NIC

— Nova Investment Club —

Newsletter

November 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, Gonçalo Marques, elaborates on the antitrust lawsuit between the US and Google. Moreover, in our Regional View, Fitore Zeciri, our Head of Communications, examines the Turkish monetary policy and politics which have been putting the Lira under high pressure.

Our Investment Banking Division will guide you through October's M&A overall activity. Read about AMD Inc to acquire Xilinx Inc, ConocoPhilips buying Concho Resources, and Morgan Stanley acquisition of Eaton Vance. Additionally, get a detailed overview on what happened to Saudi Aramco and Pfizer Inc, as well as consider our opinion on Chinese regulators to halt record-breaking IPO of Ant Group.

Our Financial Markets Division will present the monthly results of the NIC Fund, an active relative return fund investing across three different asset classes: Equities, Fixed Income, and Commodities. 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 October was negative, with a cumulative return of -2.41%. A loss that can be mainly attributed to the decline in Equities.

On the Hot Topic of this month, Julia Weber, our Head of FMD, examines the new JP Morgan digital coin and the future of cryptocurrencies, while Pedro Santos Vitor, elaborates on LVMH and Tiffany's relationship. Lastly, on our ESG review in collaboration with Nordea, Alessandro Astore writes about Sustainable Equity Funds and their role in responsible investing.

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Macro Overview

Monthly

November 9th, 2020

Deeper Dive

Regional view

Market Moves

Market Moves

% change

	Last Close	-1W	-3M	YTD
S&P 500	3 270	-5,64%	-0,04%	1,21%
DJIA	26 502	-6,47%	0,28%	-7,14%
Nasdaq	10 912	-5,51%	1,55%	21,61%
MSCI World	2 796	-5,62%	0,52%	-10,03%
MSCI EM	3 877	-3,33%	-1,61%	-3,06%
Russell 2000	1 538	-6,22%	3,92%	-7,79%
Euro Stoxx 50	2 958	-7,52%	-6,81%	-21,01%
FTSE 100	5 577	-4,83%	-5,43%	-26,05%
Nikkei 225	22 977	-2,29%	5,84%	-2,87%
Hang Seng	24 107	-3,26%	-1,98%	-14,48%
Dollar Index	94,04	1,37%	0,74%	-2,44%
EUR/USD	1,165	-1,80%	-1,11%	3,87%
GBP/EUR	1,112	1,15%	0,13%	-5,94%
GBP/USD	1,295	-0,71%	-1,05%	-2,34%
USD/JPY	104,660	-0,05%	-1,11%	-3,64%
USD/CHF	0,92	1,39%	0,45%	-5,13%
Brent Crude	37,460	-10,32%	-13,49%	-43,24%
Gold	1 879,9	-1,16%	-4,22%	23,43%

Generic Bond Yields

change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	0,874%	3,1	34,6	-104,4
GER 10Y Yield	-0,627%	-5,3	-10,3	-44,2
JPY 10Y Yield	0,042%	0,1	2,2	5,3
UK 10Y Yield	0,262%	-1,8	15,8	-56,0
PT 10Y Yield	0,105%	-6,9	-24,6	-33,7

**Source: Bloomberg, as of 2020-10-30*

In Focus

October

Second Consecutive Month Drop-Off for the S&P and DJI Indexes. Driven by disappointing quarterly results of tech equities such as Apple, Facebook and Twitter, the US stocks plunged around 5.64% in the end of the month. Investors were furthermore concerned about increasing numbers of Covid-19 infections, which reached daily records in the US.

Japanese Shares Plunge. At the end of October, the Nikkei 225 posted the largest weekly decline in a three-month time span with a loss of 2.45%. The downfall is mainly due to the uncertainty over the US presidential elections and the Covid-19 pandemic.

ECB will not alter interest Rates any time soon. During the October meeting, the ECB left monetary policy unchanged, taking a passive approach until new economic projections will be disclosed in December. These will allow a reassessment of the economic outlook and a rebalancing of risk. The ECB's monetary policy aims to ensure favorable financing conditions to support economies' recovery and to mitigate the negative impact of Covid-19 on expected inflation.

Germany 10Y Bond Yield Hits 32-Week Low. Germany 10Y Bond Yield touched -0.64%, the lowest level since mid-March and strongest weekly drop since June. However, the excess liquidity provided by the ECB in reaction to the pandemic is expected to support the bond market for the rest of the year. Furthermore, several constraints such as possible break-downs of Brexit negotiations may increase German safe-haven demand in the short-term.

Portugal's Inflation Declines for the Second Month. Similarly to September, Portuguese consumer prices fell 0.1% YoY in October of 2020. Unprocessed food inflation climbed (4.6% vs. estimated 4.2%) while energy costs dropped (-6% vs. estimated -5.6%). The annual core inflation rate declined 0.1% compared to the previous year.

European Shares Plunge as Lockdowns Reduce Recovery Hopes. European stocks showed a better performance until mid-October as a result of strong Q3 earnings releases. However, they posted their steepest weekly and monthly decline since March, driven by renewed Covid-19 lockdowns and consequently more pessimistic prospects for economic recoveries.

FTSE 100 Posts the Worst Week since June. In the end of the month the index dropped 4.8% to close at an almost seven-month low of 5577, simultaneously demonstrating the worst weekly performance since mid-June and the second-worst since the March crash. Primer Minister Boris Johnson introduced a new lockdown to tackle the second wave of infections, while other European countries announced new restrictions to limit the spread of the pandemic. A rather positive outlook: there is increased hope that a free trade agreement between the UK and the EU could be established by early November.

France Inflation Rate Hampered. As seen in September, consumer prices stagnated in several sectors, namely food (1.5% vs. estimated 0.9%), cost of services (0.3% vs. estimated 0.6%) and tobacco (13.7%). On a monthly perspective, consumer prices sank by 0.1% after they fell 0.5% in September.

António de Castilho Lima
Financial Markets Division

Deeper Dive

Antitrust Lawsuit: US vs Google

Gonçalo Marques
Investment Banking Division

"Two decades ago, Google became the darling of Silicon Valley as a scrappy start-up with an innovative way to search the emerging internet. That Google is long gone. The Google of today is a monopoly gatekeeper for the internet, and one of the wealthiest companies on the planet."

– Department of Justice, Lawsuit

On the 20th of October, the US Department of Justice (DoJ) filed a much-anticipated antitrust lawsuit against Google, for illegally perpetuating its monopoly in general search services and search advertising. The plaintiffs accused Google of squeezing competition through anticompetitive and exclusionary practices that include the control of key distribution channels.

Over the years, Google made exclusive contracts and agreements with major mobile carriers, handset producers and Apple, to establish its search engine as the default alternative for users. According to the DoJ, this course of action constitutes a way of locking up key distribution channels and blocking rivals, which resulted in Google being accounted for 88% of the search market in the US, and nearly 95% of mobile searches. The broader point behind this accusation, as in any antitrust lawsuit, is to prove that Google is inflicting consumer harm through the suppression of innovation in the search market.

In response, Google called the accusation "deeply flawed" and claimed that users choose their search engine because they want to and not because they are forced to. As Kent Walker, Google's Chief Legal Officer, put it, the major misconception of this lawsuit is that it disregards the easiness in which users can change their default search engine. Mr Walker goes further to argue that instead of helping consumers, this lawsuit could artificially promote lower quality engines and make it harder for users to access their preferred search services.

Another argument that can support Google's stance is that a similar version of this lawsuit already took place in Europe (2018), where the European Commission forced the firm to allow for non-Google search engines in the Android ecosystem. Based on this case study, the trajectory of Google's search revenues was not materially impacted in Europe, which may indicate that Google is, indeed, the preferred option for users.

This antitrust lawsuit accusation shares many similarities with the one DoJ filed and won against Microsoft in the 1990s. However, from the defendant's perspective, these two cases are very different. While the major goal of Microsoft was to enable itself to keep charging higher monopoly prices for Windows, consumer harm is much harder to observe in Google's case, as Google's products are free and well-received by consumers. This important distinction may suggest that the DoJ will have a harder time winning this case.

Moreover, even if Google would be found guilty, it will take years until this conclusion is reached (the case of Microsoft ran from 1993 to 2001), and by then market dynamics will be much different. On top of this, the only feasible solution seems to be prohibiting Google from paying distributors such as Apple, which is quite an unrealistic outcome to expect. On the one hand, a company like Apple has all the right to auction the default search engine on their devices to the highest bidder, and on the other, most of these distributors (Apple included) have publicly declared their preference for Google's product.

The main conclusion to take from this lawsuit is how the antitrust debate is being reshaped to account for the new realities of the digital economy. Just a few decades ago it would have been unthinkable to file an antitrust lawsuit against a company that does not charge for its services, as anticompetitive practices were essentially thought from a price perspective. This filing against Google is expected to be the first of many against Big tech, as these companies are no longer that threatened by competition as they once were. For the near future, it is anticipated that Facebook will be the next target.

Gonçalo Marques
Investment Banking Division

Regional View

Turkish Monetary Policy and Politics Put Further Pressure on the Lira

Fitore Zeciri
Financial Markets Division

"[…] my belief is: interest rates are the mother and father of all evil"

– Recep Tayyip Erdogan

On the 22nd of October 2020, the Central Bank of the Republic of Turkey (TCMB) decided against a second raise of its benchmark interest rate, the one-week repo rate, despite the urge of economists and investors to do so. This decision comes almost a month after the TCMB raised its interest rate by 2 pp to 10.25%. Instead, Turkey's central bank announced an increase in the late liquidity window from 13.25% to 14.75%. In recent times, Turkey's central bank has used this rate to increase the cost of funding to the Turkish financial system without having to increase the benchmark interest rate.

However, the Turkish national currency still did not react well to the news. It fell more than 2% following the decisions. This reflects the overall trend of the Turkish Lira this year, which has lost over a third of its value against the US dollar thus far. The Lira stated a historic record low at the last trading day of October with 8.34 Lira per US dollar. Furthermore, Turkey stated an inflation rate increase from 11.75% in September to 11.89% in October. The inflation rate has been on a two-digit level for over three years now.

Turkey's central bank decisions are heavily controlled by President Erdogan who is a longtime and vocal opponent of high interest rates. President Erdogan strongly believes that high interest rates slow economic growth and fuel inflation. The last argument contradicts with conventional economic theories. These state that increased interest rates decrease borrowing, which leads to less consumer spending and therefore curbed inflation. Erdogan's unorthodox views most likely stem from his experience in the business world. Especially in the food industry, he observed that Turkish companies borrow heavily to cover their operating expenses and will pass the borrowing costs on to customers. The current weak currency as well as the high inflation in Turkey are, however, evidence against Erdogan's beliefs.

Regional unrest around Turkey adds to the pressure on the Lira. Over a year ago, Turkey, supported by Syrian rebels, seized a stretch of border territory in northeast Syria from the Kurdish YPG militia, which Turkey considers a terrorist group. That incursion was widely condemned by Turkey's western allies as the YPG helped the US in its fight against Islamic State. Ever since, Turkey has operated offensives against Kurds in the region while seeking to create a so-called safe zone to stop refugees from entering the country. On the 7th of October 2020, Turkish parliament ratified a motion extending the military operations in Syria for another year. This shows that military operations are not likely to be terminated anytime soon.

Another factor fueling a weakening Lira is Turkey's strained relations with western countries. The dispute between Greece, Cyprus and Turkey over maritime borders is ongoing. Turkey even began a drilling and exploration process in the Mediterranean regions, which Cyprus and Greece consider their exclusive economic zones. Moreover, the migration crisis as well as the dispute over the Mohammed cartoons published in France also contribute to the deterioration of EU-Turkish relations.

The outcome of US elections could also influence the stability of the Turkish currency. Analysts predict tensions between the US and Turkey since Democratic nominee Joe Biden won the election. It is expected that former Vice President Biden will be stricter on Turkey considering its weakening of human rights and democratic norms under Erdogan's increasingly authoritarian regime. Additionally, Biden could impose sanctions over Turkey's purchase of the Russian S-400 air defense system which compromises NATO defenses. Nevertheless, his priority to counter Russia and Iran and reinvest in multilateral alliances could benefit Erdogan's politics.

Fitore Zeciri
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

US Presidential Election

On the **3rd** of November, Americans voted for the presidency. Democratic nominee Joe Biden emerged victorious over incumbent Republican President Donald Trump. Biden will therefore be sworn into office in January 2021 assuming that the Trump campaign's attempt to contest the election do not come to fruition.

73rd World Health Assembly

From the **9th** to the **14th** of November, the World Health Organization (WHO) will virtually resume the 73rd World Health Assembly, consisting of WHO's 194 member states. The assembly will focus almost entirely on consolidating global coordination against Covid-19.

APEC Economic Leaders' Meeting

On the **20th** of November, Malaysia will host the Economic Leaders' Meeting, which will include all 21 economic leaders from the Asia-Pacific Economic Corporation. The key policy is launching the "Post-2020 Vision," which encourages the APEC economies to achieve free and open trade and investment going forward.

Central Bank Decisions

Reserve Bank of Australia

On the **3rd** of November, the Reserve Bank of Australia cut rates for the third time so far in 2020 to a record low of 0.10%, a 65 bps drop from January of this year. The central bank said it plans to keep interest rates at this level for the following three years at the very least in hopes of aiding the recovery of the Australian economy.

Bank of England Policy Announcement

On the **5th** of November, the Bank of England concluded its latest policy meeting. Following the second lockdown in the United Kingdom, the central bank decided to increase their quantitative easing program by GBP 100 bn this month, which is GBP 50 bn more than expected by economists. This will take the program's total to GBP 895 bn.

The Federal Reserve

On the **5th** of November, the Federal Reserve said that it will maintain the federal funds rate between 0.00% and 0.25% in hopes of helping the economy reach full employment and higher inflation. The current quantitative easing programme aims to ensure markets function properly.

Inflation and Deflation

UK Consumer Price Index

YoY and MoM figures on October consumer prices in the UK will be made public on the **18th** of November. In September, CPI rose to 0.50%, attributed to a government scheme created to encourage dining at restaurants.

Japan's Inflation

On the **19th** of November, Japan's CPI will be announced. In September, core CPI fell -0.3% YoY, largely caused by the government's travel discount campaign. Looking at the bigger picture, inflation in Japan continually misses the central bank's 2% target.

Inflation in the Eurozone

On the **18th** of November, the Eurozone will announce both CPI and core CPI for October. CPI is expected to be -0.20%, marking a third straight decline, while core CPI, which is slightly stronger, is expected to remain at 0.20%, the same figure as in September.

Labour Market

US Employment Readings

On the **6th** of November, the US unemployment rate will be released. With new surges of Covid-19 emerging around the world, there is reason to worry that figures will continue to deteriorate as businesses continue to make cuts, especially in the travel and hospitality industries.

Japanese Labour Market

On the **30th** of November, Japan will announce its unemployment rate. Remaining at 3.0% in September, the unemployment rate is currently at its highest level since May 2017, despite improvements in exports and industrial production.

Mexico's Unemployment Data

The unemployment rate in Mexico will be announced on the **24th** of November. According to Bloomberg, it is expected to increase 20 bps from September to 5.30%. After a sharp rebound in June, the Mexican economy is currently experiencing a gradual, yet fragile, recovery from the fallout of the pandemic.

Emily Rushforth
Financial Markets Division

Investment Banking

M&A

Overall Activity

Global

The global M&A market is on a positive trend despite many political uncertainties surrounding the Covid-19 crisis and the US elections last week. For the first time in three years, a positive trend in completed transactions could be observed. However, the transaction volume of 121 completed transactions in the MSCI Index in the last three months, which is at its lowest level since the third quarter of 2009, is a cause for concern. In total, M&A deals worth USD 896.3 bn were executed in the third quarter, a large increase of 141% over the second quarter. The main driver of this figure is a few mega deals. Interestingly, this figure is 32% higher than the transaction volume in the third quarter of 2019, which included transactions worth USD 677.5 bn. The largest deal announced in the third quarter was the pending USD 49.1 bn transaction in which the newly formed PipeChina (officially known as China Oil & Gas Pipeline Network Corp.) is to acquire a number of oil and gas pipelines and storage facilities from PetroChina.

Selected Regions

North America

After a steep decline in M&A activity in the first half of 2020, North America gained momentum in the third quarter. In total, deals worth USD 408 bn were targeted at US companies, and eight of these deals were among the top ten deals in the quarter. The largest US deal of the quarter was the USD 21 bn sale of Marathon Petroleum's Speedway retail chain to 7-Eleven. The cash transaction is expected to be completed in early 2021.

EMEA

European buyers are currently 20.4 pp above their regional index of 30 deals in the third quarter. This is the first time in two years that Europe has recorded four consecutive quarters of positive performance. In Q3, the European technology sector recorded an overall decrease in transactions of 1.1% compared to the four-quarter average. In total, deals worth USD 82.44 bn were announced for the region in Q3 of 2020.

Asia

The Asia-Pacific region experienced a noticeable slowdown in 2020. The number of transactions in Q1-Q3 2020 decreased by 14% compared to 2019. On a quarterly basis, the decline was slightly stronger with 17% in Q3 2020 compared to Q3 2019. The M&A values across Asia-Pacific as a whole rose by 31%, with USD 567 bn in deal dollars. These totals were heavily influenced by several mega deals involving Chinese energy companies.

M&A

Deals of the Month

Announnced Date	Target	Buyer	Target Region	Target Business	Value (USD m)	Premium (%)
13 Sep 20	Arm Ltd.	NVIDIA Corp.	JP	Electronic Technology	38,587.80	-
02 Aug 20	Marathon Petroleum Corp.	7-Eleven, Inc.	US	Retail Trade	21,000.00	-
13 Jul 20	Maxim Integrated Products, Inc.	Analog Devices, Inc.	US	Electronic Technology	20,378.90	-
13 Sep 20	Immunomedics, Inc.	Gilead Sciences, Inc.	US	Health Technology	19,676.10	-
01 Aug 20	Varian Medical Systems, Inc.	Siemens Healthineers AG	US	Health Technology	16,084.10	-
23 Sep 20	SFS Holding Corp.	Gores Holdings IV, Inc.	US	Finance	15,019.70	-
05 Aug 20	Livongo Health, Inc.	Teladoc Health, Inc.	US	Technology Services	15,006.60	-
17 Jul 20	E*TRADE Financial Corp.	Morgan Stanley	US	Finance	12,987.40	-
20 Jul 20	Noble Energy, Inc.	Chevron Corp.	US	Energy Minerals	12,931.4	-
14 Sep 20	Bytedance Ltd.	Oracle Corp.; Walmart, Inc,	CN	Technology Services	12,000.0	-

Timor Domin
Investment Banking Division

M&A: Top Deals

AMD Inc. to Acquire Xilinx Inc.

AMD and Xilinx agreed definitively for AMD to acquire Xilinx in a USD 34,625 m stock swap transaction to form the industry´s leading high-performance computing company. Deal specifics include a fixed exchange ratio of 1.7234 AMD common shares for 1 Xilinx common share resulting in a USD 142.72 per share valuation of Xilinx.

Buyer vs Seller

The semiconductor company AMD provides expertise in high performance computing, graphics and visualisation technologies with applications in gaming, immersive platforms and data centres. The technology firm Xilinx engages in the development of highly flexible and adaptive processing platforms operating in the data centre, AI/ML, automotive and industrial sector. Credit Suisse and DBO Partners, as well as Morgan Stanley and BofA Securities, are the financial advisors for AMD and Xilinx, respectively.

Industry Overview

The integrated circuit industry experienced an extensive growth of 377% between 2009 and 2019 compared to 181% of S&P 500. According to "The Business Research Company" a CAGR of 5.09% until 2023 is expected due to rising application of Internet of things as well as 4G and 5G technology. Xilinx´ former main competitor Altera was acquired by AMD's competitor Intel and another competitor Actel now belongs to Microchip Technology.

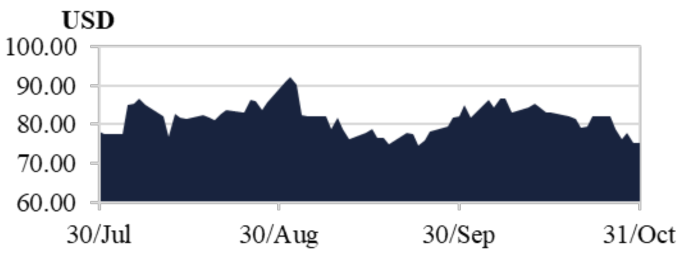
Peers	Currency	Market Cap (CUR m)
Lattice Semiconductor Corp	USD	4,773.62
Synaptics Inc	USD	2,578.17
Intel Corp	USD	182,197.08
Ambarella Inc	USD	1,872.29
Advanced Micro Devices Inc	USD	89,842.56

Deal Rationale

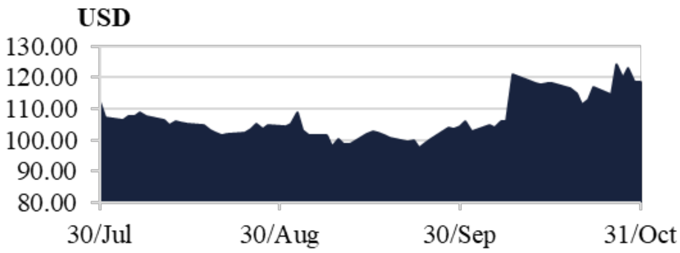
Underlying motivations of AMD for the deal were to broaden their product portfolio and customer set across several growth markets to face the competition with Intel, whereas intentions of Xilinx were to boost growth in the data centre business and to expand their customer base across more markets. Expected operational efficiencies amounting to USD 300 m within 18 months after closing due to synergies in COGS, shared infrastructure and through streamlining common areas will positively impact AMD margins, EPS and free cash flow generation as well as promote industry-leading growth.

Market Reaction

AMD Inc.
Since the announcement, on 27th of October, the stock price followed a small downward trend. Nevertheless, target prices were corrected upwards by several banks.



Xilinx Inc.
In reaction to the announcement, the stock price went up by 9.70% reaching a over year high of USD 124.35 but dropped to USD 118.69 until the end of October.



Future Challenges

The type of chips (FPGA) made by Xilinx are designed to accelerate the training of neural networks used in deep learning and are applied in data centres. As data centre customers account for only 14% of sales and Xilinx is also only a small player in GPU, a risk arises that the major acquisition of AMD in an adjoining chip market could distract them from maintaining their leading position in the CPU market with Intel challenging AMD to regain market share.

Jan Bich
Investment Banking Division

M&A: Top Deals

ConocoPhilips to Buy Concho Resources

Oil and natural gas company ConocoPhilips has agreed to acquire Concho Resources. This will be a USD 9.7 bn all-stock deal, the biggest shale deal of the year, in an industry that has been highly affected by the Covid-19 pandemic.

Buyer vs Seller

Houston-based company ConocoPhilips is one of the world's largest oil and natural gas exploration & production company. In the third quarter, the company underperformed, due to the fall in oil demand. Concho Resources is one of the largest shale oil producers in the Permian Basin, located in Southeast New Mexico and West Texas. The company's share price has dropped 25% since the start of the year. Goldman Sachs acted as financial advisor to ConocoPhilips, and Credit Suisse and JP Morgan to Concho.

Industry Overview

A sharp drop in oil demand resulted in oversupplied markets caused by Covid-19. For this reason, oil prices have become extremely volatile and weak. These low valuations may bring more buyers to pursue new deals whilst strengthen by the expected full recovery of prices by 2022. It is important to notice, that in the last two years, oil and gas companies have been able to improve margins through technological transformations.

Peers	Currency	Market Cap (CUR m)
Diamondback Energy Inc	USD	4,546.08
Parsley Energy Inc	USD	4,347.46
Pioneer Natural Resources Co	USD	13,787.21
Cimarex Energy Co	USD	2,729.79
Laredo Petroleum Inc	USD	103.17

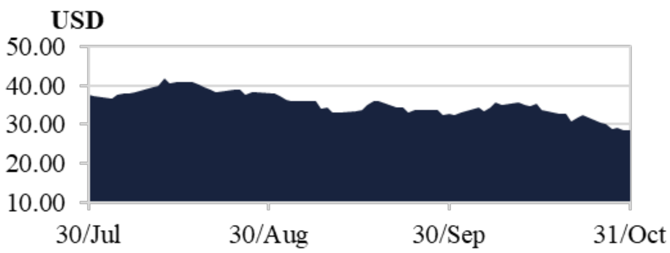
Deal Rationale

ConocoPhilips CEO stated the importance of the deal towards the improvement of the company's ESG strategy. Concerns are built around creating value over growth for the firm. The combined company will detain 23 bn barrels of oil with a production cost of USD 30 per barrel. In 2022, the deal sets to achieve USD 500 m in annual costs and capital savings through the reduction in administrative costs and core business activities. The combined company becomes the largest US oil independent producer in the US. This was an all-stock deal paid at a premium of 15%, based on Concho's closing stock price on the 13th of October.

Market Reaction

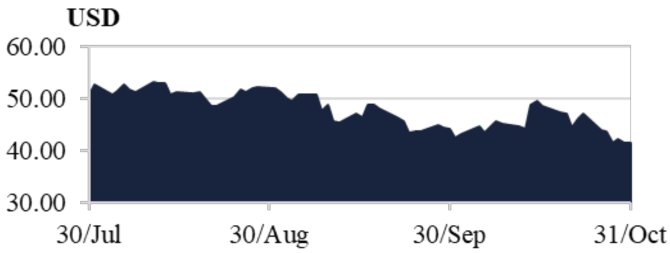
ConocoPhilips

The stock's reaction to the announcement was not significative. On the 14th of October, the price had a 1.00% decrease reaching a value of USD 34.53 per share.



Concho Resources, Inc.

The company's share price was subject to a 12.23% gain. The value hit USD 49.54 on the 15th of October. However, the stock price has been falling ever since.



Future Challenges

Even though the main goal is to reduce production costs through synergies, the selling price of oil barrels has been collapsing since the beginning of the year. Similarly, other competitors are using mergers and acquisitions as a solution to achieve the same cost-cutting results as ConocoPhilips. Given this, it will be hard to assume that the deal will bring advantage to the company and that this transaction will protect the firm from future price declines.

Madalena Azevedo
Investment Banking Division

M&A: Top Deals

Morgan Stanley Acquires Eaton Vance

Morgan Stanley has agreed to pay USD 7 bn for the investment manager Eaton Vance in a cash and shares deal which will create one of the world's largest asset managers. Subject to regulatory approvals, the two companies expect the transaction to close in the second quarter of 2021.

Buyer vs Seller

Morgan Stanley is a leading global financial services firm providing a wide range of investment banking, securities, wealth management and investment management services to clients including corporations, governments, institutions and individuals. Eaton Vance is one of America's oldest fund houses and provides advanced investment strategies and wealth management solutions with over USD 500 bn in assets under management.

Industry Overview

Since the 2008 financial crisis, investment banks have seen their profits reducing mainly due to stricter regulation and higher capital requirements. Hence, banks have been pursuing a strategy to diversify their operations and services. The asset management industry remains highly profitable despite stock pickers under fee pressure from the rapid growth of passive investing. That makes scale the key to profits and more mergers are expected.

Peers	Currency	Market Cap (CUR m)
Invesco Ltd	USD	6,421.50
Franklin Resources Inc	USD	9,909.55
Affiliated Managers Group Inc	USD	3,570.37
Artisan Partners Asset Managem	USD	3,368.51
AllianceBernstein Holding LP	USD	2,872.73

Deal Rationale

The transaction is the latest move, along with E-Trade deal this year, from Morgan Stanley to become a leading global money manager. Despite doubling the firm's investment management size to USD 1.2 tn in assets on behalf of pension funds, insurance companies and other clients, it offers new products in fixed income and ESG investing, adding firepower to a division that delivers under 10% of the bank's revenues each year. The acquisition leaves the firm well-positioned to compete against the growing strength of passive fund firms such as BlackRock, Vanguard, and rivals asset management arms of JPMorgan and Goldman Sachs.

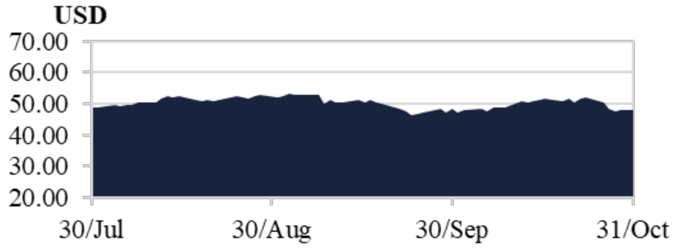
Market Reaction

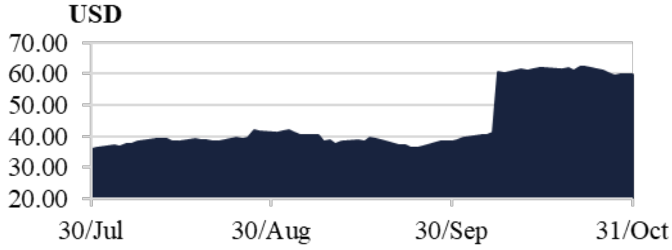
Morgan Stanley

October's share price closed at USD 51.70 and remained stable, along with the predictions and deal announcement, following the YTD trend.

Eaton Vance

Deal news surged Eaton Vance's share price 48.14% from USD 40.94 to USD 60.65 in the 7th of October, days before the deal was announced.





Future Challenges

Asset managers are struggling to keep their funds premium, as investors are shifting to low-cost, passive funds. It is going to be interesting to understand how Morgan Stanley tackles this issue and if it goes towards the ETF industry in order to be competitive. Moreover, although the transaction may seem compelling with the firm's strategy, from a valuation perspective it was expensive (38% premium for the deal) and raises the bar to see whether it will fit their targets.

Francisco Costa Guimarães
Investment Banking Division

What Happened To

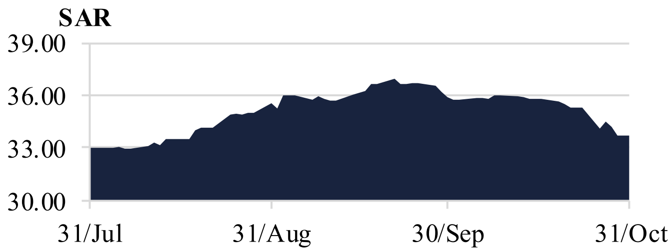
Saudi Aramco

Saudi Aramco is a Saudi Arabian multinational natural gas and petroleum company. The company holds the second-largest known crude oil reserve, having approximately 270 bn barrels, and not only stands as the largest daily oil producer but also as the world's largest oil exporter. It was founded in 1933 and is currently employing over 76,000 people worldwide.

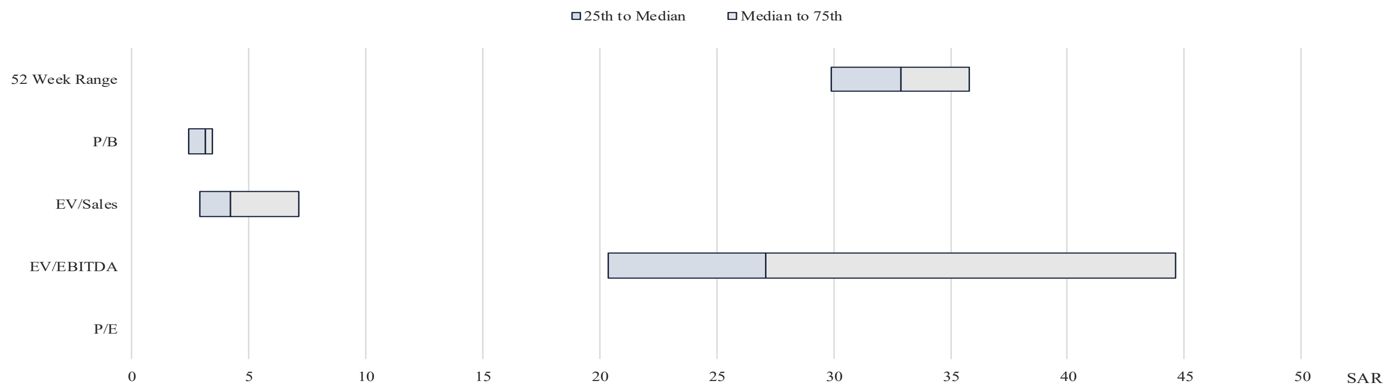
Corporate News

Saudi Aramco's shares are up 8.43% YTD and 8.13% for the last 52 weeks. The Dhahran-based company suffered a considerable hit due to the pandemic, although, contrarily to the overall oil industry, it was able to quickly recover in terms of its share price which was standing at SAR 30.00 as of 5th of March and currently is trading at SAR 34.65. Nevertheless, the Saudi Arabic company announced that its profits in the third quarter of 2020 fell 45% compared to last year homologous period. This is a clear reflection of the consistent decrease in the oil demand, but also due to plummeting royalties for oil production which went from a rate of 20% to 15%. Despite these results, the company is maintaining its plans to distribute a USD 18.8 bn in dividends for the third quarter which will lead to higher debt levels. This measure is aligned with the company's commitment to hand back USD 75 bn to its investors in the present year.

Price (31 Oct 20, SAR)	**34.65**
Target Price (SAR)	32.25
3M Performance	5.00%
Market Cap (SAR m)	6,930,000.00
Enterprise Value (SAR m)	7,322,461.00
**Target Price is for 12 months*	



Valuation Analysis



Saudi Aramco closed at SAR 34.65 on the 31st of October, on the Saudi stock exchange. The company has a current enterprise value of SAR 7.322 tn and has a positive 3M performance of 5%. By taking a closer look at the football field above, the company seems to be overvalued when taking in consideration the EV/Sales and EV/EBITDA, while the P/B points towards the opposite, leading to different conclusions.

The presented peer analysis clearly shows that Saudi Aramco is ahead of its peers in terms of market capitalization, amounting to a total of SAR 6.92 tn. The entire oil and gas industry is facing major challenges with the considerable plummet in the global demand while the prices are also following the same trend due to the global coronavirus pandemic. In this sense, and likely to all oil producers, Saudi Aramco announced significant cuts on their capital expenditures which show a prudent position.

Peers	**Currency**	**Market Cap** (Cur m)
Cenovus Energy Inc	CAD	5,965.72
Ecopetrol SA	COP	77,504,969.49
Suncor Energy Inc	CAD	24,432.92
MOL Hungarian Oil & Gas PLC	HUF	1,325,836.87
Imperial Oil Ltd	CAD	13,998.84

Gonçalo Pina Santos
Investment Banking Division

What Happened To

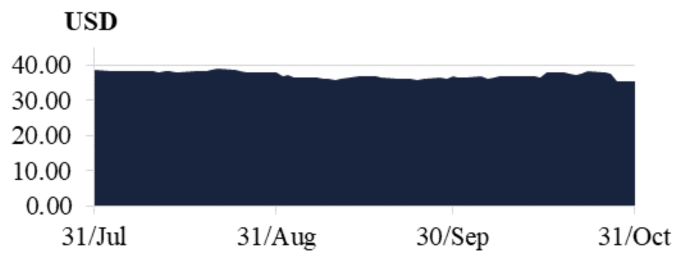
Pfizer Inc.

Pfizer Inc. is an American multinational pharmaceutical company which is headquartered in New York, United States. The company is involved in the research, discovery, development, and manufacture of healthcare products. It operates through two business segments: Innovative Health (IH) and Essential Health (EH). Among the company's brands there are Pristiq and Viagra.

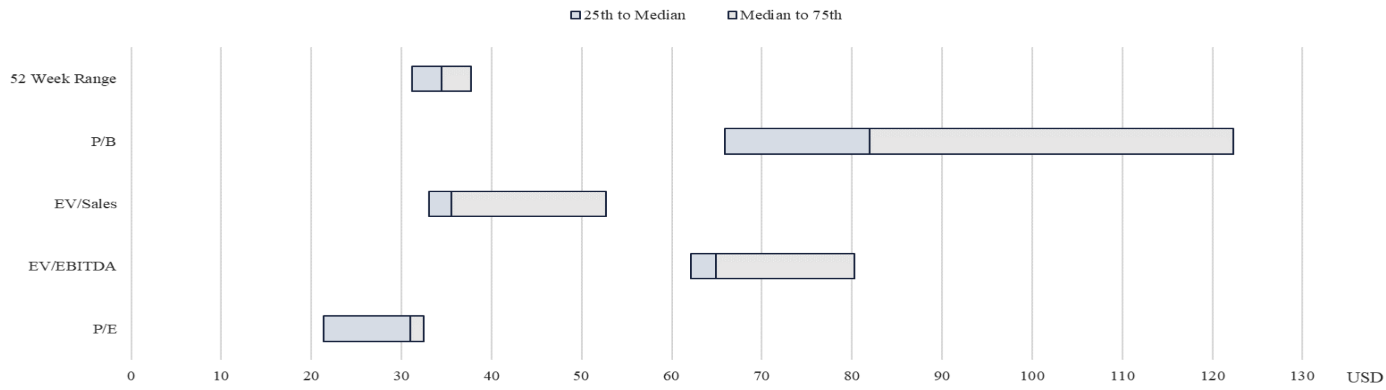
Corporate News

Pfizer is one of the first pharmaceutical companies that started working on the Covid-19 vaccine. Pfizer's shares are down 8.44% YTD and 5.69% for the last 52 weeks. Similar to the overall market, the company's market cap suffered a large decrease due to the Covid-19 pandemic and its share price reached a low of USD 28.49 on the 23rd of March. The share price in the following months was volatile since it was moving in parallel with the progress in the production of the vaccine. Currently, Pfizer is at the "last mile" of Covid-19 vaccine development since the latest trial made showed its vaccine to work. This is reflected in the company's share price of the last months, which was stable and close to pre-Covid-19 levels. Pfizer is now to seek Food and Drugs Administration approval for the vaccine that, if released, will very likely result in a surge of the share price of Pfizer.

Price (31 Oct 20, USD)	**36.29**
Target Price (USD)	41.00
3M Performance	-5.69%
Market Cap (USD m)	201 659.17
Enterprise Value (USD m)	254 135.17
**Target Price is for 12 months*	



Valuation Analysis



On the 31st of October 2020, Pfizer was trading at USD 36.29 on the NYSE. The football field reveals the large volatility in valuations for pharmaceutical companies in the Covid-19 era. Pfizer's market price seems fair if we consider the 52 week range and the EV/Sales multiple. However, from an EV/EBITDA and Price-to-Book standpoint, the company is deeply undervalued as these indicators give a range of prices over USD 60. On the contrary, according to the P/E ratio, the company is slightly overvalued.

Pfizer's main competitors are Merck & Co Inc. and Johnson & Johnson (J&J). Besides their dimensions, there are smaller companies that are ahead in the race for the development of the Covid-19 vaccine, such as Moderna and AstraZeneca. Pfizer is also at advanced stage trials, while Merck and J&J are lagging in testing. The development of the vaccine can completely change the structure of the industry since the fastest companies in commercializing it will be able to gain massive market shares.

Peers	**Currency**	**Market Cap** (Cur m)
Merck & Co Inc	USD	195 560.92
AbbVie Inc	USD	155 437.69
Bristol-Myers Squibb Co	USD	138 628.25
Eli Lilly and Co	USD	126 153.98
Johnson & Johnson	USD	367 108.08

Daniele Notarnicola
Investment Banking Division

NIC's View On

Chinese Regulators to Halt Record-Breaking IPO of Ant Group

Hannes Stingel
Investment Banking Division

"Views regarding the health and stability of the financial sector were exchanged. Ant Group is committed to implementing the meeting opinions in depth and continuing our course based on the principles of: stable innovation; embrace of regulation; service to the real economy; and win-win cooperation."

– Ant Group

China's Ant Group was ahead of raising approximately USD 34 bn after the company has set the price of shares in its initial public offering. The company would have become the biggest-ever market listing by topping Saudi Aramco's IPO who raised USD 26 bn in December 2019. Ant was expecting to go public on the 5th of November. However, after a meeting between Ant and the Chinese regulators on Tuesday, 3rd of November, Ant's IPO has been postponed two days before going live due to regulatory issues.

Ant is a Chinese based financial technology company and payment group controlled by Jack Ma, founder and CEO of Alibaba. The company has started to operate as Alipay, the most popular online payment platform in Asia founded by Alibaba in 2004. Two years later, already 300 k merchants from travel to gaming had implemented Alipay in order to manage their online payment platform. In 2010, Alipay collaborates with over 200 banks in China, thriving the success story of the company further ahead. As the company's fast-growing business flourished, Alipay took down PayPal as the largest online payment provider in 2013. As of June 2020, Alipay has 1.3 bn active users (Paypal 346 m) and conducted USD 17 tn worth of transactions in China within the last year. Apart from Alipay, Ant offers further services such as insurance, wealth management, lending, and credit scoring.

Ant planned to go public in a dual listing process on the Hong Kong and Shanghai exchange. The company's shares for the Hong Kong market were priced at USD 10.30 apiece, while shares for the Shanghai portion were likely to trade at USD 10.26. Combining both markets, Ant would be valued at USD 313 bn, a market capitalization that equals major US Wall Street Banks such as JP Morgan Chase. Moreover, after Berkshire Hathaway, Visa and Mastercard, Ant would become the fourth biggest financial company worldwide. The company's dual initial public offering clearly would indicate a sound stimulus for IPOs on the Asian markets as not only Shanghai but also Hong Kong represent a strong market with significant relevance when it comes to initial public offerings. Large Chinese tech companies such as NetEase and JD.com have already raised billions of dollars via dual listings in Hong Kong although political conflicts between China and the US have been increased as the trade war between the Trump Administration and the Chinese government further continues.

However, according to the regulators, Ant is currently dealing with "major issues" and might not be able "to meet the listing conditions or disclosure requirements". Alibaba's shares were down 8.14% on Tuesday on the New York Stock Exchange after the company has announced to postpone its listing.

Ant's IPO would play an important role in attracting investors to the Chinese market. Thus, big tickets listings as mentioned above could support an increasing trend of shifting equity markets away from the US to Asia. However, it is not clear when Ant's IPO will continue. For now, it could be delayed by at least six months.

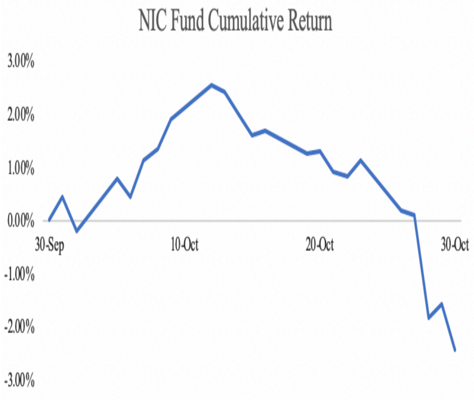
Date	Recent News
19 Oct 20	China's Ant wins Hong Kong nod for $35 billion dual listing ***Source:*** *reuters.com*
3 Nov 20	China Halts Ant Group's Blockbuster I.P.O. ***Source:*** *nytimes.com*
3 Nov 20	China Halts Ant Group's IPO, Throwing Ma Empire Into Turmoil. ***Source:*** *bloomberg.com*
5 Nov 20	Ant Group IPO faces at least 6-month delay after Beijing intervention. ***Source:*** *ft.com*

Hannes Stingel
Investment Banking Division

NIC Fund

NIC Fund

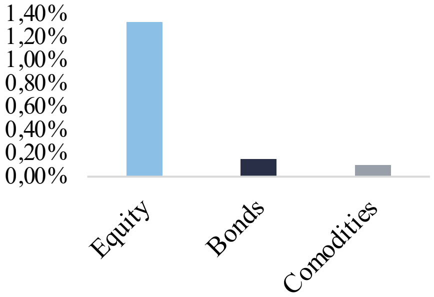
Portfolio Overview



Portfolio Statistics	
Cumulative Return	-2.41%
Annualized Return	-28.98%
Daily St. Dev	0.67%
Period St. Dev	3.05%
Annualized St. Dev	10.58%
Info Sharpe	-2.74
Skew (Daily)	-0.75
Kurtosis (Daily)	0.70

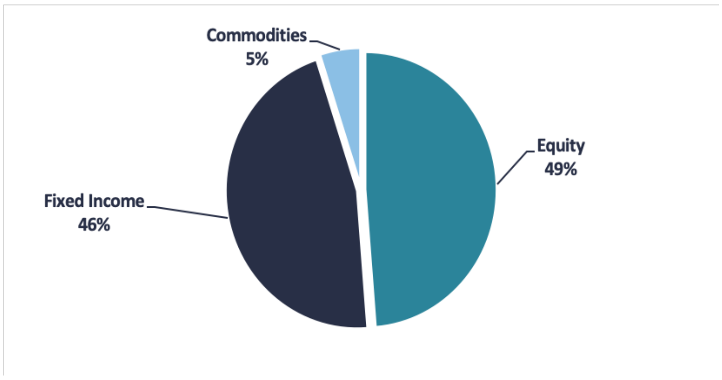
Benchmark	
iShares 3-7 Year Treasury Bonds	50%
SPDR S&P 500 ETF Trust	40%
Powershares DB Commodity Index	10%

Individual VaR



Portfolio Snapshot

During the month of October, our fund remained invested in Equities, Fixed Income and Commodities with an allocation structure allowing us to remain relatively on par with our benchmark. In this light, Equities represented close to half of the portfolio (49%), while Fixed Income accounted for 46% and Commodities for 5%. The market remained highly volatile during the month, with the VIX crossing the level of 30 in late October. The objective of our asset allocation is to hand pick a few high-momentum stocks over the mid-term, as well as screen sectors that will be able to thrive in this current environment and allow for some solid investments in the long-term.



Return Metrics

Our portfolio returned -2.41% this month as markets are still highly volatile and uncertainty looms over a large number of industries. No asset class had a positive impact on the fund this month, with Equities yielding -2.10%, with Fixed Income contributing -0.18%, and Commodities contributing -0.07%. Our returns were heavily affected by the general downturn on the equities market. Sectors such as Healthcare and Materials fell this month, with Bayer AG (BAYN) and Everbridge Inc (EVBG) being the worst performers in the portfolio, yielding respectively -24.81% and -16.73%. A few hand-picked stocks were still able to beat the market. MercadoLibre (MELI) was the best-performing stock, with a 12.15% monthly increase, validating the positive momentum of the stock. Another high-flying stock was HDFC Bank (HDB), with a monthly return of 9.25%, clearly outperforming the Financials sector during the period. It was a weak month for our Fixed Income holdings which had a negative impact of 0.18% on our fund's performance lead by the -0.68% monthly return of the iShares TIPS bond ETF.

Risk Metrics

In terms of risk, our portfolio registered a high daily VaR of 1.26%, taking into consideration the benefits of diversification. On the other hand, also during the same period under analysis, the non-diversified VaR was at 1.58%, a value still below the maximum established threshold of 2.5%. Equities were the asset class with the highest individual VaR, which was around 1.33%. Bonds and Commodities presented slightly lower VaR values of 0.15% and 0.10% respectively.

Ruben Pratapsinh
Financial Markets Division

NIC Fund

Assets in Brief

Asset Class	Symbol	Comments
US Equity	**NFLX**	It was a difficult month for tech stocks, and Netflix was hit particularly hard. The streaming giant fell 4.86% during the month. The stock had been performing extremely well with a total return YTD of 47.03%, as the pandemic allowed the company to substantially grow its number of subscribers. However, investors were disappointed after the third quarter earnings release in late October. Subscriber growth, 2.2 million globally, was lower than expected by analysts, which led to a drop in the share price. Netflix also announced a price hike in its monthly plans for US customers in an attempt to raise its revenue per subscriber.
US Equity	**MELI**	MercadoLibre has been one of the high-flying stocks in our portfolio this year with a total return YTD of 112.27%. The Latin American e-commerce and digital payments company continued on this trend during the month of October, with the stock climbing 12.15%. There is a lot optimism surrounding the company, with several analysts upgrading it throughout the month, ahead of the third-quarter earnings report in early November. As a result, the stock was able to beat the market average for the considered period.
US Equity	**HDB**	The Financials sector continued its downwards trend in the month of October, but HDFC Bank still managed to perform well. The Indian bank's stock soared 9.25% this month, resulting in a -10.43% total return YTD. Last month's increase in the stock price comes after the housing finance company announced positive numbers for loan disbursements during the third quarter, compared to the same period last year.
GR Equity	**BAYN**	The Healthcare sector had an up and down month of October and therefore the German life sciences firm was the worst performer in our portfolio over the period. The stock dipped -24.81% for the month, contributing to a total return YTD of -31.37%. These negative returns are due to the pessimism around the stock after the firm issued a profit warning for the next year. The chemicals giant also announced several cost cuts, in reaction to the pandemic's impact on its businesses. Analysts reacted quickly by downgrading the stock, contributing to the growing negative momentum the company had been facing.
Commodity	**AAAU**	Gold proved to be a safe-haven asset in an overall gloomy month. The gold ETF in our portfolio had a return of -0.41% in October. The commodity proved once more to be a great way to diversity and hedge our portfolio in periods of high volatility. The ETF is up 18.94% YTD in what has been a great run for the commodity. A reference for our position is the Invesco commodity index, which holds a mix of different commodities. It yielded -3.14% during October, underperforming the gold ETF in the period.
Index	**FTSE 100**	Uncertainty regarding the UK's economy remains, with rising Covid-19 infections in the region and the prospect of a no-deal Brexit increasing with time. As a result, London's blue-chip index fell sharply during the month, with a -4.73% return, contributing to the negative trend of the index which returned -25.71% since the beginning of the year.
Fund	**MSCI EM**	The iShares MSCI Emerging Markets was the best-performing ETF in our portfolio, with a monthly return of 1.41%, which contrasts with the rather low YTD return of 0.23%. Given the recent uncertainty in developed economies around the globe, investors are looking for alternative investments, which contributed to the rise of the MSCI Emerging Markets.

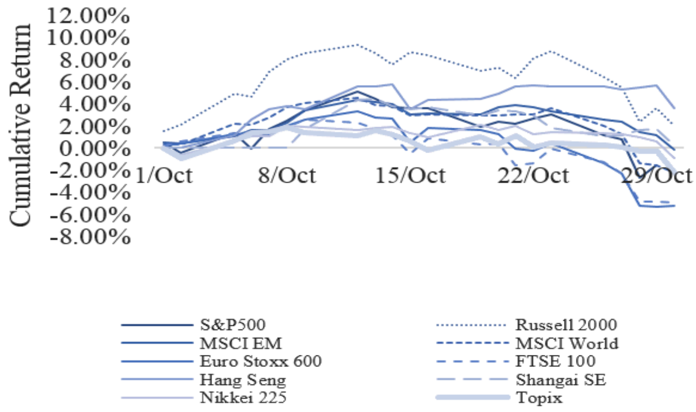
Ruben Pratapsinh
Financial Markets Division

NIC Fund

Equities

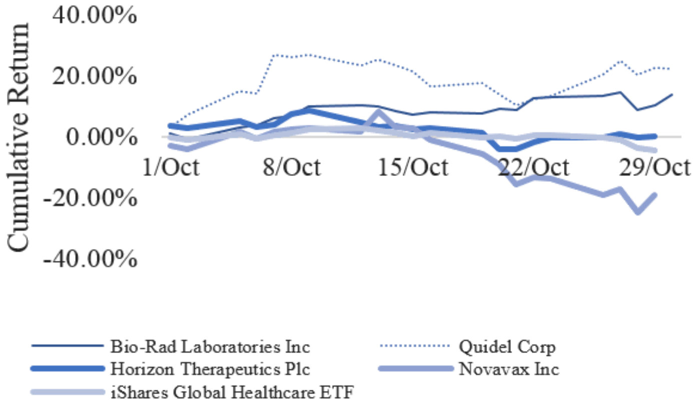
World Equities

Global equities experienced a turbulent month of October. After a fairly positive start, the resurgence of Covid-19 concerns and the looming presidential elections in the US provoked a new wave of uncertainty in the markets. Therefore, we observed VIX levels above 30 with massive equity selloffs, ending this month with some really negative trading days. On a global outlook, Asia continues on its path to recovery, led by China, dealing with the pandemic in a really effective manner as the Hang Seng posted a 3.64% return this month. The picture is quite different in the US and across Europe, as reflected by the FTSE 100 (-4.92%), Euro Stoxx 600 (-5.19%), and S&P 500 (-1.57%) performances. The bright spot here is the Russell 2000 Index (2.04%). Post elections, following Joe Biden's win, investors will be looking for reflation trade opportunities, banking on a new stimulus package that would fuel growth and inflation. It is worth noting that in the past, small caps have done extremely well after depressed phases of the US economy and this scenario could be repeating itself here.



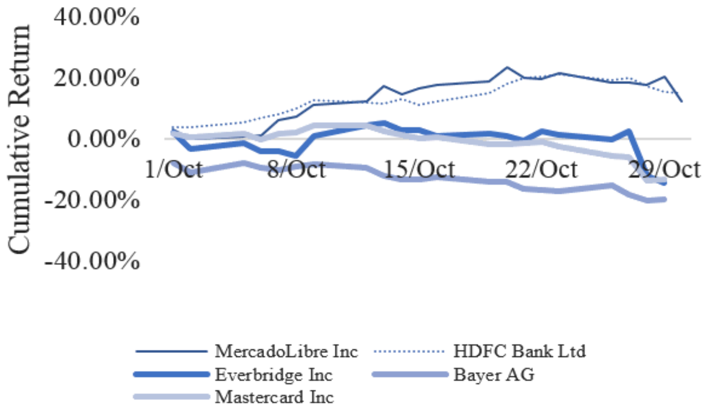
In Depth: Healthcare, Biotechnology, and Life Sciences

In the midst of this uncertain environment, markets have been navigating since March, we have observed massive differences in terms of impact on different industries. The Healthcare sector has been one of the most robust and presents today a number of opportunities in this pandemic environment. As expected, the Covid-19 vaccine race is still on as the FDA announced it was lowering the effectiveness threshold for the cure to 50%. Here we focus on four US companies: Bio-Rad Laboratories, Quidel Corp, Horizon Therapeutics, and Novarax Inc. These firms cover the industry spectrum in terms of market cap and activity focus, from a medical equipment provider to R&D and pharmaceutical marketing. However, within this heterogeneity of profiles, a common denominator stands out: they have been performing extremely well over the past three months and YTD, presenting intriguing upside opportunities. Although they finished this past month in line with global equity markets because of current events, they present a great future outlook.



Our Performance

In October, the NIC fund fell 2.41%, still slightly outperforming the SPY benchmark (-2.49%) by eight bps. Equities dropped 6.27% over the period which resulted in a -2.10% impact on the portfolio. Within this rough period, a few stock picks still managed to perform extremely well such as Argentine e-commerce company Mercadolibre (up 12.15%) and Indian bank HDFC Bank ltd (up 9.25%). On the downside, worst performers were German pharmaceutical company Bayer AG (-24.81%), American technology firm Everbridge (-16.73%), and American financial services company Mastercard (-14.55%). Overall we still observe major differences among industries in the way they deal with these volatile times but also in their recovery paths. Keeping in mind this sectorial scope could appear to be an intriguing and effective way to navigate these equity markets.



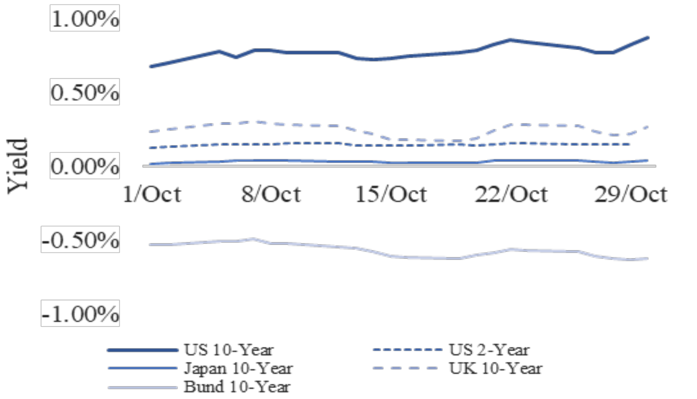
Vincent Sardinha Marques
Financial Markets Division

NIC Fund

Fixed Income

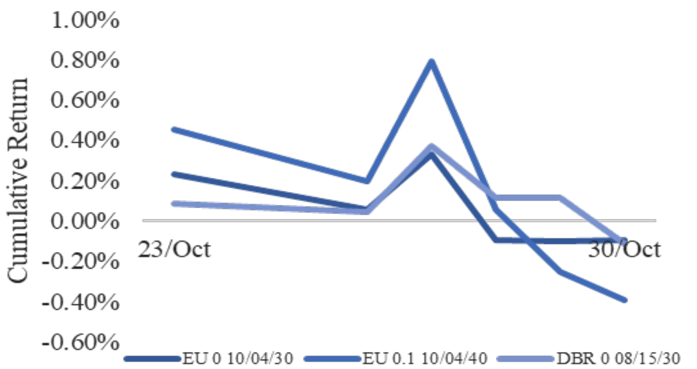
World Yields

Investors' risk-off sentiment in Europe increased further in October amidst surging Covid-19 cases and fear of renewed lockdowns across the continent. This led to increased demand for European sovereign bonds, driving yields down. The 10-Year German Bund closed 10 bps lower by the end of the month at −0.63%. The ECB launched its first two Covid-19 related bonds, which experienced unprecedented demand as they hit the market. In contrast, the UK 10-Year Gilt remained relatively stable and rose by 3 bps to finish the month at 0.26%. In the US, the 10-Year yield rose by 19 bps to 0.87% as hopes of new stimulus to come after the elections has been kept alive. Asian markets have been able to continue their recovery as the countries' new Covid-19 cases have remained relatively constant. The Japanese 10-Year bond yields 0.04% by the end of the month, an increase of 3 bps. In November, with Joe Biden's election, investors will anticipate a positive outcome to the stimulus negotiations. European investors are hoping that the ECB's hints on potential new stimulus coming in December will materialize over the coming weeks.



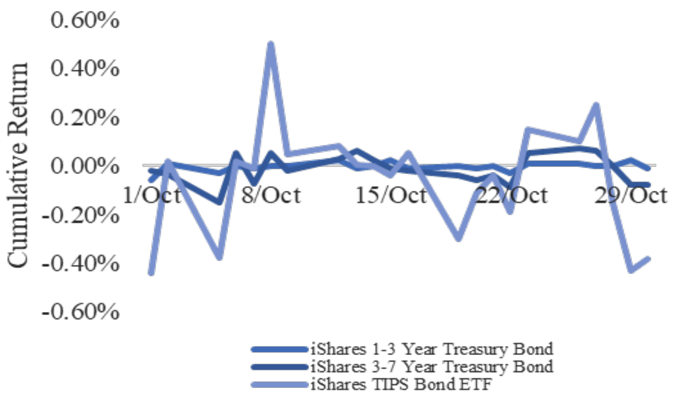
In Depth: Launch of European Covid-19 Bonds

It has been a few days now since the European Central Bank has released its first Covid-19 related bonds under the "Temporary Support to Mitigate Unemployment Risks in an Emergency" (SURE) program. As member states' deficits are poised to remain high even as their economies recover, the ECB plans to buy all newly issued government bonds across the Eurozone up until the end of 2021. The rationale behind this is the almost negligible cost of the plan, given that much of the interest paid by the member states will return to national treasuries via dividends. The ECB has scaled up its own borrowing by issuing a 10-Year and a 20-Year bond in order to finance new stimulus packages. These bonds, which had their first trading day on the 22nd of October, experienced the largest ever order book in global bond markets. Investors placed bids for more than EUR 233 bn, while initially only EUR 17 bn of bonds were on offer. These draft budget plans have noteworthy consequences. Italy for example is eager to take up these cheap grants while some other EU members are reluctant to increase their deficit even further. Furthermore, the plans may also signal that the European sovereign bond markets are now mostly technically-driven and have little to do with fundamentals.



Our Performance

In October, about 45% of our fund was invested in Fixed Income. iShares 1-3 Year Treasury Bond ETF and iShares 5-7 Year Treasury Bonds returned −0.05% and −0.44% MTD respectively. iShares TIPS Bond ETF had a negative return of 0.68% MTD, however the YTD return is still very positive at 8.33%. The weighted average of the Fixed Income asset class was −0.4% MTD, which contributed to a −0.18% decline in the overall fund performance for the month.



Sebastian Hartmann
Financial Markets Division

NIC Fund

Commodities

October Round-Up

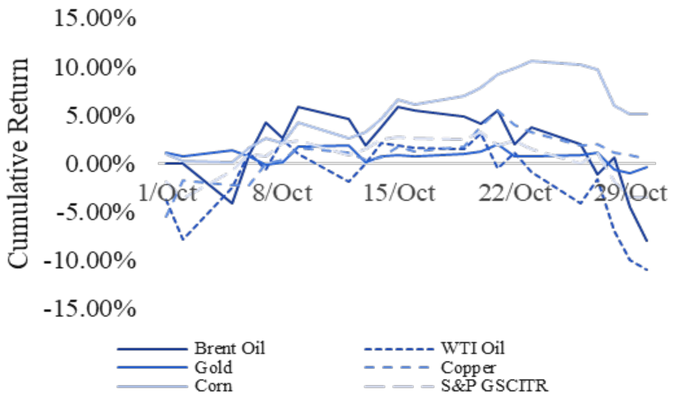
The S&P GSCI Total Return index, which is largely considered a benchmark to represent commodity markets, returned -2.09% in October. With Covid-19 cases spiking and more countries resuming their spring lockdown measures, oil prices reached their lowest levels since May 2020. However, the hit was not as devastating as in the early months of 2020, when, amidst the pandemic, Saudi Arabia and Russia waged a price war which put additional pressure on oil markets. Brent crude oil had recovered over the summer with relatively steady levels above USD 40 but fell below USD 36.02 at the end of October with a loss of more than 10% within the last week of the month. Despite the turmoil and uncertainty in oil markets, Royal Dutch Shell raised its dividend by 4% and committed to a yearly increase. The Anglo-Dutch oil and gas company stated that its cash flows as well as past performances allowed for an increased payout. It has been a turbulent month for gold with a month's high of USD 1,930.43 and a low of USD 1,866.65 in the last week of October. Safe-haven demand has been comparably weak over the month but increased towards the end of the October just ahead of the US elections. Corn saw a price increase of 4.94% despite October being harvesting season for grain in the US - the world's largest corn producer - which usually leads to a supply burst and consequently can result in lower prices. However, in the last week of October, corn prices reached their highest level since July 2019, after the Chinese government increased its import demand forecasts due to shortage within the country.

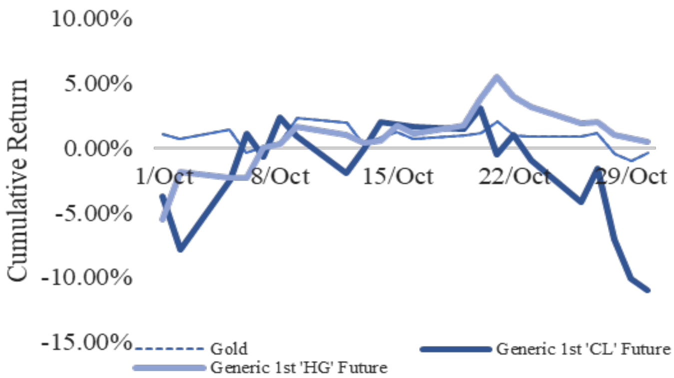
Outlook for November

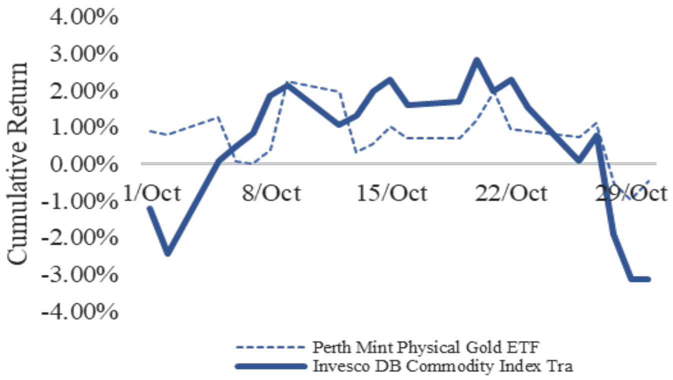
The OPEC will have its 180th meeting of the OPEC Conference on the 30th of November. Until then, a rise in volatility can be anticipated with the US elections taking place on the 3rd of November and a worsening global health situation. While gold might profit from further safe-haven demand following daily reports of new record infection rates across the globe, crude oil could see the downside of reinforced lockdown measurements and travel restrictions. There are different views on how the outcome of the elections could affect the energy sector. Most voices however consider a win of the Trump administration as beneficial for oil prices, while a win of Biden, who is expected to promote green energy, is considered rather pessimistic. Furthermore, Joe Biden is expected to introduce tougher measures to contain the virus which might put additional pressure on oil markets.

Our Performance

During the month of October, we maintained an allocation of 5% in commodities. The Invesco DB Commodity Index, which represents 1.71% of the weight within the NIC fund, diminished the return of our portfolio by 3.14%. The Perth Mint Physical Gold ETF returned -0.48% last month yet yielded 18.94% YTD for our portfolio.







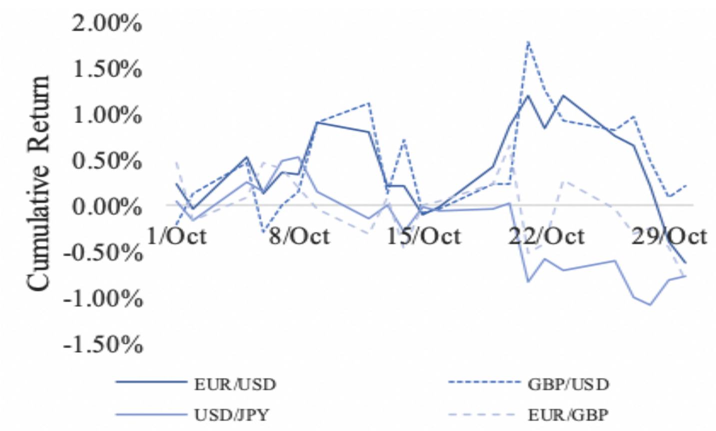
Julia Weber
Financial Markets Division

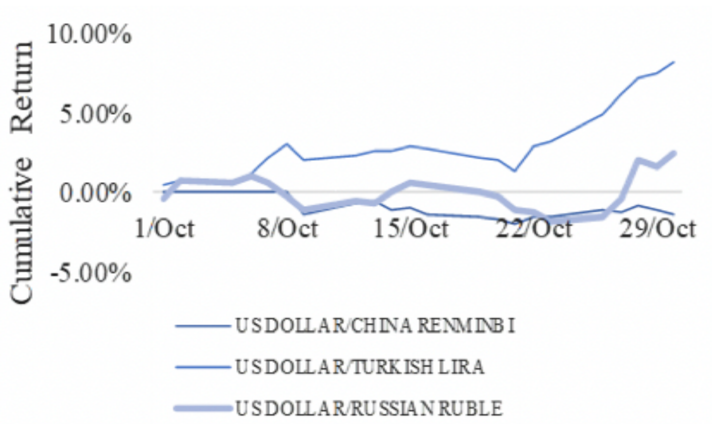
NIC Fund

Currencies

World Currencies

A combination of the Covid-19 pandemic and uncertainty surrounding US Elections has resulted in increased volatility throughout all currencies, even the most stable. On the 8th of October, the Euro was up 10% against the US Dollar since its lowest yearly point in March. After that, it was a really up and down month altogether. At the beginning of the month, European Central Bank president Christine Lagarde announced the possibility of implementing a digital Euro in the future. A statement that confirms the central banks' rising interest in the world of digital currencies. On the 21st of October, the British Pound climbed 1.7% against the US Dollar, supported by a weakening US Dollar in the waiting of a new fiscal stimulus package. The rally was further stirred up by comments of Dave Ramsden, a deputy governor at the Bank of England, who stated that the introduction of negative interest rates in the UK is rather unlikely. The US Dollar has declined by 9% from its peak in March mainly due to rising budget deficits and expectations for prolonged very low US interest rates. However, a weak US Dollar acts as a safety valve for emerging market economies, which are heavily reliant on US debt.





In Depth: US Elections' impact on Emerging Markets

The US Elections dominated the scene throughout the month of October, and it is reasonable to expect the same during the upcoming weeks. Inflated volatility and short-term fluctuations are particularly notable in the performance of emerging markets currencies. In China, investors believe the Yuan might strengthen following Joe Biden's victory, hoping for an improvement of their relationship with the United States. China's strong economic performance is also a major determinant of this Yuan's spike. On the 26th of October, the Turkish Lira reached a new negative performance against the US Dollar, trading around 8.0918 (USD/TRY) for the first time during the month. The downturn was a result of Turkish president Recep Tayyip Erdogan's accusations against French president Emmanuel Macron and other attacks on political representatives from European countries concerning Europe's behaviour towards Islam. Furthermore, the Turkish government has spent roughly USD 134 bn over the past 18 months to help the Lira recover, according to a Goldman Sachs report. Currency reserves are uncertain and only serve to a limited extent as collateral in the event of a sovereign crisis. In Russia, the Rouble hit its lowest level against the US Dollar since March due to mainly two reasons. With Joe Biden's victory, whose primary goal is to promote renewable energies, Russia could see its oil demand levels drop. The nation's dependence on exports and an increased spread of Covid-19 cases in the country are lowering markets' prospects for the Rouble.

Our Performance

We currently hold no currency-related assets in our portfolio.

Alessandro Astore
Financial Markets Division

Extras

Hot Topic

JPM Coin: Is the Broad Adoption of Cryptocurrencies Just Around the Corner?

Julia Weber
Financial Markets Division

"We are launching Onyx because we believe we are shifting to a period of commercialization of those technologies, moving from research and development to something that can become a real business"

– Takis Georgakopoulos, J.P. Morgan's global head of wholesale payments

J.P. Morgan Chase's digital currency went live during the last week of October and for the first time was adopted for commercial use by a large technology client to conduct global payments. Simultaneously, J.P. Morgan announced the introduction of a new business unit for its blockchain and digital currency projects: Onyx.

"JPM Coin" was introduced in early 2019 to facilitate the processing of cross-border transfers. J.P. Morgan now appears to have achieved this with the token being commercially used for the first time at the end of October. According to the bank, further clients are being on-boarded. The financial industry could achieve significant cost savings and simultaneously generate new revenue sources by processing global transfers in digital currencies. One example that has great potential are paper checks which are still physically processed.

All the efforts around blockchain and digital currencies have been bundled by J.P. Morgan Chase within the newly created division Onyx which, according to the bank, is already staffed with 100 employees. The business unit aims at pushing the shift to digital currencies in the financial services industry which J.P. Morgan believes could happen soon. "If you think about blockchain, we are either somewhere in the trough of disillusionment or just beyond that on the hype curve," said Onyx' CEO Umar Farooq.

The implementation of the token is only one of the efforts made by J.P. Morgan to ensure more efficient and cost-saving processing of wholesale payments in the future. Not only could blockchain technology enhance cross-border transactions in terms of cost efficiency but also regarding transparency. Aspects which are highly relevant for J.P. Morgan given the bank is one of the major players in the global payments landscape with a payment volume of USD 6 tn per day across more than 100 countries.

The news of the first real live utilization of J.P. Morgan's token came in an already strong week for cryptocurrencies. In the last week of October, PayPal announced that US customers will be able to buy, sell and store Bitcoin and other cryptocurrencies through the platform from early next year. This announcement caused a momentary rise of the PayPal share and had the Bitcoin price yield its highest level since the beginning of 2018 coming close to USD 13,700.

This was accompanied by the publication of positive research by J.P. Morgan on cryptocurrencies. The note states that millennials prefer bitcoins to gold as alternative currency which could have significant consequences for the price development of cryptocurrencies in the future. "Even a modest crowding out of gold as an 'alternative' currency over the longer term would imply doubling or tripling of the Bitcoin price from here," says the team of analysts at J.P. Morgan's Global Markets Strategy group who published the research note.

This is a further indicator of blockchain technology's great potential. It raises the question if now may be the right time to go back into digital currencies. The cryptocurrency Bitcoin had once reached a level of USD 20,000 in late 2017 and fell to around USD 3,400 in the following year after the crypto bubble had burst. Certainly, J.P. Morgan's move can be considered a step towards the mainstream utilization of blockchain technology and it remains to be seen whether cryptocurrencies are indeed on the verge of an upswing.

Julia Weber
Financial Markets Division

Extras

Hot Topic

LVMH and Tiffany Bury the Hatchet

Pedro Santos Vitor
Investment Banking Division

"This balanced agreement with Tiffany's Board allows LVMH to work on the Tiffany acquisition with confidence and resume discussions with Tiffany's management on the integration details. We are as convinced as ever of the formidable potential of the Tiffany brand and believe that LVMH is the right home for Tiffany and its employees during this exciting next chapter."

– Bernard Arnault, CEO of LVMH

LVMH and Tiffany have finally agreed to new deal terms for LVMH's acquisition of Tiffany. The agreed purchase price is USD 131.50 per Tiffany's share for an equity value of USD 15.8 bn and shareholders will receive an additional dividend of USD 0.58 a share. This deal contrasts with the one reached earlier this year between the two luxury goods companies, where there was a settled purchase price of USD 135 per share, saving LVMH over USD 400 m. But how did the two companies get to this point?

The imbroglio started a year ago, with Bernard Arnault, Chief Executive of LVMH, stating to President Trump that he would buy something significant in the US. Mr Arnault then approached Tiffany, an historical American luxury group with an offer that was deemed to low for the moment. Negotiations kept going until a USD 135 purchase price per share was agreed and a deal was reached, for an all-cash bid of USD 16.6 bn. This acquisition would give LVMH a bigger presence in its second-largest market after Asia and consolidate its position in the hard luxury sector - jewellery and watches.

Out of the blue, the coronavirus pandemic came about and changed the game. This pandemic heavily battered the luxury goods sector and the takeover price started to look expensive for Mr Arnault. Rumours have that he wanted to recut the deal and lower the purchase price. To do so, LVMH made it seem that the deal was falling apart, forcing Tiffany back to the negotiation table. Nonetheless, this did not work.

Subsequently, the perfect pretext arose. As a response to the digital tax imposed by the French Government on tech companies, the Trump administration responded with customs duties to star French products such as wine and luxury goods. The French foreign minister, Jean-Yves Le Drian, then asked Mr Arnault to delay the completion of the deal until these trade disputes were resolved. LVMH notified Tiffany that it had to pull out of the deal after the French Government intervention.

Tiffany saw this as another manoeuvre by the "wolf in cashmere", as Mr Arnault is known as. Nonetheless, it did not want to go down without a fight and decided to file a lawsuit in the Delaware Court of Chancery, intending to force LVMH to close the transaction within the initial deadline of 24th of November 2020. The lawsuit did not also claim that LVMH deliberately strong-armed the American company to lower the merger price but also that it had breached the agreement by not notifying Tiffany immediately after the French government's decision. The verdict would be made in court, whilst expected to be disclosed in January 2021. The projections were not seen as good for LVMH, although the latter claimed that Tiffany mismanaged its business so poorly during the pandemic that it was forced to reconsider the takeover bid.

Finally, on 29th of October, a deal was struck by the two companies to avoid the bad reputation of a court decision and the possibility of no-deal. LVMH will pay USD 131.50 per share, getting a small discount of 3% of the original deal, which leaves Tiffany better off, as earnings are not expected to get back to normal levels until 2023. However, LVMH increases its market value on the jewellery sector and consolidates its position in the US. It will now start focusing on the post-merger integration of Tiffany under its incredibly valuable umbrella of luxury brands such as Louis Vuitton, Givenchy or Bulgari.

Pedro Santos Vitor
Investment Banking Division

Extras

ESG Review

At the Forefront of Responsible Investment: The Sustainable Equities Fund

Alessandro Astore
Financial Markets Division

"Nordea has been at the forefront of investing in companies that are changing the world for the better and transitioning to a more sustainable society. We are at a crucial period for a global response to climate and environmental challenges, and we look forward to working with Brunel in pursuing a more sustainable world."

– Nils Bolmstrand, CEO, Nordea Asset Management

The term "Socially Responsible Investment" refers to investment decisions that include social, ethical and environmental considerations in addition to traditional financial screening criteria. This strategy contrasts with customary investment approaches where decisions are based entirely on risk-return considerations. However, the most contentious issue in the field of ethical investing is whether financial performance is adversely affected by constraining the potential universe of stocks that can be used to construct a portfolio.

Exponentially growing demand for investment products that consider ESG factors and the United Nations Sustainable Development Goals can be noted. The Brunel Pension Partnership's Portfolio Manager for the Sustainable Equities Fund David Jenkins observes: "Our clients asked Brunel to create a listed equity portfolio in which ESG considerations are at the forefront of the investment process, and where the managers positively pursue companies that will provide a benefit to society." With the aim of meeting the growing demand and clients' needs, Brunel Pension Partnership successfully launched its Sustainable Equities Fund. The announcement followed on Brunel's official website on the 28th of October. Brunel, is a pooled Local Government Pension Scheme funds located in the UK, and the sub-fund will manage a mandate of about GBP 1.2 bn. "The Sustainable Equities Fund gives our clients access to both the equity risk and sustainability focus they requested," said David Cox, Head of Listed Markets at Brunel.

Nordea has been assigned a GBP 325 m specialist climate and environment equity mandate from the Brunel Pension Partnership. The mandate will run following Nordea's approach of the Global Climate and Environment Strategy. Nordea Asset Management's (NAM) commitment to be a responsible asset manager is well known as it is an integral part of the company's corporate culture, philosophy and business model. Nordea has been actively supporting ESG transition by developing a specific range of cutting edge Responsible Investment (RI) products called ESG STARS funds which are managed by the Fundamental Equities Team and thematic strategies. Thematic strategies currently comprise the Global Climate and Environment Strategy, and the Global Gender Diversity Strategy. These will be the key tactics followed by Brunel's new Sustainable Equities Fund.

In trying to understand how equity funds can create a real impact, one key aspect stands out: Engagement. Unsurprisingly, this value is at the core of Nordea's and Brunel's investment approach. Engagement means having a beneficial dialogue with the companies they invest in. Such dialogue enables them to understand how a company is considering and addressing ESG risks or opportunities that are relevant to its business. Nordea's Global Climate and Environment Fund is a specific thematic portfolio that benefits from a long-term mega-trend supported by multiple factors (economic, environmental, corporate and consumer). It has a growth orientation towards mid-cap companies (40-60 securities) and has been managed by the same investment team since 2009.

As seen so far, sustainable equities fund not only aim but manage to deliver returns, while allowing investors to participate in shaping tomorrow's world. In the third quarter Nordea, the largest asset manager in the Nordics, saw its highest net inflow in four years, reflecting the attractiveness of the investment strategy. The Brunel mandate is Nordea's largest single climate and environment segregated mandate; another success for Nordea's strongly growing business in the UK within recent years.

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Thank you!

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

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