markets with a large rate cut of 50 bps to a range of 1-1.25%. These hopes helped to boost stock markets across major economies after their worst week of losses since the financial crisis, as fears of a global recession were intensified by the rapid spread of the virus outside of China.

Christine Lagarde, president of the European Central Bank, said it is "ready to take appropriate and targeted measures" to address the economic impact of the coronavirus, signalling a growing willingness to intervene. "The coronavirus outbreak is a fast-developing situation, which creates risks for the economic outlook and the functioning of financial markets", she said. Eurozone interest rates are at record low of minus 0.5% and debate about the adverse impact of negative rates has enhanced across Europe in recent months. The ECB is also providing other forms of stimulus to the euro zone via an open-ended bond-purchase program and cheaper funding for European banks.

After the 2008 financial crisis erupted, the ECB earned a reputation for being slower than other major central banks to take action and Ms Lagarde's hesitancy is recreating the impression that the ECB is once more behind the curve. The case for monetary policy action is evident as economists are cutting their growth forecasts, with many predicting the eurozone will fall into a recession in the next three months to June.

In Germany, the hopes that the manufacturing sector was set to recover from the deep recession that has gripped the industrial heartland of Europe for the past two years were dashed when data showed that new industrial orders in the country fell 2.1% (vs. -1.5% expected) in December from the previous month. Carmakers and motor parts suppliers executives warned that plants in Europe and the US are only weeks away from being forced to close because of disruptions caused by the coronavirus outbreak. Finance Minister Olaf Scholz recently said that the government had the means to "launch a fiscal stimulus package" if the situation worsened.

The Italian government aims to spend EUR 3.6 bn to help overcoming the crisis, including measures to cushion the economic impact on Northern Italy, the focus of the country's outbreak. Roberto Gualtieri, minister of finance, said in an interview last Sunday that he was looking at a three-step plan to support companies and workers. Nevertheless, these measures solely will not rescue Italy from a terrible first quarter as the economy is expected to shrink.

Since taking over, Ms Lagarde has argued that governments need to do their part when it comes to stimulating the economy, rather than leaving it all to the ECB. If the outbreak of coronavirus in Europe and the world worsens, Europe will need to act together possibly through a combination of monetary and fiscal stimulus.

Francisca Fernandes
Financial Markets Division

Macro Overview

# Economic Calendar

## Economic and Political Events

### World Economic Forum

From the **25th** to the **26th** of March, a group of 300 executives will convene in Geneva for the World Economic Forum to debate around *The Era of Stakeholders capitalism.* The meeting aims to generate new insight on industry transformations, focus on impact-oriented outcomes.

### French Municipal Elections

The French Municipal Elections will be held on the **15th** and **22nd** of March. Macron's new Paris mayoral candidate, Agnès Buzyn, replaces Benjamin Griveaux following the scandal he was involved in. The main contenders against mayor Hildago are Dati, Vilani and Buzyn.

### Democrats Abroad Primary

The Democrats Abroad Global Presidential Primary runs across hundreds of voting centres around the world. From the **3rd** to the **10th** of March, American citizens living abroad can participate to the primary.

## Central Bank Decisions

### Fed cut Interest Rate

On the **3rd** of March, the Fed took an emergency step by cutting the US benchmark interest rate by half a percentage point to limit the economic fallout from Coronavirus. The US 10-year Treasury bond fell below 1% for the first time in History.

### ECB Monetary Policy Decision

The Governing Council of the ECB will meet on March **12th** in Frankfurt to discuss monetary policies in response to the fear of a global recession intensified by the rapid spread of Coronavirus. Markets expect a 10 bps rate cut and changes to bank lending.

### RBA cut Rate to Historical Low

On the **3rd** of March the Reserve Bank of Australia reduced cash rate by 0.25% to a new historical low of 0.5%. According to Philip Lowe, this measure will tackle the negative effects of Coronavirus on manufacturing, due to the high dependence of the Australian economy on Chinese exports.

## Inflation and Deflation

### Update on UK's Inflation Rate

UK's inflation rate will be announced on March **25th**. Following a weakening GPB, experts forecast inflation to be 1.5%, 0.3% lower than the last month, thereby missing the 2% target-rate.

### Brazil's Inflation

Brazil's inflation data will be made public on the **11th** of March. Following the drop to 4.19% in January 2020, inflation is expected to further decrease to 4.1%. Experts forecast a further decline to 3.7% in 2021.

### Switzerland Consumer Price Index

On March **3rd** YoY consumer prices fell by 0.01% in Switzerland. Falling short of forecasts that were targeting a positive 0.1% inflation.

## Labour Market

### US Employment Readings

On March **6th** , the February US non-farm payrolls and unemployment rate were published. Despite signs of economic slowdown, the labour market stays strong, with the unemployment rate closing at a 49-year low 3.5%.

### Euro Zone Unemployment Data

The January unemployment rate in the Euro-Area was 7.4%. Among the Member States, Czech Republic has the lowest rate (2%), whereas Greece is the worst with an unemployment as high as 16.5%.

### Italy Labour Market

On the **3rd** of March, Italy published its unemployment data, which reached their lowest value since March 2012 at 9.8%. However, the youth employment rate has been increasing since October 2019, now reaching 29.3% in January 2020.

Benedetta Laruccia
Financial Markets Division

# Investment Banking

M&A

## Overall Activity

### Global

The year 2020 began slowly in terms of global M&A activity, which declined in January and February across all measures. Worldwide, the number of transactions fell by 14.2% to 2,503, while the total value of transactions fell by 52.8% to USD 168.73 bn the lowest global transaction value since February 2013. By contrast, M&A activity in the US was mixed: the number of transactions rose by 17.9% to 763, while the total value of transactions fell by 38.4% to USD 76.04 bn. The average value of transactions decreased overall - in the US by 47.8% to USD 99.65 m and globally by 45% to USD 67.41 m. The significant decline in global transactions comes at a time when fears of a global health pandemic linked to the coronavirus outbreak are growing, as is the increased volatility of the stock markets. Global strategic and sponsorship activity declined in February by 15.3% to 2,161 but deals in the US increased by 19.4% to 584. Strategic business volume, measured by dollar value, fell by 42.3% to USD 55.25 bn in the US and by 53.4% worldwide to USD 128.28 bn.

### Selected Regions

North America

During the first two months of the year the value of the deals announced was USD 419 bn, down 27% compared to last fiscal year. This was one of the slowest start since 2013 for the deals-making market.

The effects of the COVID-19 virus are not yet tangible, but instability of the markets will likely have a negative effect in the number of mergers & acquisitions in North America.

EMEA

Europe, the second region which had the most significant impact of the Coronavirus, has faced a reduction of 25% on the total deals value during February.

Instability of the markets, overall slowdown of the German economy and uncertainty about the future of the United Kingdom were all factors that contributed to a general reduction of appetite for deals.

Asia

The Asia Pacific region, after the highs of 2018, will likely see a reduction in M&A activity, as it will happen in the other macro regions mentioned.

Baker McKenzie forecasted a reduction of 18% in overall activity while there are expectations of specific resilience from selected regions, such as Singapore, Thailand and Australia.

The effects of the Virus will negatively impact the Chinese market with a reduction in both number and value of deals.

M&A

## Deals of the Month

| Announced Date | Target | Buyer | Target Region | Target Business | Value (USD m) | Premium (%) |
|---|---|---|---|---|---|---|
| 20 Feb 20 | E-Trade | Morgan Stanley | USA | Financial Services | USD 13 bn | N/A |
| 24 Feb 20 | Credit Karma | Intuit | USA | Personal Finance | USD 7.1 bn | N/A |
| 18 Feb 20 | Legg Mason | Franklin Templeton | USA | Financial Services | USD 4.5 bn | 23% |
| 18 Feb 20 | RSA Cybersecurity | *Consortium of Buyers* | USA | IT | USD 2.08 bn | N/A |
| 5 Mar 20 | Meet Group | Prosieben | USA | Entertainment | USD 500 m | 38% |
| 11 Feb 20 | AIM Bancshares | Heartland Financial | USA | Financial Services | USD 280.4 m | N/A |
| 11 Feb 20 | Ringer | Spotify | USA | Entertainment | USD 250 m | N/A |
| 18 Feb 20 | Golan Telecom | Cellcom Israel | Israel | Telecom | USD 172.4 m | N/A |
| 10 Feb 20 | Ventanex | Repay Holdings | USA | Financial Services | USD 50 m | N/A |
| 21 Feb 20 | Halo Cars | Lyft | USA | Transportations | N/A | N/A |

Michele Marcaccio & Tobias Berberich
Investment Banking Division

M&A: Top Deals

# Dialog Semiconductor to Acquire Adesto Technologies

On 20th of February 2020, Dialog Semiconductor plc announced it has signed an agreement to acquire all outstanding shares of Adesto Technologies Corporation ("Adesto") for USD 12.55 per share in cash, or for approx. USD 500 m enterprise value.

## Buyer vs Seller

Dialog Semiconductor PLC is a UK-based manufacturer of semiconductor-based system solutions and integrated circuits with revenues of USD 1.44 bn in 2018. Dialog's products are used by smartphones, computing, Internet of Things devices, and smart home applications. The company is headquartered in the United Kingdom, with a global sales, R&D and marketing organization. Adesto provides application-specific semiconductors and embedded systems that comprise the essential building blocks of Internet of Things devices.

## Industry Overview

After a weak 2019 for the semiconductor industry with sales dropping 12%, industry experts anticipate the semiconductor market to recover in 2020 and continue to prosper. Future drivers of the semiconductor industry are advances in machine learning and Internet of Things. According to a report from PwC, total semiconductor sales reached US 481 bn in 2018 and are expected to grow to US 575 bn in 2022.

| Peers | Currency | Market Cap (CUR m) |
|---|---|---|
| NVE Corp | USD | 311.26 |
| Micron Technology Inc | USD | 61,420.20 |
| Cypress Semiconductor Corp | USD | 8,676.02 |
| Photronics Inc | USD | 894.59 |
| Silicon Laboratories Inc | USD | 4,004.47 |

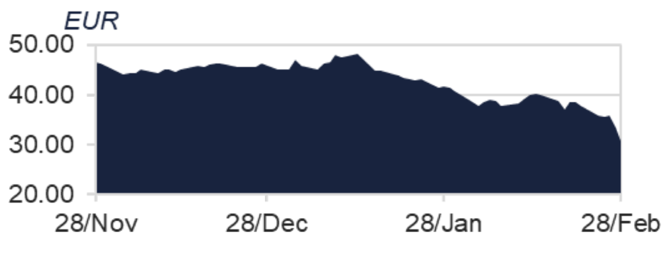
## Deal Rationale

The acquisition of Adesto accelerates Dialog's expansion into the growing industrial IoT market that enables smart buildings and industrial automation (Industry 4.0), seamlessly driving cloud connectivity. "This acquisition substantially enhances our position in the Industrial IoT market," said Jalal Bagherli, CEO of Dialog. Dialog expects annual cost synergies of approximately USD 20 m within the first calendar year of close across the combined company and they also anticipate considerable additional revenue synergies given the complementary nature of the product portfolios and technology.

## Market Reaction

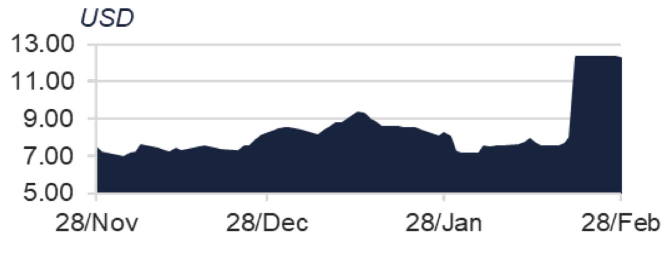
**Dialog Semiconductor plc**

Reportedly, after the announcement on 20th of February, Dialog's stock was up 0.6%. The decline in the share price in end of February is due to market corrections because of corona virus fears.




**Adesto Technologies Corporation**

The announcement, 20th of February, caused the Adesto stock to jump by 54.5% from USD 7.99 to USD 12.34.




## Future Challenges

Even though the acquisition of Adesto will reduce Dialog's reliance on Apple, its largest customer, and also help to expand into the growing industrial IoT market, a successful integration of the two companies may take some time. Mark Tyndall, Dialog's senior vice president of corporate development and strategy commented: "It's too early to announce any definitive integration details at this time, as this announcement is the first step. That said, we are excited to be adding such highly skilled and complementary design and engineering capacity to service the large demand driven by Industry 4.0."

Alexander Keil
Investment Banking Division

M&A: Top Deals

# Amundi to Acquire Sabadell's Asset Management Unit

Credit Agricole's investment arm Amundi has agreed to acquire 100% of Banco de Sabadell SA's asset management business for EUR 430 m in cash. The transaction is subject to regulatory approvals and is expected to close in the third quarter of 2020.

## Buyer vs Seller

Amundi is the leader asset manager in Europe with EUR 1.653 tn in assets under management and is present in further regions as Asia-Pacific, Middle East and the Americas. Sabadell Asset Management is the fifth largest player in Spain, with EUR 21.8 bn worth of assets under management.

## Industry Overview

The global asset management industry has geared toward an increased concentration over the last decades. Spain is no exception to this trend, with three main players holding circa. 54% of the market share. The steady growth that has been experienced by the industry, is expected to continue, driven by the surge of high-net-worth individuals in developing economies and a government incentivised shift to individual retirement plans.

| Peers | Currency | Market Cap (EUR m) |
|---|---|---|
| Banco Bilbao Vizcaya Argentari | EUR | 26.964,93 |
| CaixaBank SA | EUR | 13.105,33 |
| Unicaja Banco SA | EUR | 1.334,14 |
| Bankinter SA | EUR | 4.423,32 |
| Bankia SA | EUR | 4.033,35 |

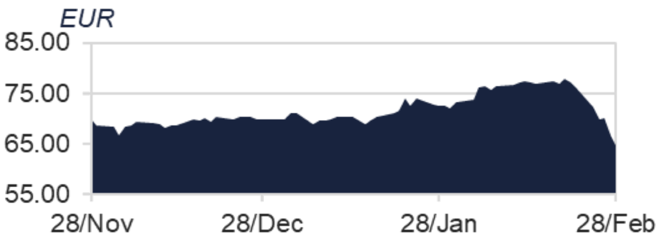
## Deal Rationale

The acquisition aligns with Credit Agricole's strategy of reinforcing its presence in Spain. The country ranks as the fourth biggest asset management market in Europe and Amundi Iberia already had EUR 21 bn assets under management. Although the two entities will remain separated, the acquisition includes a 10 years partnership that will allow Amundi to access Sabadells's retail branches. From Banco de Sabadell's perspective while its clients will benefit from Amundi's wider range of saving and investment products. The combination of the two firms places Amundi as the fourth player in Spain after Santander, BBVA and CaixaBank.

## Market Reaction

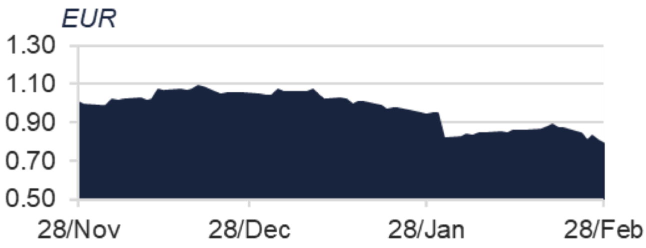
**Amundi SA**

After the announcement on January 21th, the stock price rose 3%. Since February 19th, the share price has decreased by 20%. As for today, the share price is EUR 62.15




**Banco de Sabadell SA**

Since the acquisition announcement, the company stock price has shrunk by 27%. However, the drop in the share price is not related to the transaction but to macroeconomic conditions affecting the market.




## Future Challenges

According to Amundi CEO Yves Perrier, "The acqisition of Sabadell Asset Management is for us a new step to reinforce significally our position in Spain, a major savings market in Europe". Future challenges could arise from a culture clash and the lack of experience of Sabadell's employees with the broader range of products Amundi offers. Overall, prospects are positive and the acquisition is expected to accelerate Amundi's sales.

Marina Quintero Gonzalez
Investment Banking Division

M&A: Top Deals

# PepsiCo to Acquire Be & Cheery

The Chinese online snack company is in a definitive agreement to be acquired by PepsiCo through a USD 705 m offer. Be & Cherry is currently held by Chinese snacks supplier, Haoxiangni Health Food Co Ltd, since its acquisition in 2016.

## Buyer vs Seller

PepsiCo is the second largest food and beverage business in the world due to its global supply chain network, resulting in a strong presence on more than 200 countries. Be & Cheery produces and sells nuts and dried fruits, predominately through online channels. Thanks to its data-led innovation capability and strong e-commerce sales platform, Be & Cheery is among the top three snack food companies in China.

## Industry Overview

PepsiCo has been operating in the Chinese market for more than 40 years where it aims to reinforce its position, in a segment with crescent significant players, that is predicted to be worth USD 427 bn by the end of 2020. Moreover, the market is expected to grow at an annual rate of 4.1%, CAGR from 2020 to 2023. This buyout indicates a real willingness to build a durable market leadership position in the world's second largest economy.

| Peers | Currency | Market Cap (CUR m) |
|---|---|---|
| LeoVegas AB | SEK | 2,612.48 |
| Evolution Gaming Group AB | SEK | 67,654.47 |
| bet-at-home.com AG | EUR | 260.37 |
| Kambi Group PLC | SEK | 3,864.11 |
| 888 Holdings PLC | GBp | 396.71 |

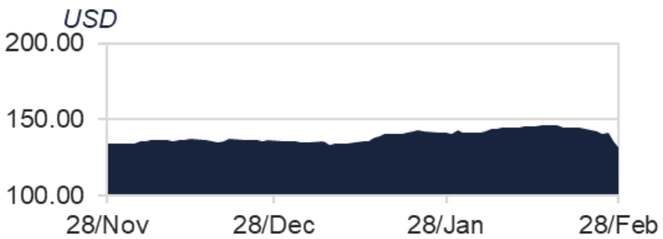
## Deal Rationale

Through this acquisition, PepsiCo will strongly complement its established portfolio in the booming China geography, under the e-commerce expertise of Be & Cheery. As a matter of fact, PepsiCo will have access to an instant digitalized infrastructure to deliver snacks, with consequent increase on consumer response capacity, as well as a greater knowledge of real-time consumer spending data. PepsiCo's strong branding and route-to-market capabilities will be complemented by the asset light model of Be & Cheery. Thanks to this, the company is one step closer to its major goal of becoming China's leading consumer-centric food and beverage company, while accelerating its growth in key markets.

## Market Reaction

**PepsiCo**

Despite its slightly increase, upon the announcement on February 23, the stock price had a predictable decrease due to the lately negative market behaviour.




**Be & Cheery**

The company had a very positive outcome in 2019, with a net profit of USD 24.3 m, 32% higher than the previous year. The synergies from the acquisition are expected to result in a significant increase of the company's digitalised and consumer-led capabilities. The lately outbreak of COVID-19 had an imminent downturn on the financial markets. However, the depression on the overall business activity in Asia may, in fact, contribute to a positive increase of the online supply channel of the company as an alternative way to overcome the daily struggles of purchasing in physical stores.

## Future Challenges

As PepsiCo's overall profits on the beverage sector have stagnated lately, its future growth relies on the food segment. Through this major acquisition, the company reveals a trend to outgrow its snack food division alongside with a belief on a potential sales gain in this niche, with special focus on developing countries. However, the company needs to quickly redirect its business model to the online channels and e-commerce platforms as a way to tackle the devastating consequences of the current global epidemy.

Mariana Nóbrega
Investment Banking Division

What Happened To

# Domino's

Domino's Pizza Inc. is a US-American Pizza manufacturer that focuses on delivery service and in-store pick-ups. Besides Pizza, the company cooks Pasta as well and prepares salads. It was founded in 1960 in Michigan and operates through over 16,000 restaurants. Key for their success is their ingenious franchise concept.

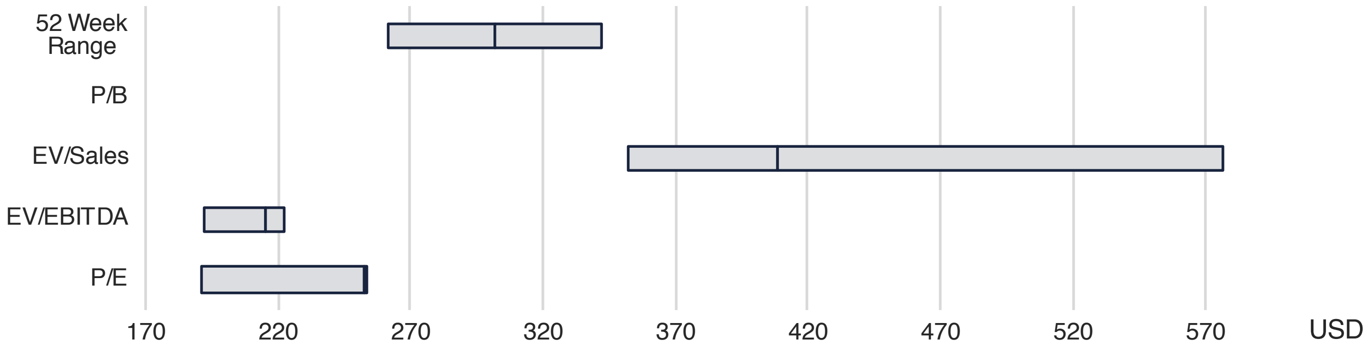
## Corporate News

Domino's shares are up 16.58% YTD and 39.62% for the last 52 weeks. The strong performance is being mainly caused by their last earnings report that led to an increase of the share price of 22.19% within only one day. In their earnings report they have published, that their net earnings increased by 24.4% to USD 1,435.4 bn. Overall, the net income decreased by 4.6% mainly driven by a 303.8% increase in marketing expenses (USD 151.00 bn (2019)). Nevertheless, this decrease did not harm the shareholder's euphoria.

The target price of USD 384 is not reached yet which is caused by the current recession because of COVID-19. Some stores in China needed to close, the process of opening new stores will be slowed down as well and the general concerns and economic downturn are also harming the stock's price. Shortly before the Corona outbreak (20/02/2020), the stock was valued at USD 381.86 which is marked as their all-time high.

| Price (31 Mar 20, USD) | 337.36 |
|---|---|
| Target Price (USD) | 384.00 |
| 3M Performance | 14.83% |
| Market Cap (USD m) | 13,044.71 |
| Enterprise Value (USD m) | 17,192.61 |
| **Target Price is for 12 months* | |


## Valuation Analysis




Domino's was, on the day this piece was written, trading at USD 333.03. If we make a quick comparable analysis, we can immediately see that the dispersion in valuations in the fast food industry is quite big (see football field above). None of the multiple valuations matches the current share price. The EV/EBITDA and P/E ratio are suggesting that Domino's is overvalued whereas EV/Sales states that Domino's is undervalued which is caused by the relatively low net earnings compared to the high sales.

The future outlook for Domino's is promising because of expected growth. This will increase the company's profit since the expenses for capital expenditure are covered by the stores and not the concern itself due to the franchising concept. For many restaurant chains, a higher restaurant density can cause lower profits for the standalone restaurants. In the case of Domino's, this will help them to grow since one of the highest cost factors are the delivery expenses (personnel costs and fuel) which will be decreased by more restaurants caused by smaller distances for deliveries.

| Peers | Currency | Market Cap (Cur m) |
|---|---|---|
| Restaurant Brands Internationa | CAD | 34,135.30 |
| McDonald's Corp | USD | 148,410.97 |
| Jack in the Box Inc | USD | 1,435.47 |
| Wendy's Co/The | USD | 4,297.83 |
| Yum! Brands Inc | USD | 27,498.17 |

Paulina Michel
Investment Banking Division

NIC's View On

# CAC 40 index

Raphael Salimi
Investment Banking Division

*"After the Fed's decision to cut rates, what is most shocking is the persistence of volatility at a very high level. The VIX did not move at all on the Fed's announcement. There is still a very high degree of stress in the markets and the Fed seems powerless to address this problem."*

– Stéphane Deo, Strategist for La Banque Postale Asset Management

The CAC 40 is the main stock market index of the Paris Stock Exchange. Created with 1,000 points as of 31st of December 1987 by Compagnie des agents de change, the CAC 40 index (CAC stands for Cotation Assistée en Continu) is determined on the basis of the prices of forty shares listed among the hundred companies with the most abundant trading on Euronext Paris, which is part of Euronext, the leading European stock exchange. These companies, which are representative of the various branches of activity, reflect the overall economic trend of large French companies and their list is regularly reviewed to maintain this representativeness.

In recent weeks CAC 40 has experienced its lower level since the 2008 economic crisis due to the coronavirus outbreak that quickly spread to Europe during the first week of February. The disease has overcome the resilience of the financial markets, and the CAC 40 fell by 12% over the third week of February to 5,310 points. The spread of Covid-19 out of China has led to multitude of event cancellations, the latest being the Geneva Motor Show. Analysts are fearing an economic impact far greater than initially expected and warnings have multiplied at the initiative of groups such as Danone, SMCP and, of course, on the transport side with Air France KLM. The aviation company has lost 25%, penalized for the drop in its activity and the airline sector market trend is constantly revising flight forecasts downwards. Air France-KLM has been forced to announce cost-cutting measures such as an hiring freeze, to deal with the crisis.

Is it also possible to observe the fall in the SMCP (-20%) after its big warning in the luxury industry. Regarding the banking sector, Crédit Agricole, BNP Paribas and Société Générale dropped by 19%, the asset manager Amundi (-17%) and Natixis (-15%). Some other companies have also performed poorly, such as ADP (-20%), Airbus (-18%), AccorHotel (-16%), Renault (-17%) as well as Bolloré and Publicis.

However, CAC 40 is not only an index, but it also represents 40 companies that have a social responsibility. Due to under pressure from the public and investors, large listed companies are beginning to take societal issues a little more seriously, around the environment, social relations or governance. Sustainalytics, Morningstar's partner in sustainability research, assessed the average ESG score of the CAC 40 and its distribution within the index and compared it to a broad European index (Morningstar Europe with 1,566 issuers). On the basis of the data at the end of 2019, the CAC 40 had a fairly substantial advantage over the European index, with an average score of 63.99 versus 52.49, and a limited dispersion (7.21 versus 10.24). Furthermore, French companies in the flagship CAC 40 index are performing better in the fight against gender inequality than their European counterparts, but there is also much to be done, according to a study released by Equileap.

| Date | Recent News |
|---|---|
| 07 March 20 | The CAC 40 stumbles below 5,200 points<br>***Source:*** *Boursorama.com* |
| 06 March 20 | CAC 40 companies generated nearly €80 billion in profits in 2019.<br>***Source:*** *Challenge.com* |
| 02 March 20 | Paris Stock Exchange rebounds strongly at opening.<br>***Source:*** *ABCBourse.com* |
| 27 Feb 20 | CAC40 dives, fears of pandemic<br>***Source:*** *Capital.com* |

Raphael Salimi
Investment Banking Division

# NIC

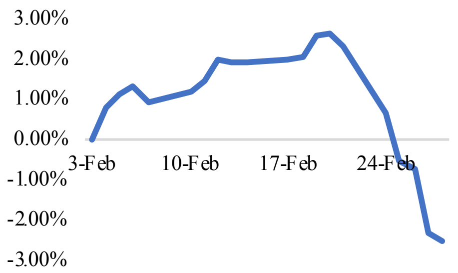
Nova Investment Club

## NIC Fund

NIC Fund

### Portfolio Overview

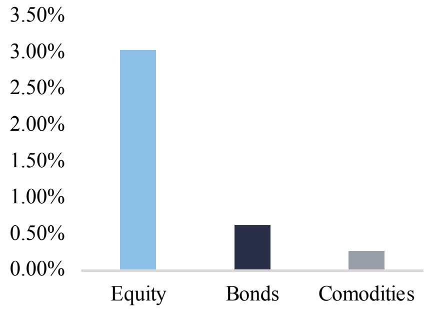
NIC Fund Cumulative Return




| Portfolio Statistics | |
|---|---|
| Cumulative Return | -2.52% |
| Annualized Return | -30.25% |
| Daily St. Dev | 0.66% |
| Period St. Dev | 3.03% |
| Annualized St. Dev | 10.48% |
| Info Sharpe | -2.89% |
| Skew (Daily) | -1.06 |
| Kurtosis (Daily) | 0.33 |

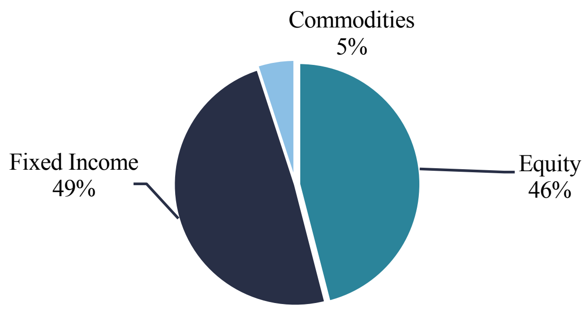
| Benchmark | |
|---|---|
| iShares 3-7 Year Treasury Bonds | 50% |
| SPDR S&P 500 ETF Trust | 40% |
| Powershares DB Commodity Index | 10% |

Individual VaR




### Portfolio Snapshot

In February, our assets were mainly invested in equities (30%) and fixed income (60%), while approximately 10% were allocated to commodities. This distribution roughly corresponds to our benchmark. At the end of the month the commodity position was reduced to 5% and diversified in favour of an increase in equities (46%) and a new investment in gold. The portfolio is now positioned more offensively than the benchmark. In a short term volatile market environment we see the opportunity to increase equity positions to generate sound medium to long term returns via specific stock picks in sectors profiting from the current market environment.




### Return Metrics

Our portfolio returned a negative 2.52% in one of the most volatile months since the global financial crisis of 2008. The extent of the impact of the coronavirus can be quantified, especially in the last week. Up to 21st February, the weekend before the outbreak reached Italy, the cumulative return was still 2.31%, after which a loss of 4.72% was recorded in the last few trading days. Investors were looking for safe havens, so did we as fixed income securities accounted for 0.72% of our portfolio total return. Equities (-2.86%) and commodities (-0.39%), on the other hand, harmed the return. The IT sector the only one that had a positive contribution posting a 1.09% appreciation due to the strong first weeks, meanwhile Energy and Materials were particularly affected the virus and lost 11.36% and 10.13% respectively. Among the individual stock picks, Domino's Pizza (DPZ US Equity) impressed with earnings above consensus estimate and a strong Q4 2019 (+25.38%). Netflix (NFLX US Equity) and Zynga (ZNGA US Equity) also outperformed the market environment with +3.08% and +12.58% respectively.

### Risk Metrics

We measure our risk with the monthly VaR (Monte Carlo) on a 95% confidence level. Due to the appreciation in the equity position and the increased market volatility, the portfolio currently states an overall VaR of 2.88% (vs 2.21% in January). The extremely high market volatility (VIX above 40) and the higher stake lifted the equity VaR to 3.04% (vs 2.67%). In the fixed income and commodities positions, VaR decreased to 0.63% (vs 0.69%) and 0.27% (vs 0.37%) respectively, despite the increase in volatility due to increased diversification within the asset classes.

Philipp Gall
Financial Markets Division

NIC Fund

# Assets in Brief

| Asset Class | Symbol | Comments |
|---|---|---|
| **US Equity** | **MSCI** | The MSCI World index is our benchmark for equities. It tracks global markets stocks with a strong focus on US companies which account for 63% of the index, mainly comprising US (63%). In line with the overall market stumble amid Covid-19 and the exposure to emerging markets, the index fell by 8.74% in February. |
| **US Equity** | **DPZ** | Domino's Pizza has faced volatile weeks and appreciated by 25.86% after publishing strong earnings on February 20, surprising market consensus on EPS by USD 0.15. Analyst were surprised by the strong performance in the fourth quarter were sales increased by 5.93% YoY and a promising outlook for 2020 were considered positive by analysts. |
| **US Equity** | **NFLX** | Netflix remains one of the most-traded stocks over the past two months with 40% volatility in the past 30 days. After disappointing US customers growth and increasing competition, the share price rose again in recent weeks. The share has a return of 14.05% YTD and we are increasing our position to 0.6% of the portfolio NAV as we see Netflix as a promising investment due to the recent implications of the spreading virus. |
| **FP Equity** | **KER** | As Luxury goods company, Kering's stock peaked mid of January. The industry was hit hard by Covid-19, as the growing market in China depends on the on-side retail stores. Closed factories and stop of production has furthermore cut supply chains which affects the global operations. In the mid-term, we expect the stock to recover due to a good market position. |
| **GY Equity** | **LHA** | Despite a market environment that is currently very poor for airlines due to the tremendous impact of the coronavirus on air traffic, we decided to invest 1.00% in Lufthansa. The airline announced short-term decisions to reduce costs. In addition, the European market is likely to further consolidate, and oil prices are currently low, so we expect mid-term recovery. Even though the airline has cancelled some 7,000 flights, we find the current share price too low. |
| **GY Equity** | **BAYN** | Since the USD 70 bn acquisition of Monsanto, Bayer constantly faces court issues in the US which have increased the uncertainty and sent the share price down. Although still depending on the outcome of these issues, we expect the risk of legal fees as moderate thus value Bayer's business as promising. Therefore, we think that a 12-month forward P/E ratio of 9 does not reflect its value, leaving room for appreciation which led us to invest 1% of our portfolio weight into it. |
| **US Treasury Bonds** | **TIPS** | The TIPS ETF tracks inflation protected notes that pay a premium based on inflation and interest rates. We hold 7.82% of NAV in order to diversify our bond positions and to ensure to benefit from the interest cut announced by the Fed in early March and a rise in inflation. In line with positive returns for US Treasuries, our TIPS holding contributed to a positive portfolio return of 0.09% |
| **US Treasury Bonds** | **IEI ETF** | Our benchmark bond index, IEI invests in treasuries with maturities from 3-7 years. As these are considered a safe haven in uncertain times and the FED cut interest rates by 50 bps to a range of 1-1.25%, bond prices increased, stating a return of IEI of 1.89% in February. |
| **Commodity** | **AAAU** | We decided to allocate 3% of the NAV into gold in order to diversify the portfolio and participate in the recent rally. The commodity has faced volatile weeks, especially in the last week of February, where the price dropped by 3% in a day which we saw as chance to invest. |
| **Commodity** | **DBC ETF** | Our primary commodities index, DBC tracks a basket of 14 commodities. The ETF had negative performance over the last month, mainly driven by a sharp decrease in oil prices as global demand is decreasing and an upcoming recession might enhance this effect. We expect the plunge to continue and reduce our exposure to 2% of NAV. |

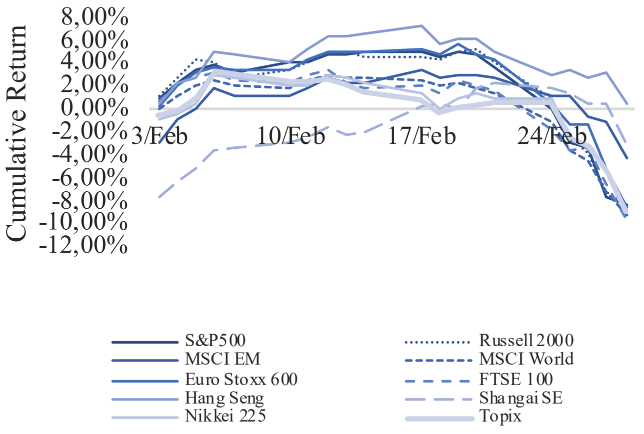
Philipp Gall
Financial Markets Division

NIC Fund

# Equities

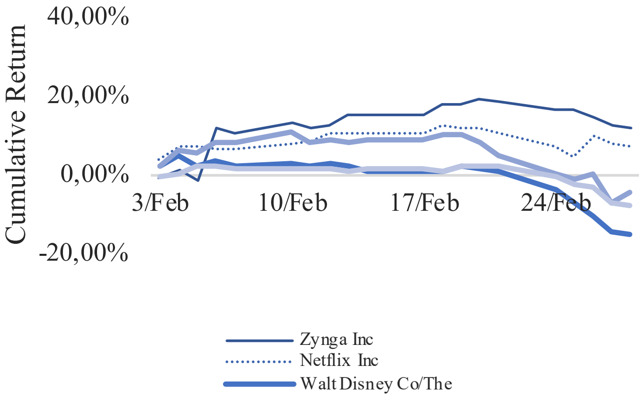
**World Equities**

After a turbulent January in which the S&P 500 suffered its first monthly decline since August 2019, amid volatility caused by US elections, Brexit deal and Coronavirus, stock prices were on track again to reach historical levels by mid February. Dow Jones closed at new all-time high at 29,551.42 on February 12th whilst safe-haven gold also peaked to 7-year record at USD 1,643.41 per ounce by February 24th, reflecting the increased uncertainty from investors as coronavirus reported cases grew. However, when Italy quarantined 10 towns near Milan over the weekend in a push to contain a breakout there, many traders started to consider for the first time that a heavy market sell-off could be just around the corner. Consequently, markets plunged on Monday 24th, cancelling 6 months of continued appreciation and resulted in the worst week for markets since 2008. Similarly, the MSCI World Index reported a -9.28% monthly return while European markets suffered the strongest correction with the FTSE100 and Italian FTSE MIB losing both 11% within a week. Volatility is higher than ever, the VIX reached the 40 level at market closure on Friday 28th. March will tell us if markets have already priced the outbreak or if further sell-off escalations are yet to come. Central banks announcements are expected to provide stimulus to support the recent market sell-off as the outcome of the Democrat campaign will certainly feed market moves in the US.



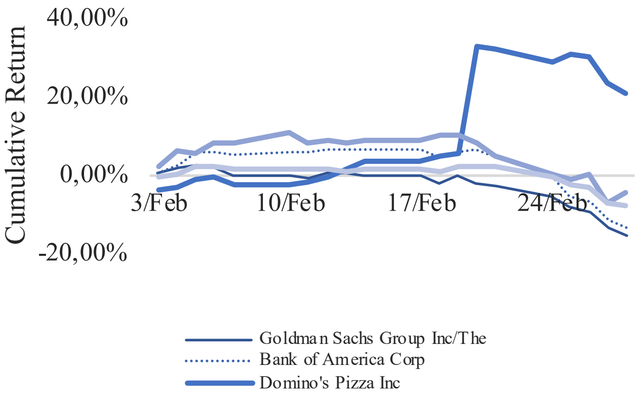

**In Depth: Online Entertainers Soared**

While markets suffered their worst week since 2008, few companies took advantage of confinement measures across the globe as fears of a pandemic reached Western Europe and the United States. With quarantine measures wounded traditional entertainers such as Disney (DIS -14.94%) which was forced to close its Shanghai and Tokyo amusement parks in order to contain the spreading of the virus, mobile game producers and streaming platforms saw their activity booming in February. Indeed, as people spent more time on their phones and computers, especially in the most affected regions, share prices of Zynga and Netflix surged by respectively 11.94% and 6.46% last month. February follows the historically good holidays quarter for Zynga as the American mobile game maker recorded its strongest quarterly performance ever. Revenues topped USD 404 m, 63% higher YoY due to "exceptionally strong advertising revenue and lower marketing spend" according to its CEO Frank Gibeau. Nevertheless, the firm is still forecasting a net loss for the end of year 2020.




**Our Performance**

Equity holdings returned a negative 3.9% in February following the overall market correction at the end of the month. Sectors such as Energy, Materials and Financial Services were the most affected by market swings with all our holdings in banks yielded negative performances; Goldman Sachs and Bank of America lost more than 15% and 13% of their respective share values amid the fear of credit default rate hikes in Asia. On the other hand, outliers such as Everbridge, Zynga and Domino's had double digit growth, the latter returning 25.38% after impressive Q4'19 earnings release.



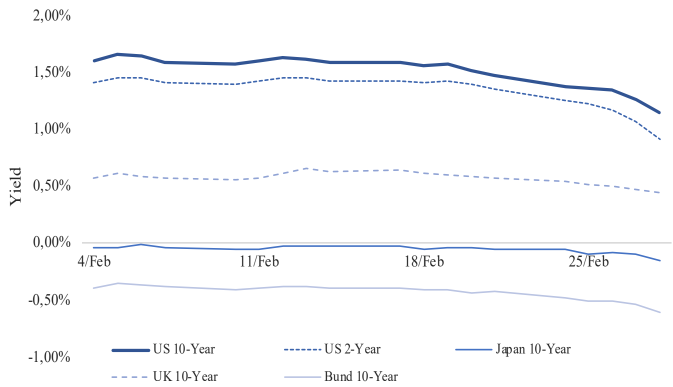

Maxime Hozé
Financial Markets Division

NIC Fund

# Fixed Income

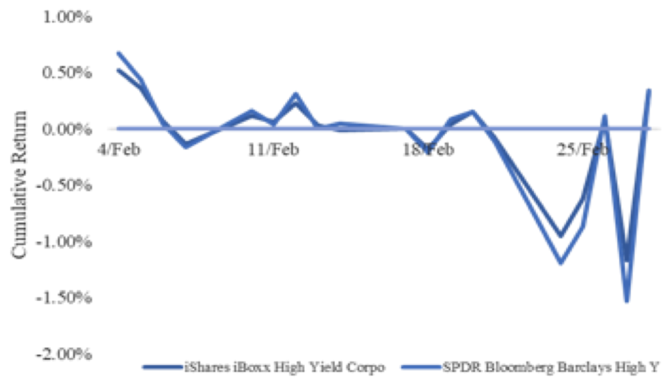
### World Yields

Following the downward trend observed in January, global yields continued to fall in February fueled by growing concerns over coronavirus and the spike in cases outside China. Higher demand for safer assets such as government bonds pushed prices up and, consequently, global yields down. The US 10-year rates decreased from 1.53% to 1.15%, as equity markets suffered their worst week since the 2008 financial crisis with Fortune 500 companies predicting rising supply chain problems and revising downward their revenues. The US yield curve remains inverted, with the 3-month yield dropping to 1.27% at month-end, suggesting an impending global economic slowdown. Given the macroeconomic environment, markets are pricing in more than two rate cuts by the Fed over the next 12 months, implying a 50 bp decrease on the current 1.5-1.75% target range. UK gilts closed the month at 0.44. However, as investors expect an interest rate cut to boost borrowing and spending. BoE's governor, Mark Carney, will present macroprudential financial regulation as a tool to revamp the economy at the beginning of March, before stepping down from the position. Meanwhile, in the Eurozone, the German 10-year bund, which serves as a benchmark for all eurozone debt, dropped further into the sub-zero zone, now yielding -0.61%. Additionally, in February the German yield curve fell below zero, this is, all the bonds with maturity up to 30-years are trading at negative yields.



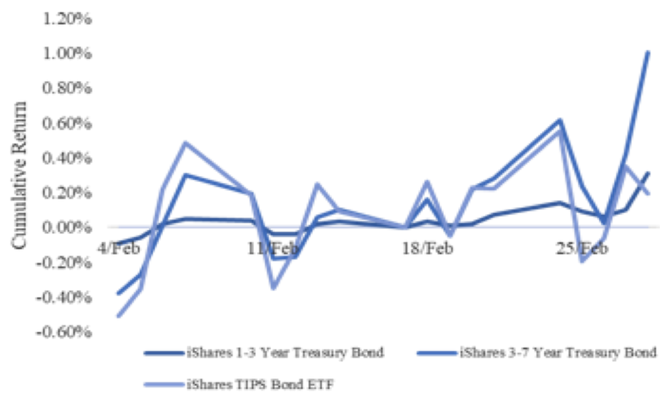

### In Depth: High-Yield Bonds

As a result of growing uncertainty over the spread of coronavirus and its consequent economic impacts, investors' appetite for risk dropped in February with high-yield bond ETFs experiencing an outflow of over USD 4 bn. BlackRock's iShares iBoxx High Yield Corporate Bond ETF, the biggest US junk-bond fund, lost USD 1.6 bn in redemptions. Besides cashing out, investors started to bet against the junk-bond ETF, shorting the HYG US Equity. This represents a significant change from the trend initiated at the beginning of the year, when the issuance of US high-yield debt was the largest in a decade. The sell-off of riskier assets have widened the gap between high-yield bonds and the US Treasury bonds, which are considered to be a safe heaven. Given this lack of demand, companies held off from raising capital through debt markets, with no issuance of junk or investment grade bonds during the last week of February.




### Our Performance

In February, the NIC Fund decreased its exposure to Fixed Income, from 51% to 47%. The iShares 1-3 Year Treasure Bond ETF returned 2% contributing 0.59% to the portfolio's overall return. In addition, the ETF tracking US Treasury bonds with shorter maturities (iShares 1-3 Year Treasury Bond ETF) yielded 0.91% while the inflation protected iShares TIPS Bond ETF registered a positive performance of 1.16%.



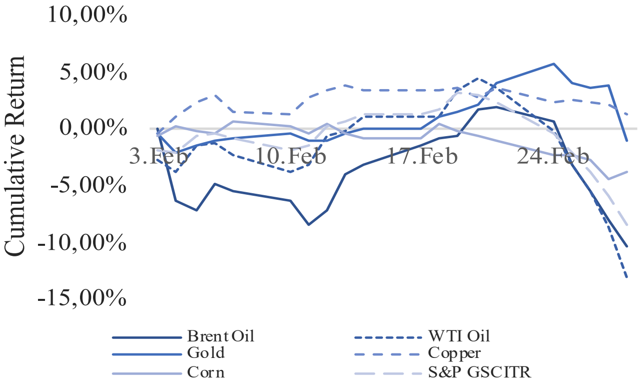

Corina Popa
Financial Markets Division

NIC Fund

# Commodities

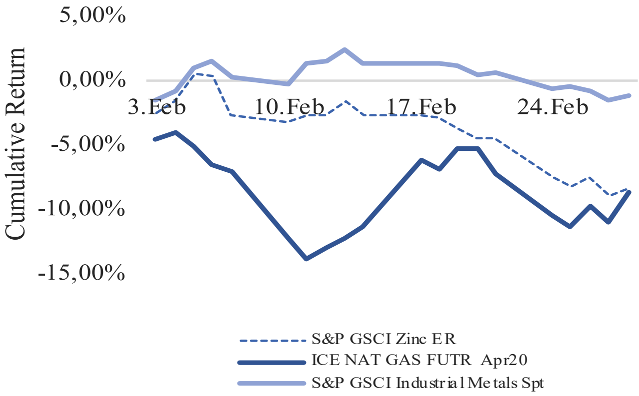
**February Round-Up**

Commodities took a strong hit in the month of February as the threat of the Coronavirus outbreak continued to loom over global markets. With China's industry standing idle in an effort to contain the outbreak, oil demand saw a drastic decrease, the likes of which had not been seen since the 2008 crisis, as China accounts for about 20% of total global oil imports. This was reflected in the respective -13.14% and -13.19% fall of Brent and WTI oil prices. The S&P GSCI Total Return index also saw an overall downturn of -8.39%. Having a look at the GSCI Industrial Metals index, we can observe an overall decline of -1.21%, yet with some clear disparities amongst industrial metals as zinc declined by a total of -8.43% due to an oversupply in production and a muted demand. As it is usual in times of uncertainty, many investors turned to gold and silver as safe haven assets, causing their prices to soar in February. At its peak, gold was close to surpassing the USD 1700 mark and silver passed the USD 18 per ounce mark. However, at the end of the month we saw a strong sell-off both precious metals as investors struggled with liquidity needs to cover margin calls in the face of the sharp decreases in equities, leaving gold with an overall decline of -1.02% for the month and causing silver to drop below USD 17 once more. Meanwhile, as 2020 brought with itself a very mild winter, the demand for natural gas used for heating is significantly lower than in previous years. Consequently, stocks of natural gas are up by more than 30%, as production growth continues to outpace demand. In response, its market price hit a two-decade low by further decreasing by -8.79% in February.



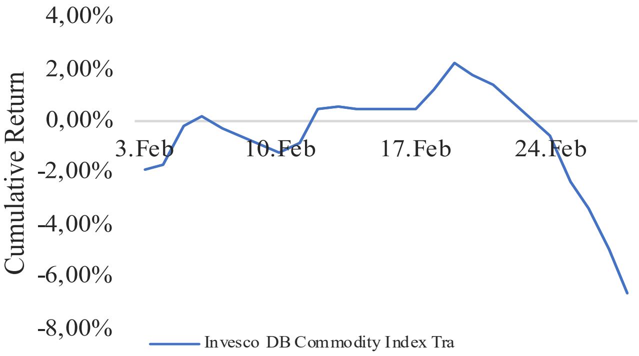

**Outlook for March**

As the full extent of the Coronavirus outbreak and its impact on global economy remains to be seen, commodities are expected remain highly volatile. In an effort of dealing with the oil glut and halting its price from further plummeting, the OPEC and Russian representatives arranged an extraordinary meeting to be held in Vienna on the 5th and 6th of March to try to reach an agreement to reduce oil production. The cut is expected to reduce daily production by 1.5 m units of oil barrels, which could help Brent and WTI oil prices to stabilize. After clearing their liquidity needs to cover margin calls, investor's appetite for precious metals is expected to return in March as uncertainty in the markets continues to drive the demand for safe haven assets. Furthermore, the Fed announced a rate cut of 50 bps just after the month ended in response to falling markets. This move which could very well change the landscape for commodities depending on investor's faith in the Fed's capability of halting the market's downturn.




**Our Performance**

In February we reduced our portfolio's exposure to commodities to 2% in response to their downturn. The allocation in the Invesco DB Commodity Benchmark ETF, which saw an overall decline of -4.89%, contributed a total of -0.39% to the overall portfolio performance.



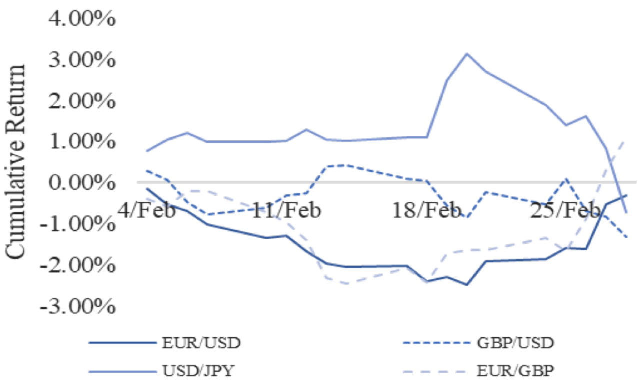

Patricio Drexhagen
Financial Markets Division

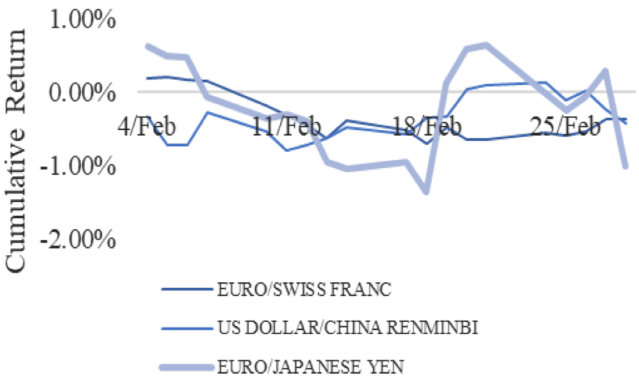
NIC Fund

# Currencies

**World Currencies**

The main US equity indices were somewhat resilient amid the Covid-19 crisis, until investors started to show concern over the prospects of a global pandemic. Not so long after various equity indices set all-time highs, the market entered a correction period, defined by a 10% loss or larger. The crisis and fears of the spread in the United States and Europe triggered investors to pile into safe-haven currency Japanese yen. The yen hit a seven-week high against the US dollar, leading the greenback depreciate by 0.74% against the yen in February, whilst the euro tumbled 1.01% for the same period. Due to a slowdown in growth of infection cases in China and a rise in Europe and the US, the dollar fell by 0.42% against the Chinese renminbi last month. The slowdown in China along with the wildfires have pushed Australia's investors to a more bearish tone. In the last week of February, the Aussie dollar reached a 10-year low level against the US dollar, contributing to a depreciation of over 15% against the greenbacks in the past two years. Although similar events in the past have shown a sharp but rather short-lived response from the market, the Coronavirus has caused both supply and demand shocks. Meaning that, even if the virus is contained and consumers are confident enough to spend again, the disruptions caused to global supply chains will, most likely, have a lagged effect and take several months to recover, indicating that we might see more volatility in foreign exchange markets in the upcoming months.




**In Depth**

Historically, in times of market distress, the US dollar tends to strengthen against most currencies, including the euro. However, the second half of February saw the complete opposite, with the euro climbing more than 1% in six consecutive days of appreciation against the dollar as the coronavirus spread started to widen in the United States. Common flight-to-safety strategies combined with bets against the euro on the levels of the eurozone crisis pushed the price of the currency to very low levels. Fears that the US economy will be disrupted by covid-19 sent investors in reverse mode, which then pushed the prices of the euro up even amid the turbulent times. Just by unwinding the negative bets against the euro was enough to send the currency up by nearly 4% in the last week of February. Another factor that plays a role in the recent euro performance against the US dollar is that investors are pricing more than one rate cut by the Fed this year, and some even see rates reaching the 0% mark by June, narrowing down the interest rates spread between the US and the eurozone.

**Our Performance**

We currently hold no currency related assets in our portfolio.

Henrique Oliveira
Financial Markets Division

# Extras

Hot Topic

## First Step Between US and Taliban Towards Peace in Afghanistan

Valentina Heimann
Financial Markets Division

*"We are working to finally end America's longest war and bring our troops back home"*

– US President Donald Trump

The war in Afghanistan is the longest war in the US history. Over hundreds of thousands of soldiers and civilians were killed in this war. On the 29th of February 2020, the US and the militant Islamist Taliban have for the first time concluded an agreement on ways to peace after 18 years of a war that killed thousands of soldiers and civilians.

The war in Afghanistan was initiated with the US-led intervention in autumn 2001, blaming the Taliban and the terrorist organization al-Qaeda for September 11, 2001, which caused a sharp market drop. To this end, the United States formed an anti-Taliban alliance, namely the United Front, in Afghanistan. This phase of the war ended with the United Front's successive conquest of the capital Kabul and the provincial capitals Kandahar and Kunduz in November and December 2001.

This was followed by the establishment of an interim government under President Hamid Karzai. To protect this government and support the reconstruction, the United Nations Security Council mandated an International Security Assistance Force (ISAF) in December 2001, made up of Allies and several partner countries. Since 2003, the Afghan central government has been increasingly exposed to attacks by guerrilla groups, often referred to as the "neo-Taliban". In order to slow down their advance, ISAF's engagement has been gradually and substantially expanded. Troop numbers began to surge in 2009 and continued to increase through 2011 – In February 2010, NATO and the Afghan National Army maintained some 700 military bases in Afghanistan. In December 2014, NATO formally ended ISAF combat operations in Afghanistan and officially transferred full security responsibility back to the Afghan government.

At the beginning of Donald Trumps' presidency in 2017, there were fewer than 9,000 American troops in Afghanistan. Six month later, troop levels increased by 50%, hence no formal plans to withdraw were on the agenda. Peace negotiations, resulted in the signature of the agreement on the 29th of February 2020 in Doha, Qatar. In this conditional peace deal the US committed to reduce its military forces by 30% within 135 days and to fully withdraw all US and coalition forces within 14 months if the Taliban hold up their promises. In return, the Taliban should give guarantees that the country will not become a safe haven for terrorists, and that they will begin peace talks with the government in Kabul.

A decrease in troops will have not only a positive impact on Trumps re-election but will also decrease military spending. With a USD 14 bn budget request for Afghanistan for fiscal year 2021, the US military is set to spend its lowest amount on the 18-year long war in Afghanistan in nearly a decade. These talks are perceived positive by markets as they represent a re-election source for Trump in November and he is perceived as a pro-markets president. Moreover, a decrease in US military spending would have positive impact on US economic growth and hence on global markets.

Overall, it is not a peace treaty in the classic sense because one party was missing to the deal: the government in Kabul. At the same time, two important points for a lasting peace were outsourced to intra-Afghan negotiations: a nationwide, lasting ceasefire and, an agreement on the future distribution of political power in Afghanistan – in other words, how the Taliban will be politically integrated. Consequently, the real peace talks for the country are still yet to come.

Valentina Heimann
Financial Markets Division

# Extras

Hot Topic

## Blackrock's Move on Finance's Fundamental Shift

Rafael Santos
Investment Banking Division

*"Our conviction is that sustainability focused portfolios can provide better risk-adjusted returns to investors. And with the impact of sustainability on investment returns increasing, we believe that sustainable investing is the strongest foundation for client portfolios going forward."*

– Larry Fink, Founder, Chairman and CEO of BlackRock, Inc.

Sustainable finance or ESG (Environmental, Social and Governance finance) has drawn investors' attention span, and has been spiking debate about the role of key financial players on the emergence of this subset in finance - a subset aiming to change the maximising shareholder-value paradigm to include environmental, social and governance factors.

Even though the concept of sustainable finance remains widely open-ended, it has grown in importance at a very fast pace. A short time ago the Davos Climate Change Conference was saturated with sustainability concerns. Moreover, according to the management consultancy BCG and the US SIF Foundation, sustainable investing has grown tremendously in the last few years with USD 17.5 tn invested in funds considering environmental social and governance criteria, out of the USD 79 tn of total assets under management.

According to BCG, two vital understandings are stirring large institutional investors to embrace sustainable finance and engage directly with asset managers and corporate boards pursuing this trend. Those are (1) the ubiquity of information about corporate practices. Companies are being more and more scrutinized on their business practices and are able to gain consumers' confidence if perceived as environmental friendly and socially aware and (2) the track record data showing that ESG-based investing strategies issues do not hurt financial performance. Truth be told, organizations that are proactive on issues such diversity, climate concerns and consumer responsiveness can convey significant financial rewards.

Not long ago BlackRock was identified as one of the three worst-performing asset owners with regards to climate-related proxy voting by campaign group ShareAction. Apart from that, the asset manager has been attacked several times for ignoring the negative effects the companies on its portfolio act to societal well being.

Facing such criticism for its apparent lack of action on ESG-related matters and in order to change that, Larry Fink listed several ways in which ESG has or will be folded into BlackRock's operations. Examples include:

- BlackRock has joined with France, Germany, and global foundations to establish the Climate Finance Partnership, on an effort to improve financing mechanisms for infrastructure investment
- Blackrock will ask companies in its portfolio to (1) publish a disclosure in line with industry-specific SASB guidelines by year-end and (2) disclose climate-related risks in line with the TCFD's recommendations
- Blackrock will double the number of sustainability-focused exchange traded funds it offers to 150

The way how this push and consequent strategies play out at BlackRock and at other firms following its footsteps will only become clear over time. This includes the logistics of how exactly a large, established firm like BlackRock fully integrates ESG into all of its existing strategies. But one thing is certain, sustainable investing is ere to stay and it will only become more important as times goes by.

Rafael Santos
Investment Banking Division

# Extras

ESG Review

## Creating value through ESG engagement

Raphael Salimi
Investment Banking Division

*"Nordea's STARS range – which includes our Global Stars Equity Strategy – embodies true ESG integration, with thorough research undertaken to identify companies with sustainable and responsible business models. We firmly believe businesses on the right side of change are more likely to be tomorrow's winners."*

– Johan Swahn, Portfolio Manager of Nordea's Global Stars Equity Strategy

Every business is intertwined with environmental, social, and governance (ESG) concerns, meaning that the ESG concept is not new and it has always been a part of a firm's structure. Nonetheless, the new ESG framework gives some way to measure and quantify the correlation with the business.

In early 2005, United Nations Secretary-General Kofi A. Annan invited a group of the world's leading investors to develop a set of general principles of good conduct for responsible investment. The general idea behind the Principles is that investment decisions, financial practices in general and companies' strategic decisions do not take sufficient account of environmental, social and corporate governance (ESG) considerations.

The old growth and development strategies are now compromising the ability to future generations to meet their own needs. In addition, as previous generations should have expected, millennials start to express their frustration within the political, economic and social field. The US Business Roundtable released a new statement in August 2019 strongly affirming ESG business's commitment to a broad range of stakeholders, including customers, employees, suppliers, communities, and, of course, shareholders. The report highlights that ESG-oriented investing has experienced a meteoric rise. Global sustainable investment now tops USD 30 tn — up 68% since 2014 and tenfold since 2004.

The acceleration has been driven by the fact that ESG proposition can safeguard a company's long-term success. A global survey conducted by the research firm Nielsen in 2015 showed that almost three-quarters of millennials are willing to pay more for sustainable products and services. Since the last 10 years, the overwhelming weigh of studies and research shows a strong correlation between ESG proposition and higher equity returns.

**General growth**: A strong ESG proposition helps companies tap new markets and expand into existing ones. When governing authorities trust corporate actors, they are more likely to award them the access, approvals, and licenses that afford fresh opportunities for growth.

**Operating cost reduction:** ESG can also reduce costs substantially. Executing ESG effectively can help combat rising operating expenses (such as raw-material costs and the true cost of water or carbon), which McKinsey research has found can affect operating profits by as much as 60 percent.

**Reduced regulatory issues:** A stronger ESG proposition can enable companies to achieve larger strategic freedom and prevent from regulatory pressure. It can also engender government support.

**Positive impact on employees productivity:** A strong ESG proposition has a direct impact on companies' human resources. It can help companies attract and retain quality employees, enhance employee motivation by promoting a sense of purpose, and increase productivity overall. For example, Alex Edmans from London Business School found that companies part of Fortune's "100 Best Companies to Work For" list generated 2.3% to 3.8% higher stock returns per year than their peers over a greater than 25-year horizon.

**Investment performance:** ESG can provide better investment returns and it is taking a growing part within investors portfolio. This better capital allocation help companies avoid stranded investments that may not pay off because of longer-term environmental issues, such as massive write-downs in the value of oil tankers.

Raphael Salimi
Investment Banking Division

# Thank you!

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## Our team:

### Investment Banking Division

Paulina Michel
Tobias Berberich
Federico Farina
Alexander Keil
Mariana Nóbrega
Michele Marcaccio
Raphael Salimi
Marina Quintero
Rafael Santos

### Financial Markets Division

Corina Popa
Francisca Fernandes
Henrique Oliveira
Maxime Hoze
Patricio Drexhagen
Valentina Heimann
Philipp Gall
Benedetta Laruccia

Corporate Partners:

Academic Partners:

Nova SBE
Career Services

Email us at:
nic@novainvestmentclub.com

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Design by: Carmo Cunha e Sá