NIC

— Nova Investment Club —

Newsletter

February 2021

NIC
Nova Investment Club

Table of Contents

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, Daniele Notarnicola, our Head of Corporate Relations, elaborates on the rise of so called "Zombie Companies" during the Covid-19 recession. Moreover, in our Regional View, Julia Weber, our Head of FMD, examines the rise of China and its future in a post-pandemic world.

Our Investment Banking Division will guide you through January's M&A overall activity. Read about UnitedHealth Group to acquire Change Healthcare, NCR Corp to buy Cardtronics Plc, and American Tower to acquire Telefonica's towers unit Telxius. Additionally, get a detailed overview on what happened to FuelCell Energy Inc and NIO, as well as consider our opinion on the 2021 M&A outlook.

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 January was slightly negative, with a cumulative return of -0.56%. A loss that can be mainly attributed to Equities.

On the Hot Topics of this month, Alessandro Astore, examines the electric vehicles market, while Gonçalo Santos, elaborates on the GameStop frenzy. Lastly, on our ESG review in collaboration with Nordea, Ruben Pratapsinh, writes about Active engagement focusing on Nordea's work in India with pharmaceutical companies..

The following content is original and created by the Nova Investment Club, which is run by students from Nova SBE's Master's in Finance. The reports may contain inaccurate or outdated information and should not be used as an exclusive mean for investment decisions.

Macro Overview

Monthly
February 8th, 2021

Deeper Dive

Regional view

Market Moves

Market Moves

% change

	Last Close	-1W	-3M	YTD
S&P 500	3,714	-3.31%	13.59%	-1.11%
DJIA	29,983	-3.27%	13.14%	-2.04%
Nasdaq	13,071	-3.49%	19.79%	1.42%
MSCI World	3,321	-3.19%	18.75%	-0.70%
MSCI EM	4,573	-3.99%	17.96%	0.17%
Russell 2000	2,074	-4.39%	34.79%	5.00%
Euro Stoxx 50	3,481	-3.36%	17.69%	-2.00%
FTSE 100	6,407	-4.30%	14.89%	-0.82%
Nikkei 225	27,663	-3.38%	20.40%	0.80%
Hang Seng	28,284	-3.95%	17.32%	3.87%
Dollar Index	90.58	0.38%	-3.67%	0.72%
EUR/USD	1.214	-0.29%	4.20%	-0.65%
GBP/EUR	1.129	0.36%	1.47%	0.91%
GBP/USD	1.371	0.16%	5.88%	0.28%
USD/JPY	104.680	0.87%	0.02%	1.38%
USD/CHF	0.89	0.53%	-2.91%	0.58%
Brent Crude	55.880	0.85%	49.17%	7.88%
Gold	1,847.3	-0.48%	-1.73%	-2.52%

Generic Bond Yields

change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	1.066%	-2.0	19.2	15.2
GER 10Y Yield	-0.518%	-0.6	10.9	5.1
JPY 10Y Yield	0.054%	0.5	1.2	3.3
UK 10Y Yield	0.327%	1.9	6.5	13.0
PT 10Y Yield	0.039%	-3.2	-6.6	0.9

**Source: Bloomberg, as of 2021-01-29*

In Focus
January

The UK enters a new era as they officially leave the EU's single market. The 1st of January 2021 marked a new era for the UK. With the departure from the European single market, many industries and businesses are facing some challenges in adapting to new border-related bureaucracy. Further negotiations to reduce these frictions will continue into the foreseeable future.

Amsterdam vying to become Europe's new financial centre post-Brexit. Trading in EU shares fled the city of London for other European cities, as the EU refused to grant equivalence to most sectors in the UK's financial services industry following Brexit. Amsterdam is set to be the primary beneficiary of the spat, attracting most of the trading of EU shares.

Joe Biden inaugurated as 46th US President. The 20th of January saw the inauguration of the 46th US President, Joe Biden. With the democratic party's control over Congress, the US markets are facing four very different years ahead. The re-joining of the Paris climate accord, new tech regulation, taxation, and the expected generous new stimulus packages have led many investors to overhaul their portfolios to adapt to new potential market winners and losers under the new administration.

Skyrocketing shipping costs from Asia to Europe disrupts global trade. Many shipping containers were left stranded in the early phases of the pandemic, which has led to a bottleneck in available containers as international trade recovers. While shipping costs to the US have plateaued since October, the price to ship one container from Asia to Europe has risen from around USD 2,000 in October to currently around USD 9,000, causing delivery delays and goods shortages. The higher costs could dampen trade growth and contribute to temporary higher inflation pressures.

US-China relations take on new hawkish tone, while EU cuts deal. The tone between the US and China shifted from trade to geopolitics with the change in US presidency. President Biden announced a tough stance on China's repression of Uighurs in Xinjiang, the situation in Hong Kong, and the recent threats to Taiwan, which angered China. In the meantime, the EU signed a trade deal aimed at levelling the playing field through improving IP protection, investment security and manufacturing options. The deal's weak stance on labour rights was criticized by EU members.

EU's newly imposed vaccine export rules garner international criticism. As a result of internal strife due to the faltering rollout of the Covid-19 vaccines for the bloc, the EU has moved to curb vaccine exports in order to prioritize deliveries to member states. The new rules give the EU the power to block shipments to countries outside of the bloc, a move which garnered backlash from nations such as Canada and Japan.

Emerging Markets attract billions of US Dollars. After a dramatic fall in investments in March 2020 at the start of the pandemic, capital flows have returned to the asset class in style. Backed by developed nations' central bank stimulus', developing markets have attracted around USD 17 bn in the first three weeks of 2021, with EM stocks up roughly 9% during the same time period, following up on impressive gains already experienced in November 2020.

Retail investors force short squeeze on heavily shorted stocks. A large group of retail investors banded together on the social media site Reddit to force stocks like GameStop, which was shorted by around 140% of its float, into a short squeeze. Read more about this story in our "Hot Topic" article on page 19.

Sebastian Hartmann
Financial Markets Division

Deeper Dive

The Rise of "Zombie Companies" During the Covid-19 Recession

Daniele Notarnicola
Investment Banking Division

"The zombie disease seems to cause long-term damage also on those that recover from it. The weakness and risks in advanced economy corporate sectors may therefore not be fully captured by headline figures of the number of zombie firms. [Thus] a firm's viability should be an important criterion for its eligibility for government and central bank support."

– Ryan Banerjee, Senior Economist at Bank for International Settlements

Is 2021 a new season of "The Walking Dead"? Looking at how many "zombie companies" there are in the leading global economies, the answer would be yes.

Coming out from the metaphor, let's begin by giving a broad definition of this phenomenon. "Zombie companies" are firms that earn just enough money to continue their operation and to cover the interest payments on debt but they are unable to repay their outstanding debt, so they just roll over their obligations. The lack of excess capital does not allow for investments to foster growth, thus these companies are stuck in this limbo between bankruptcy and zero growth.

The answer to the Covid-19 crisis of both US and European policy-makers has led to a sensible increase in the number of companies with these features. Indeed, the generous stimulus measures and support programs promoted to sustain the economy and to help healthy companies to cope with the pandemic, had also a side effect: they kept alive companies that would have gone bankrupt regardless of the pandemic.

Data are unquestionable. Normally, there is an inverse correlation between bankruptcy rates and gross domestic product (GDP): during recessions, when the GDP begins to fall, the number of bankruptcies soars. However, the International Monetary Fund (IMF) index that monitors insolvencies across 13 advanced economies pointed out that the number of bankruptcies dropped sharply during the Covid-19 recession, disregarding the rule followed in the previous recessions.

As noted by the former chief economist at the US Treasury department, Karen Dyan, the unusual trend displayed this time could be due to the extraordinary nature of the crisis. In fact, we are not experiencing a structural crisis that requires changing the shape of the economy, but rather an event-driven crisis that keeps unchanged the structure of the financial system.

To be honest, there were concerns about the rise in the number of zombies even before the outbreak of the pandemic. Indeed, research conducted by the Bank for International Settlements over 14 developed countries indicated that the shares of zombie companies had climbed from 2% to 12% between the late 1980s and 2016 and noted that they stayed undead for longer than in the past, neither recovering nor dying out. This resilience was facilitated by the interest rate cut operated by policymakers in the aftermath of the 2008 financial crisis, thus reducing debt repayments.

Then what are the risks of having so many zombies in the economy? These companies are unproductive, invest less, and absorb resources that could otherwise be deployed in more dynamic firms. Hence, from an economic theory standpoint, there is a misallocation of capital and zombies lower the long-term growth of the economy. Moreover, one of the heaviest legacies of the pandemic is a huge corporate debt burden, which, according to many economists, will oppress the global economy in the next years.

Of course, not all the companies that become zombies are destined to stay like that forever. Indeed, lots of firms which revenues have been shuttered by the Covid-19 pandemic (for example, airline or hospitality companies) are likely to recover fast once life will be back to normal, and may eventually not need all the debt they raised.

Yet the huge amount of borrowing undertaken by struggling corporations in recent months will almost certainly limit the capacity of some to make CapEx and adapt to shifting consumer preferences. Few sectors are likely to die, but some may require a radical transformation to survive and attract capital.

Daniele Notarnicola
Investment Banking Division

Regional View

China in the Post-Pandemic Pole Position

Julia Weber
Financial Markets Division

"We will ensure our policies are consistent and stable, and we will not exit from supporting policy prematurely."

- Yi Gang, Governor of the People's Bank of China (PBOC)

With the new year and authorities' approval of several vaccines came the hopes of a quick return to normality and a speedy economic recovery. However, societies around the globe were confronted with another spike in Covid-19 infections and strong lockdown measures, leaving millions of people at home sitting out the new wave and waiting for a light at the end of the tunnel. Considering this failed reboot, the newly published figures of the International Monetary Fund (IMF) appear even more interesting in view of the growth projected for China.

In its January World Economic Outlook Update the IMF projects an economic contraction for advanced economies, including the US, the Euro area, Japan and others, of -4.9% in 2020 and a recovery in 2021 and 2022 with an annual percentage change of the real GDP of 4.3% and 3.1%. Projections for emerging markets and developing economies are higher as the latter field is led by China, for which the IMF expects a positive development in 2020 (2.3%) and a GDP growth of 8.1% in 2021 and 5.6% in 2022, leaving China not only as the sole country with a positive figure for 2020 but with by far the strongest economic growth in the upcoming years.

GDP growth is not the only recent positive development in the most populous country on the planet. In 2020 the Yuan appreciated strongly against the US Dollar and reached its highest level since mid-2018 on the second trading day of 2021. With China being able to contain the virus quite effectively, Chinese stocks and Yuan-denominated bonds had rallied. Opposed to many other countries, China did not slash its rates but rather combatted the virus with fiscal stimulus. The People's Bank of China's (PBOC) current base rate yields 3.85% and was lowered only once in 2020 from 4.05% in April. The comparably stable economic development in 2020 combined with fairly high yields had investors snapping up Chinese assets, resulting in increasing inflows and strong demand for the currency.

Until the end of 2020, the exchange rate had increased for 7 months in a row against the US Dollar, an appreciation of almost 7%, and continued to rally in the new year. Chinese authorities are expected to put a limit to a further strengthening after signaling a preference for a slower raise. A too strong Yuan could slow down exports, harm the currency's international competitiveness and lead to impairing financial conditions which would negatively impact the ongoing recovery from the pandemic. However, given China is leading the world with its strong economic outlook it is unlikely that foreign investors' inflows will decline over the short-term as Chinese assets remain attractive.

These developments raise the question how China managed to handle the crisis so differently. The comparably strong economic situation is surely the result of very stringent but effective containment measures as well as an easing monetary policy. Next to cutting the lending rate in April, the PBOC cut the reserve requirement ratio (RRR), the amount of cash certain banks must hold as reserve, multiple times in 2020 for smaller as well as for larger banks, releasing billions of liquidities to the market to stimulate the economy and support lending. Moreover, it advised banks to continue lending and granting payment relief to harder hit firms. Another peculiarity in the case of China is the economic boost by domestic travel and tourism. With international travel restrictions imposed, millions of Chinese spent their money at home by travelling within the country.

Despite indicating a policy tightening in December, the PBOC now announced in mid-January that it will continue to support economic recovery and focus on a stable monetary policy in 2021. The only setback for the people's republic is a seemingly less effective Chinese Covid-19 vaccine called CoronaVac, which has recently been downgraded by Brazilian scientists, claiming an efficiency rate of just above 50% in recent clinical trials.

Julia Weber
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

US Commission for Social Development

The 59th session of the Commission for Social Development will take place from **8th to 17th** February 2021 at the United Nations headquartered in New York. The Commission is the UN's advisory body responsible for the social development pillar of global development.

ECB Non-Monetary Policy Meeting

The non-monetary policy meeting of the ECB is scheduled on the **17th** of February. The European Central Bank left monetary policy unchanged during its January 2021 meeting, as policymakers decided to wait for further economic development following last month's decision to expand and extend the pandemic emergency programme.

OPEC Meeting

On the **4th** of March, the 14th OPEC and non-OPEC Ministerial Meeting will take place via videoconference. Recently Iraq reiterated its commitment to adhering to full conformity and compensation of overproduced oil volumes in accordance with decisions taken at the previous meeting in January.

Central Bank Decisions

Riksbank Interest Rate Decision

Riksbank's rates decision will occur on the **9th** of February. The central bank held its benchmark interest rate at 0.0% during its November assembly, and pledged to keep it at this level as the increased spread of infection will head to a new downturn in the Swedish economy.

Bank of Mexico Interest Rate Decision

The meeting will take place on the **11th** of February. Mexico's central bank kept its benchmark interest rate unchanged at 4.25% on the 17th of December 2020, matching analysts' forecasts. Borrowing costs are held steady for the second meeting after roughly 1 year of cuts.

Reserve Bank of New Zealand Meeting

On the **23rd** of February the Reserve Bank of New Zealand's (RBNZ) governor decides about interest rate levels. The previous level was at 0.25%. The central bank suggested that monetary policy will need to remain stimulatory, and that it is prepared to provide additional support.

Inflation and Deflation

Update on US Inflation

February inflation data for the US will be published on the **10th** of the month. Inflation in the US is expected to ease and fall to 1.3%. Annual inflation rate in the US increased to 1.4% in December 2020, compared to 1.2% in the previous month.

China Inflation

China's inflation rate will be announced on the **10th** of February as well. The consumer price index in China rose by 0.2% YoY in December 2020, after a 0.5% fall a month earlier. Inflation in China is anticipated to further climb to 0.5% in February.

India's Inflation Rate

India's retail price inflation dropped to 4.59% YoY in December 2020, the lowest in 15 months, in contrast to 6.93% in November and below market's expectations of 5.28%. Inflation in India will be disclosed on the **12th** of February. It is predicted to slump from 4.59% to 4%.

Labour Market

Turkey Unemployment Rate

On the **10th** of February the Turkish unemployment data for November will be published. Following the economic slowdown, the labour market deteriorated. Nevertheless, the youth jobless rate for those aged 15 to 24 went down to 24.9% from 30.3%, probably caused by a significant foreign emigration of the labour force by 1.288 m to 31.452 m.

UK Labour Market

On the **23rd** of February, the UK will release its unemployment rate. The analysts are expecting an unemployment of 5.1%, 0.1% higher than the one in January. The increase is due to job losses connected with the Covid-19 pandemic.

Swiss Employment Data

The Swiss employment level will be announced on the **25th** of February. The previous employment level amounted to 5.138 m people. An employment figure that is higher than the forecasted one might support the Swiss franc.

Alessandro Astore
Financial Markets Division

Investment Banking

M&A
Overall Activity

Global

Despite the outbreak of Covid-19 which consequently resulted in a worldwide lockdown, the overall M&A activity in 2020 ended in the green. 2021's M&A activity is starting positive as many investors are currently re-balancing their portfolio towards digital infrastructure. Thus, Technology, Media, and Telecommunications (TMT) remain the most attractive M&A sector in January. Furthermore, Covid-19 mutations are spreading exponentially which raises the global pandemic to a new level in 2021 – deal flow in the healthcare area remains on a high level. In addition, special purpose acquisition companies (SPACs) are at their peak of popularity, recording 16 US targets for which a deal agreement has been announced by a SPAC. In January there have been 67 new SPAC offerings so far alone which raised already USD 19.2 bn, as many as in all of 2019. And there is seemingly no end to the fundraising in sight.

Selected Regions

North America

Over the past few months, the US M&A sector has seen an increasing activity, setting a pace that is likely to continue in February 2021. Covid-19 has further shifted M&A activity towards the healthcare sector. Year-to-date, UnitedHealth Group Inc has entered an agreement to acquire Change Healthcare Inc for USD 12,806.69 m becoming the largest deal in 2021 so far.

Europe

The European M&A market is heating up in January 2021 mainly driven by an increasing deal flow in France. Deal volume in France already exceeded USD 7 bn in 2021, which represents an increase of around 300% compared to the previous year. This trend is most likely to be continued as further M&A deals are in advanced negotiations which account for an additional USD 55 bn in deal volume.

Asia

Despite the outbreak of Covid-19, Asia and especially China are looking back on a successful 2020 M&A year, reaching a five-year high. This trend continued in January 2021 driven by increasing domestic and private equity activities. Furthermore, China attracted more foreign investors in January as domestic consumer demand boosts and technology-driven innovations continue to prosper.

M&A
Deals of the Month

Announnced Date	Target	Buyer	Target Region	Target Business	Value (USD m)	Premium (%)
6 Jan 21	Change Healthcare Inc	UnitedHealth Group Inc	US	Healthcare	12,806.69	-
13 Jan 21	Telxius Towers	American Tower Corp	ES	Telecommunication	9,367.05	-
4 Jan 21	FLIR Systems Inc	Teledyne Technologies Inc	US	Electronic Measure Instruments	7,821.33	40.00%
11 Jan 21	Signature Aviation Plc	Global Infrastructure Partners	UK	Airport Development	6,797.04	-
27 Jan 21	Perspecta Inc	Peraton Inc	US	Computer Services	6,475.26	49.70%
6 Jan 21	Alliance Healthcare	AmerisourceBergen Corp	US	Healthcare	6,471.18	-
26 Jan 21	Naturgy Energy Group SA	IFM Investors Pty Ltd	ES	Energy	6,151.32	-
7 Jan 21	Entra ASA	Castellum AB	NOR	Real Estate	6,048.94	-
19 Jan 21	Coherent Inc	Lumentum Holdings Inc	US	Industrials	5,341.59	49.00%
15 Jan 21	Dewan Housing Finance Corp Ltd	Piramal Enterprises Ltd	IND	Financial Services	5,230.60	-

Hannes Stingel
Investment Banking Division

M&A: Top Deals

UnitedHealth Group to Acquire Change Healthcare

On the 6th of January, UnitedHealth Group has announced the acquisition of Change Healthcare for USD 12.8 bn, including USD 5 bn of Change Healthcare's debt. The share price for this acquisition was set at USD 25.75, implying a 41% premium. Barclays and Bank of America were Change Healthcare's and UnitedHealth Group's respective financial advisors for the transaction.

Buyer vs Seller

US-based Change Healthcare operates in the healthcare technology field. The vast array of its services encompasses analytical, communication, payment, and workflow optimization software solutions. Ranked 7th on the 2020 Fortune 500, UnitedHealth Group is the second-largest company operating in the healthcare sector. As a health insurance company, it offers data analytics and consulting services to healthcare providers along with pharmacy care services.

Industry Overview

According to Bloomberg's pre-pandemic projections, the global digital health market is set to grow by USD 207 bn during 2020-2024, implying a CAGR of more than 20% for the forecasted period. The growing adoption of data analytics in the sector stands as one of the main pillars of this growth. In addition, governments around the globe are expected to support the development of digital health systems in an effort to digitalize healthcare records.

Peers	Currency	Market Cap (CUR m)
1Life Healthcare Inc	USD	7 177,36
Inovalon Holdings Inc	USD	4 015,53
Hims & Hers Health Inc	USD	3 633,37
Allscripts Healthcare Solution	USD	2 641,45
Health Catalyst Inc	USD	2 126,20

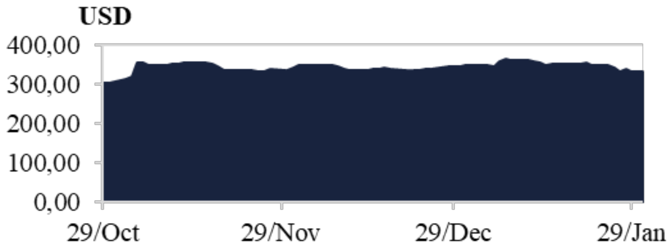
Deal Rationale

Over the last years, UnitedHealth Group has been expanding its scope much beyond health insurance. The company's Optum division, which already accounted for more than half of UnitedHealth's total revenues in the last quarter, delivers medical care directly to patients. Beside it offers data, software, and services to other health-care entities such as insurance firms, hospitals, and pharmaceutical companies. This deal aims at combining Change Healthcare with UnitedHealth's OptumInsight division to offer cutting edge software, data analytics, and technology that will simplify services around medical care and enable lower costs.

Market Reaction

UnitedHealth Group Inc

On the announcement day, the share price increased from USD 344.80 to USD 359.27. Since then, it has suffered a slight decrease, but still consistent with the past months.



Change Healthcare Inc

On the 6th of January, the share price surged from USD 18.24 to USD 23.72. The gap relative to the announced price reflects the likelihood of the deal not going forward.

Future Challenges

Within the relevant regulatory approvals that still need to take place, antitrust implications might be of particular importance. Although many of the services provided by both firms appear to be complementary, the wide set of services provided by Change Healthcare makes it difficult to understand how federal regulators will define the relevant markets.

Gonçalo Marques
Investment Banking Division

M&A: Top Deals

NCR Corp. to Buy Cardtronics Plc

On Monday, 25th of January, NCR Corp announced that it signed a definitive acquisition agreement to buy Cardtronics Plc in an all-cash transaction valuing the ATM operator at USD 2.5 bn including debt, which corresponds to USD 39 per share. This comes after an offer of USD 35 per share from Apollo Global Management Inc and Hudson Executive Capital.

Buyer vs Seller

NCR Corporation is a provider of enterprise technology for the financial, retail and hospitality industries. Cardtronics is the market leader in financial self-service, enabling cash transactions at more than 285,000 ATMs in ten countries across the globe. BofA is serving as financial advisor to NCR and Skadden, Arps, Slate, Meagher & Flom is serving as legal counsel. Goldman Sachs is serving as financial advisor to Cardtronics, and Weil, Gotshal & Manges and Ashurst are serving as legal counsel.

Industry Overview

As the world of retail banking enters an era of digitisation and more banks close branches, it may seem counter-intuitive to believe that ATM investments have much of a future given the slow decline in overall cash usage. In fact, ATMs are increasingly becoming part of the overall digital strategy of financial institutions. Also, like any other large traditional industry, banking and related sectors are under increasing pressure to consolidate.

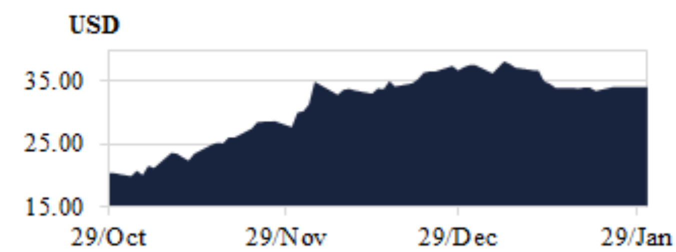
Peers	Currency	Market Cap (CUR m)
Evo Payments Inc	USD	2,014.86
Euronet Worldwide Inc	USD	6,871.04
WEX Inc	USD	8,712.59
Western Union Co/The	USD	9,336.55
FleetCor Technologies Inc	USD	21,773.66

Deal Rationale

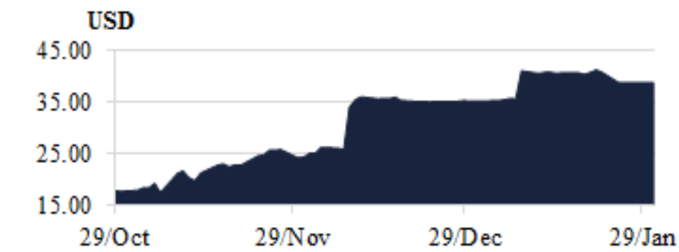
The acquisition of Cardtronics will accelerate and expand NCR's outlined NCR-as-a-Service strategy. According to NCR's CEO, Cardtronics debit network complements NCR's payments platform. The combined new company will provide comprehensive connectivity to retail and banking customers while benefiting from the banking industry's transition to infrastructure outsourcing. Furthermore, it is expected that the combined company will achieve operating cost synergies of USD 100 m to USD 120 m by the end of 2022. As a result, NCR will be able to seamlessly connect retail and banking customers.

Market Reaction

NCR Corp.
Since the announcement, 25th of January, the stock price had a small decrease, from which it has already recovered. Overall, the the announcement had only a small effect.



Cardtronics PLC
The company's share performance in the last 3 months has been positive, even though on the day of the announcement the stock price decreased by 5%.



Future Challenges

Following the termination by Cardtronics of its previously announced acquisition agreement with a company affiliated with funds managed by affiliates of Apollo Global Management, Inc. and the payment of a termination fee of USD 32.6 m under the terms of the acquisition agreement, the transaction is now subject to regulatory approval and the approval of Cardtronics' shareholders.

Timor Domin
Investment Banking Division

M&A: Top Deals

American Tower Acquires Telefonica's towers unit Telxius

The towers division for Europe and Latin America of Spanish telecommunications giant Telefonica was acquired by American Tower, in a EUR 7.7 bn cash consideration. The agreement comprises the sale of approximately 30,722 tower sites with American Tower acquiring KKR's 40% stake and Amancio Ortega's personal investment vehicle's stake of 9.99% as well.

Buyer vs Seller

The US-based American Tower owns, develops and operates broadband and wireless communications infrastructure worldwide. Telxius is Telefonica's telecommunications tower infrastructure unit which comprises of towers' sites in Spain and Germany, which represents 70% of the business and the remaining 30% being located in Latin America. Goldman Sachs served as financial advisor of the buy-side American Tower, while Bank of America was the financial advisor of Telefonica.

Industry Overview

Europe's telecommunications towers market has been undergoing consolidation for the past year, although it remains a fragmented sector with several operators still in play. Specialist players such as American and Cellnex, a Catalan-based group, have been on the hunt for mobile network companies need to spin-off their tower estate divisions to raise cash for investment and reduce net debt. The consolidation process is expected to continue in 2021.

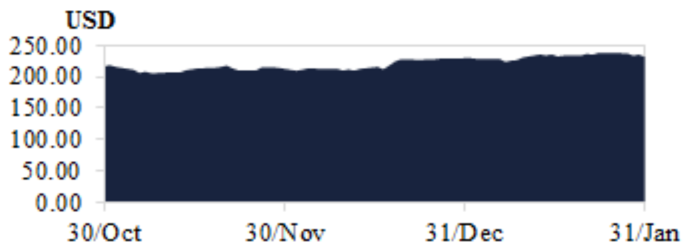
Peers	Currency	Market Cap (CUR m)
Cellnex Telecom SA	EUR	23,512.90
Helios Towers PLC	GBp	1,596.00
Infrastrutture Wireless Italia	EUR	8,512.17
Elecnor SA	EUR	896.10
Adapteo Oyj	SEK	4,308.24

Deal Rationale

This acquisition will transform American Tower into a key player in the European market, as it gives a strong foothold in Spain and Germany. It delivers a fierce competition to Cellnex, which has been on an M&A spree in the specialist telecommunications tower market and was directly negotiating with Telefonica for the acquisition of Telxius. This gives American Tower its desired expansion to Latin America while Cellnex is specialized in Europe. For Telefonica, it will help reduce its high debt position, in its balance sheet, by EUR 4.6 bn and get the advantage of the recent high valuation of these assets, delivering a 30x EBITDA.

Market Reaction

American Tower Corporation
Since the announcement on 14th of January, the stock price had a small increase. Still, the stock price has maintained relatively constant over the last months-



Telxius Telecom S.A.
The company is not listed in any stock exchange, as it was a subsidiary of Telefonica. For this reason, it is not possible to see the market reaction on Telxius.
However, Telefonica's shares increased by 9.67% on the day of the announcement, reaching the first place on the IBEX Index. The main reason is attributed to better-than-expected multiples on the transaction and the reduction of the debt to EBITDA ratio to 2x. The previous is perceived as reasonably good for the sector in which Telefonica operates.

Future Challenges

American Tower becomes a major player in Europe and will continue to look for further opportunities outside Spain and Germany, as mobile network operators will continue to divest from tower infrastructure. Telefonica will continue its restructuring process, targeting increased efficiency of its assets and organic reduction of its net debt. The deal is still pending regulatory approvals.

Pedro Santos Vitor
Investment Banking Division

What Happened To

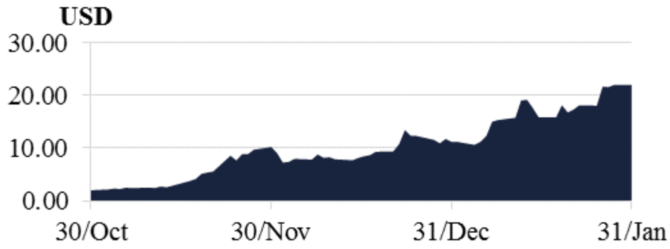
FuelCell Energy Inc.

FuelCell Energy Inc. is a US American provider of fuel cell solutions configured for the supply, recovery and storage of energy. The company designs, produces, manages and services fuel cell power plants generating energy based on natural gas and biogas. It operates over 50 plants worldwide, employs around 300 people and generated USD 60.75 m in revenues in 2019.

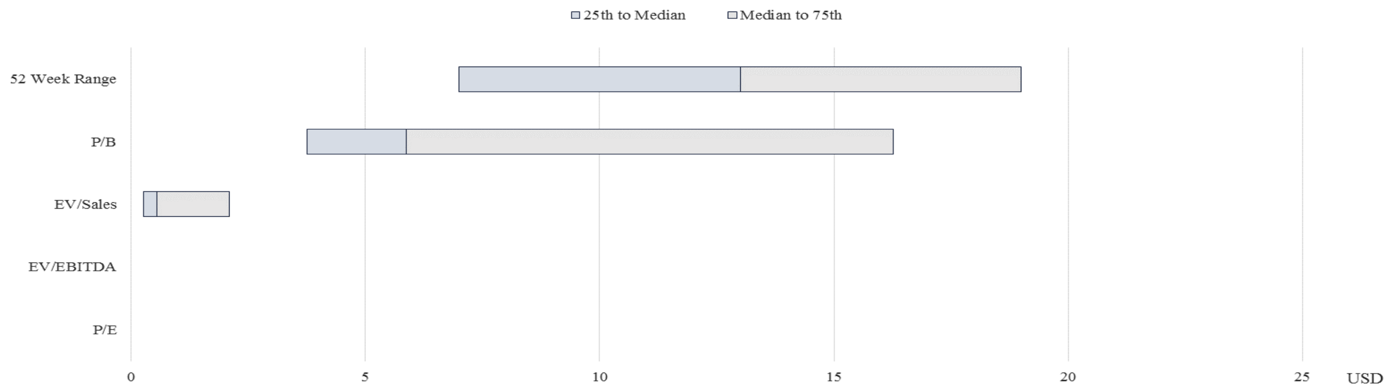
Corporate News

FuelCell Energy delivered an outstanding stock performance as shares went up by 107.16% YTD and 1,114.36% for the last 52 weeks. One reason for investors beliefs was a USD 3 m award from the Department of Energy granted to FuelCell in September 2020 to support making progress in the commercialization of its reversible solid oxide fuel cell project. Additionally, with the stimulus bill signed by Donald Trump in late December 2020, USD 2 bn of funds are allocated for modernization of the power grid. This decision was perceived by investors as catalyst for future growth in the fuel cell industry. Despite the admirable stock performance, FuelCell Energy annual revenue is consistently decreasing since 2013 and the company could not manage to earn annual profit in the past 20 years. FuelCell Energies median target price for the next 12 months is set to USD 15.00 reflecting a 31.76% drop compared to the market price.

Price (31 Jan 21, USD)	**21.98**
Target Price (USD)	15.00
3M Performance	999.00%
Market Cap (USD m)	7,086.62
Enterprise Value (USD m)	7,183.55
**Target Price is for 12 months*	



Valuation Analysis



As of 28th of January 2020, FuelCell Energy was trading at USD 21.98 and placed with an Enterprise Value of USD 7,183.55. As investors betting on the potential for growth of fuel cells in the energy industry, fundamentals do not match with the current valuation. Looking at the football field, we can conclude that FuelCell Energy is overvalued considering P/B ratio and EV/Sales multiple. In contrast, the lower Target Price of USD 15.00 suggests a fair valuation in regards to the P/B ratio.

The fuel cell industry is predicted to generate a 15.50% CAGR from 2020 to 2027 driven by increasing demand for sustainable sources of energy resulting from a more environmentally-friendly mindset. The flexibility to use different fuels and high efficiency support the growth in demand. With a market cap of USD 7,086.62 m, FuelCell Energy is one of the biggest players in the industry only surpassed by Plug Power in the peer group presented.

Peers	**Currency**	**Market Cap** (Cur m)
EnerSys	USD	3,623.75
Eos Energy Enterprises Inc	USD	1,167.87
American Superconductor Corp	USD	711.33
Plug Power Inc	USD	32,461.64

Jan Bich
Investment Banking Division

What Happened To

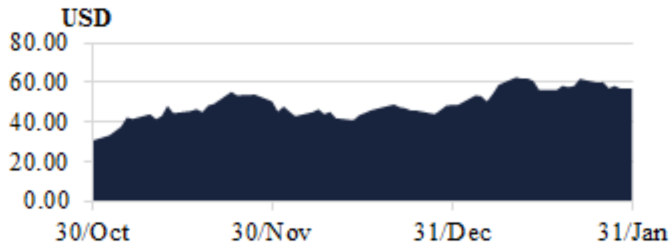
NIO

NIO is a Chinese Automobile manufacturer founded in 2014 and based in Shanghai. The core strategy of the firm is to design and develop electric vehicles (EV), in a country which is considered by many the future of the electric vehicles industry, given its production and logistics capacities. The firm's vehicle deliveries rose by 113% in 2020 compared with the previous year.

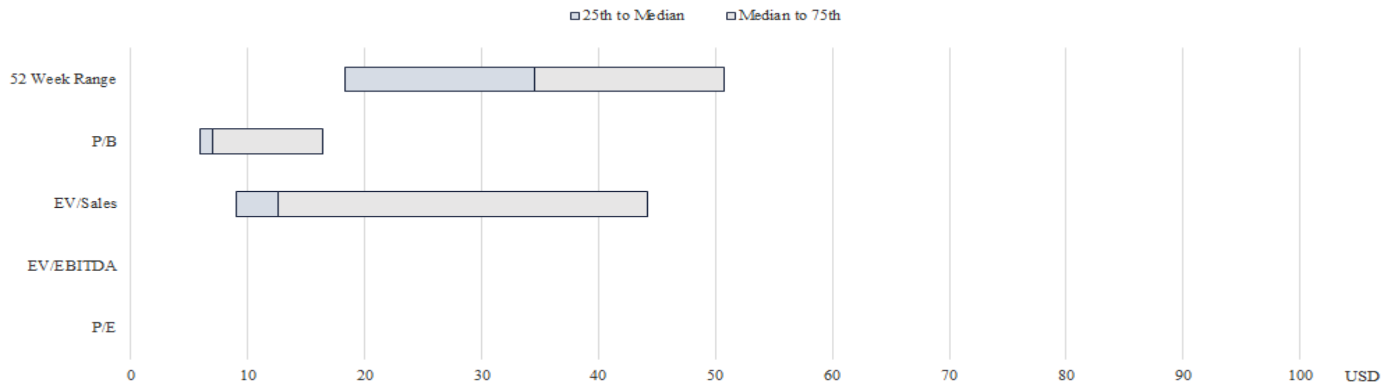
Corporate News

2020 was quite a turmoil for NIO. The firm started 2020 almost running to bankruptcy, but a push by the Chinese government to accelerate growth in the country's EV industry contributed to strong sales growth, and investors piled in. While not growing as quickly as the share price itself, NIO's business is growing at a very strong pace. Vehicle deliveries, as stated above, increased exponentially and 2020 represented almost 60% of the company's overall cumulative activity, which highlights the boom that surged within NIO's business. The big question that is yet to be answered is whether NIO will keep following this exceptionally track and become the "next Tesla". The firm has yet to make a profit, so looking at fundamentals it is most likely a better way to currently evaluate the firm rather than through current stocks. With a current market capitalization approaching USD 100 bn, NIO trades at almost 40 times 2020 sales.

Price (31 Jan 21, USD)	**56.96**
Target Price (USD)	70.00
3M Performance	86.27%
Market Cap (USD m)	89,589.11
Enterprise Value (USD m)	572,574.85
**Target Price is for 12 months*	



Valuation Analysis



NIO closed at USD 57 as of the 29th of January. As with most of the electric vehicle companies, where investors are betting on the massive market potential for EV growth, NIO is not an exception. The firm still lacks profitable fundamentals and thus its current 52-week range is sceptical. Moreover, it does not come as a surprise that the EV/Sales multiple gives a poor value of the firm based on its sales. If one notice, the Price-To-Book Ratio is also quite high, showing the firm is overvalued in the stock market.

EV sales in China surpassed 1 m units in 2020, and the government aims to expand that to 5 m by 2025. Nonetheless, competition is also growing. Tesla delivered its first Model Y mid-size SUV from its Shanghai factory early this month. Other Chinese EV companies are also growing sales at triple-digit rates, so NIO is far from being the leader in the country. Still, features as innovating with a battery swap program that allows customers to "recharge" via a faster battery exchange can make NIO well competitive.

Peers	**Currency**	**Market Cap** (Cur m)
XPeng Inc	USD	37,532.23
FAW Jiefang Group Co Ltd	CNY	51,213.39
Guangzhou Automobile Group Co	HKD	117,295.45
Li Auto Inc	USD	27,743.38
BAIC Motor Corp Ltd	HKD	22,202.49

Francisco Costa Guimarães
Investment Banking Division

NIC's View On

2021 Global M&A Outlook

Madalena Azevedo
Investment Banking Division

"Even the firms that wouldn't touch the product a couple years ago all of the sudden want to be part of the game" (reference to SPACs)

- Alysa Craig, managing director for M&A and head of SPACs at Stifel Financial Corp.

Across regions and sectors, businesses are craving to consolidate and cement their activity. Starting to leave the pandemic behind and moving forward will consequentially create the necessary inputs for the engines of M&A activity growth during 2021.

The main incentives for the development will be underpinned by political certainty in American territory, strong capital markets and hopefully the end of a global pandemic that has massively disrupted companies.

After 2020 being marked by strong M&A activity, mostly in the second half of the year, both offensive and defensive movements are expected, especially towards Tech M&A.
This type of strategy has been capturing the spotlight with volumes more than tripling in the last decade as industrial companies look, not only, for organic change but also to M&A to secure the momentum.

For 2021, one particular aspect is anticipated as the serving table is expected to exhibit two types of companies. The ones whose operating margins have not been impacted by Covid-19, and will be selling at the same or higher pre-pandemic valuation multiples, contrasted with the businesses trading at a discount with "a 3-year earn-out component" that will represent the underperforming fraction.

Throughout the year we had the opportunity to mention numerous deals taking the most diverse shape and sizes. However, the tremendous growth in SPAC volumes has not passed discretely. 248 SPACs took place in 2020, nearly double the number of 2019 and five times higher than in 2015. If, before, one could choose from the dual basket of IPO and M&A, now there is a new element to add – the SPAC. The trend is expected not only in North America but to further spread around the entire globe. "There is a growing acceptance of this way of going public", as was stated by Carlos Alvarez, head of permanent capital solutions at UBS.

Another segment that finance enthusiasts should monitor closely is asset management. The sector is under intense margin pressure which is likely to lead bank executives to seek ways to expand asset management harms. The falling margins and clients' needs will further impose this search, and examples like Morgan Stanley acquiring Eaton Vance in October of 2020, on a USD 7 bn deal is the vivid proof of this point. For this reason, tactical in nature movements are vastly waited, as companies search to expand geographically and add hot asset classes to their product mix.

Despite concerns for weaker operating performances, many companies kept highly competitive and in the search to expand their businesses. Therefore, adopting a more flexible and proper planning approach might be necessary now more than ever. For now, low-interest rates, abundant capital hunt, large companies seeking growth and enthusiasm for a solid economic scenery will be the power plant for the increase in transaction volumes during 2021.

Date	Recent News
03 Feb 21	Jassy's Climb to Amazon CEO shows Cloud's Risng Power ***Source:*** *wsj.com*
03 Feb 21	Repsol hire JPMorgan to spin off renewables unit. ***Source:*** *reuteurs.com*
02 Feb 21	Vodafone prepares telecom towers business for March IPO: source. ***Source:*** *reuters.com*
01 Feb 21	Tilman Fertitta floats entertainment empire in USD 6.7 bn SPAC deal. ***Source:*** *ft.com*

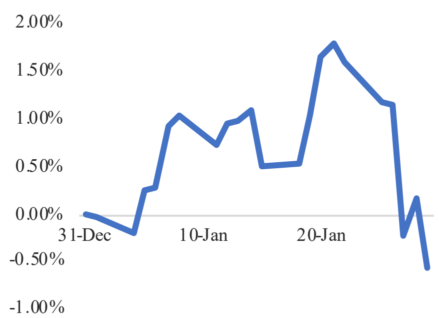
Madalena Azevedo
Investment Banking Division

NIC Fund

NIC Fund

Portfolio Overview

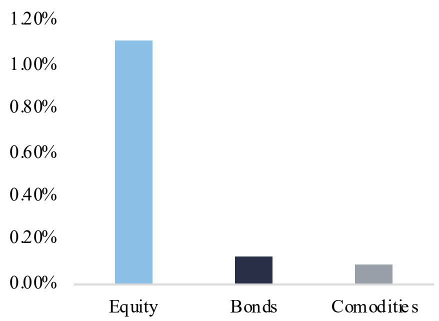
NIC Fund Cumulative Return



Portfolio Statistics	
Cumulative Return	-0.56%
Annualized Return	-6.77%
Daily St. Dev	0.49%
Period St. Dev	2.23%
Annualized St. Dev	7.73%
Info Sharpe	-0.88
Skew (Daily)	-0.90
Kurtosis (Daily)	0.74

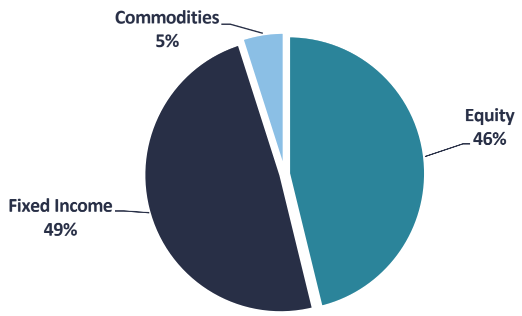
Benchmark	
iShares 3-7 Year Treasury Bonds	50%
SPDR S&P 500 ETF Trust	40%
Powershares DB Commodity Index	10%

Individual VaR



Portfolio Snapshot

In January, the NIC Fund remained invested in Equities, Fixed Income and Commodities with asset allocations close to our benchmark target. Overall, 46% of our fund remained devoted to Equities, 49% to Fixed Income and 5% to Commodities. Although with the distribution of vaccines came the hopes of a mitigation of the pandemic's effects, we saw some sectors of our equity holdings going down such as Communication Services, Consumer Discretionary, Financials, Healthcare, and Information Technology.



Return Metrics

The overall performance of the portfolio was slightly negative, with a cumulative return of -0.56%. All asset classes returned negatively in January, being Commodities the best performer with -0.02% compared to Fixed Income and Equities, which had negative returns of -0.07% and -0.47%, respectively.

We added CVS Health Corp (CVS) to our equities positions to get closer to the benchmark weighting and to capture the current momentum in the health care sector. It already yielded a positive return of 3.06% MTD, being the best performer among our health care positions. The best performing sector was Materials with our single position Umicore (UMI) returning 18.18%. The materials technology company's performance was stimulated by Joe Biden's intentions of pursuing more sustainable solutions for infrastructures. The two worst performing sectors last month were Financials and Information Technology with returns of -4.15% and -4.52%, respectively.

Risk Metrics

In terms of risk, we observed a daily VaR of 1.05% for our portfolio, taking into consideration the benefits of diversification. This value is significantly below the maximum established threshold of 2.50%. Equities were naturally the asset class with the highest individual VaR, which was around 1.11%. Fixed Income and Commodities presented lower VaR's of 0.13% and 0.09%, respectively.

António de Castilho Lima
Financial Markets Division

NIC Fund

Assets in Brief

Asset Class	Symbol	Comments
US Equity	**GS**	The Goldman Sachs Group was our best performer among our financials holdings (and the only one providing a positive return). The stock reported a rise of 2.83% given the fact that the US Equity crushed analysts' Q4 earnings estimates by reporting EPS of USD 12.08 (vs. estimated USD 7.47) and a revenue of USD 11.74 bn (vs. USD 9.9 bn estimated). Investment banking division's revenue rose by 21% while equity traders produced a hike of 40% in revenues YoY.
US Equity	**DIS**	The Walt Disney Company's stock plunged 7.18% in the last month, being one of the worst performers in our portfolio. Even though it had recently recovered more than 80% from post-Covid-19 lows in March, revenues generated by theme park activities remain a low point given the uncertainty about a recovery from the pandemic remains. On the other hand, the streaming service Disney Plus will expand to Eastern Europe, South Korea and Hong Kong.
US Equity	**UMI**	Our long position in Umicore registered a positive return of approximately 18% in January. Since the major business activity of the company is recycling and most of its revenues comes from clean technologies, the rising momentum of green finance is one the value drives for the good performance in the past month. Moreover, with the election of Joe Biden, there is an increased possibility for Umicore to rise even higher, driven by the aim of creating more sustainable solutions to combat climate change issues.
US Equity	**CVS**	Our latest addition to the portfolio performed well in January by rising 3.06%. CVS Health Corp. is projected to report EPS of USD 1.24 for the fourth quarter and the latest estimate is calling for revenues of USD 68.67 bn, which would mean an increase of 2.66% comparing to the beginning of the last year. Alongside the recent acquisition of the health insurer Aetna, the fact that CVS is the US largest chain pharmacy retailer, controlling approximately 25% of the sector and posting a stable and consistent dividend payment of 2.73%, let's us hope for a continued upward rally in the future.
FR Equity	**BNP**	BNP Paribas was our worst performer in the financial sector. Despite the French bank announcing in the end of January to stop providing trade financing for oil exports from the Ecuadorian amazon, after high pressures from climate activists. the stock still dropped by 8.38%
Commodity	**AAUU**	The Gold Sachs Physical Gold ETF dropped 3.12% in January. Gold showed the worst January performance since 2011 and was dragged by a firm US Dollar and growing US Treasury yields. However, on the last trading day of the month Gold prices went up by 0.4% amid rising concerns over the GameStop trading frenzy.
FUND	**EEM**	Until the end of last month, the iShares MSCI Emerging Markets ETF had surged by 82% compared to its low in March 2020. With the beginning of the pandemic, investments in Emerging Markets fell drastically but came back over the year which highly supported the ETF's performance.

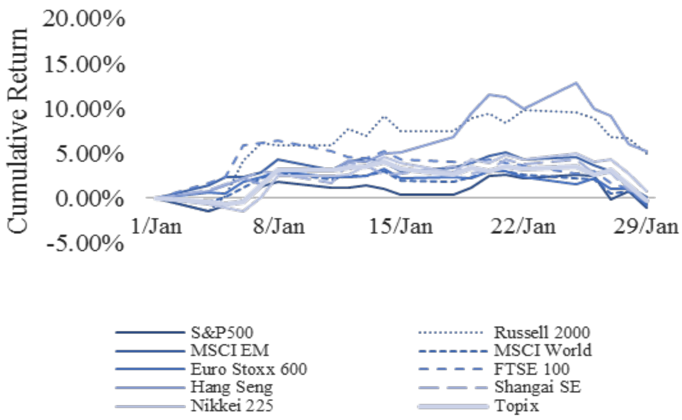
António de Castilho Lima
Financial Markets Division

NIC Fund

Equities

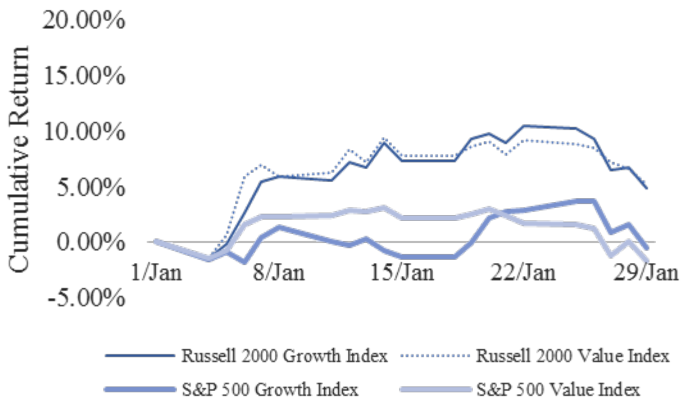
World Equities

Global Equities had a strong start in January, primarily attributed to the increased vaccination efforts, the blue wave, and the optimistic outlook for additional fiscal stimulus. Nevertheless, European and US equities ended the month with the worst week since October. The S&P 500 gained only 0.83% while the Euro Stoxx 600 fell by -0.80%. In the US, this development was primarily driven by the increase in volatility, which encouraged investors to reduce risk and pull out of equities. The volatility increase stemmed from the battle between retail traders and US brokers who restricted trading in companies such as GameStop towards the end of the month. In Europe, equities have been under pressure by increased lockdown measures in major European economies as well as the dispute between the EU and AstraZeneca over vaccine supply. In contrast, Asian equities had a strong month, led by the Hang Seng (5.30%). This can be attributed to China's strong economic recovery and the depreciation of the US Dollar. Another reason is the blacklisting of Chinese companies linked to the Chinese military by the US which triggered a huge inflow of mainland investors investing in Hong Kong.



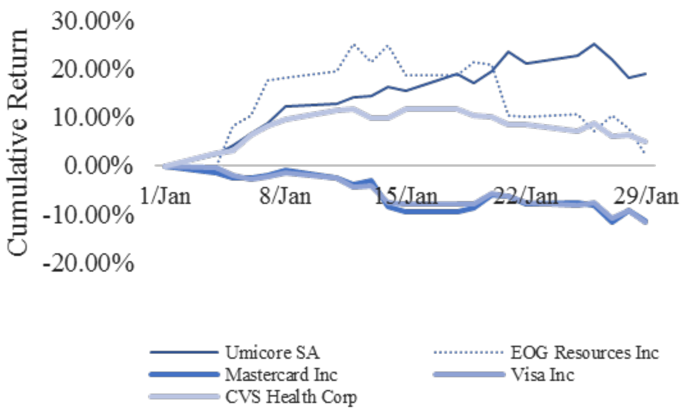
In Depth: 2021 – the Year for Small-Cap?

As Covid-19 disrupted industries and supply chains, investors piled into big tech companies, which were considered much safer as these were not feeling the pressure of the pandemic as much as small firms. However, this trend has changed since the news of a Covid-19 vaccine first broke. In January, small-caps have rallied with the Russell 2000 returning 5.00%, far outperforming the large-cap S&P 500's 0.83% return. The main reason for this development is President Joe Biden's administration which focuses on financial relief. Biden has released his plans for a USD 1.9 tn relief package which would greatly support small businesses. Those of the small-cap companies that survive will have a chance to rebound with a much better cost structure, hence enhancing profit margins. Additionally, large mega-cap stocks have become overcrowded which could lead to investors move to small-caps. When distinguishing between growth and value stocks, small-cap value stocks performed slightly better. However, the growth stock trend among large-caps continues as the S&P 500 Growth Index increased by 1.52% while the S&P 500 Value Index decreased by 1.75%.



Our Performance

In January, we were invested 46.17% in equities and its contribution to the overall portfolio performance was negative, with -0.47% cumulative return. Our holding in the materials sector, Umicore, performed exceptionally well with 18.18%, followed by the energy sector with 2.80% monthly return. The worst performing sector was information technology, down by -4.52%. Visa (-11.65%) and Mastercard (-11.28%) contributed to this decline as both companies are under pressure during this time of low economic activity due to the lockdown measures in place. Our newest addition to the fund, CVS Health, had a strong month (3.06%) as it approaches its next earnings report date.

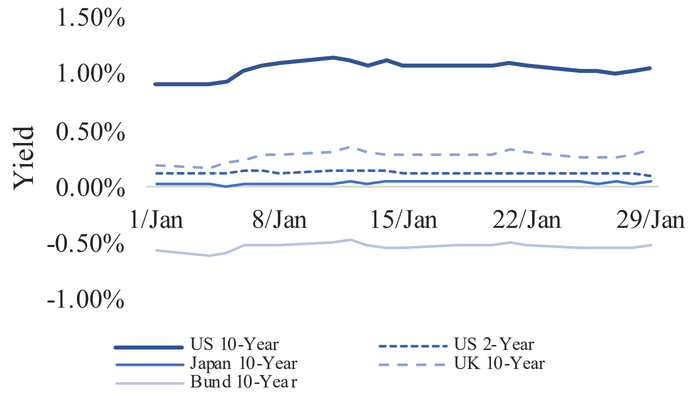


Fitore Zeciri
Financial Markets Division

NIC Fund
Fixed Income

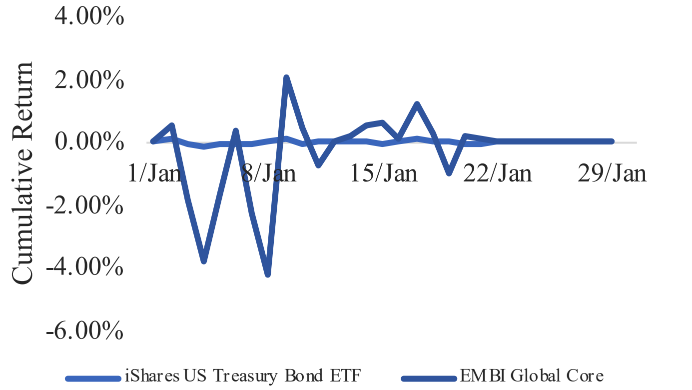
World Yields

There are two current themes driving fixed income. The first is that near-zero yields are entrenched across all developed markets, meaning investors are searching for returns in other asset classes. The only two remaining areas of relative strength domestically in the United States are in municipal bonds and high-yield corporate bonds. Second, despite the ongoing pandemic, the longer-term economic outlook is improving due to increasing vaccinations, likely additional fiscal stimulus, and the sustained declarations of support from central banks. All of these contribute to rising long-term rates, and therefore, a steepening yield curve. This is reflected in the US 2-Year yields falling 3 bps to 0.06% during January, while US 10-Year yields increased 16 bps to 1.09%. In Europe, the 10-Year Bund ended 6 bps higher at -0.57%, while UK 10-Year Gilts strengthened 13 bps to 0.33%. Rates in Asia remained steady, with the Japanese 10-Year yield increasing 3 bps to 0.06%.



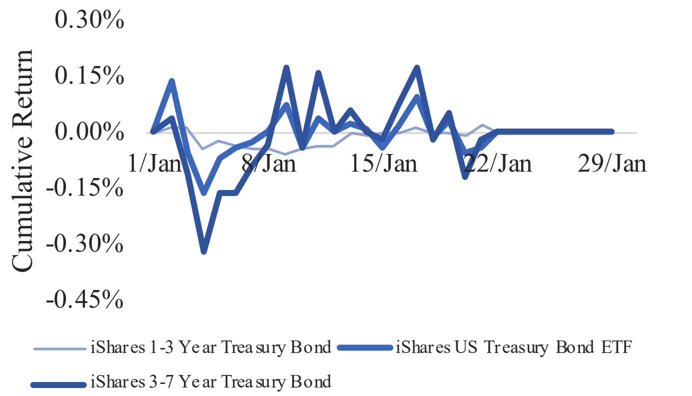
In Depth: Chasing Yield in Emerging Markets

Before the pandemic, most emerging markets had moderate debt levels, manageable inflation, and limited reliance on outside creditors. However, when the Covid-19 crisis began, both hard and soft-currency sovereigns sold off much more than their corporate counterparts within emerging market debt. Investors were concerned that these countries would try to enact developed-market level quantitative easing, which likely would have overwhelmed their vulnerable economies. Instead, they maintained liquidity while also limiting debt monetization, handling the situation better than markets expected. That means that the best opportunities for fixed income investors to find yield are in government bonds of high-yield emerging-market countries, as assets are mispriced and do not reflect the fact that fiscal improvement is likely. For example, South Africa is a low-growth country with large fiscal deficits, meaning their bonds were heavily impacted by the pandemic and even downgraded to high-yield in March 2020. However, even after enacting promising policy reform, their sovereign bonds offer a 5.50% coupon despite a low external debt-to-GDP ratio of around 20%. Another example of possible mispricing is Argentina, which recently went through restructuring, suggesting it is trading on sentiment instead of on fundamentals. In summary, investing in emerging market debt is an interesting way to increase diversification and take advantage of excess credit premiums in a less-traded space.



Our Performance

The SHY ETF that tracks 1-3 year US Treasury bonds had a total return of 0.02%, while our benchmark ETF fund for fixed income, the IEI that tracks 3-7 year US Treasury bonds returned -0.28%. This further highlights the need to look beyond the United States for returns within fixed income.



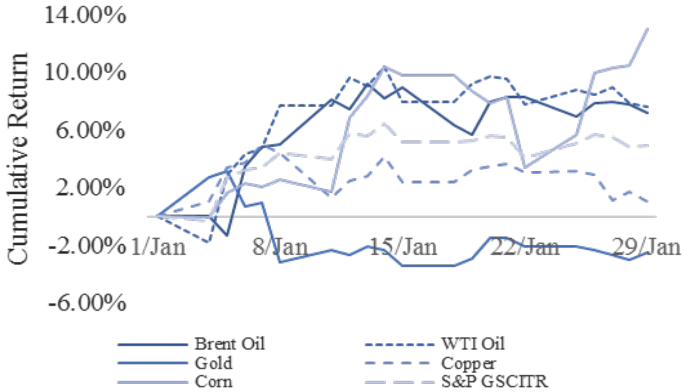
Emily Rushforth
Financial Markets Division

NIC Fund

Commodities

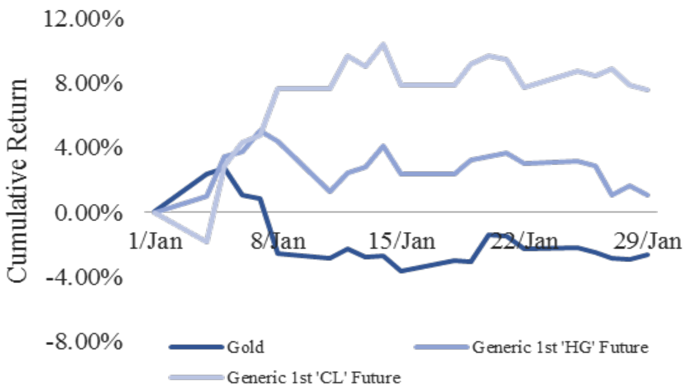
January Round-Up

For the first month of 2021, the S&P GSCI Total return index, which tracks 24 commodities, returned 4.94% after growing 5.97% in December and 12.04% in November. YTD, the index gained 7.38%, at the time of writing. Top gainers this month were unleaded gasoline and crude oil, with a monthly performance of 19.91% and 15.62%, respectively. Highlights in the agricultural sector were tea and corn, growing 18.12% and 13.02%, respectively, over the period. The negative equivalent was rubber, contributing a -12.97% return. On the industrial side, Lithium had an amazing month, yielding an outstanding 34.41% throughout January. Investors also seemed to be less risk-averse, with Gold yielding a negative 2.52% return over the period. Positive vaccine developments and hopes of economic recovery have driven a rally in hard commodities like iron and oil. The IMF expects economies to recover relatively quickly due to easier access to vaccines and broader fiscal measures. A key driver for the recovery seen in January for commodities was the boost in imports from China which increased due to its post-Covid-19 stimulus package.



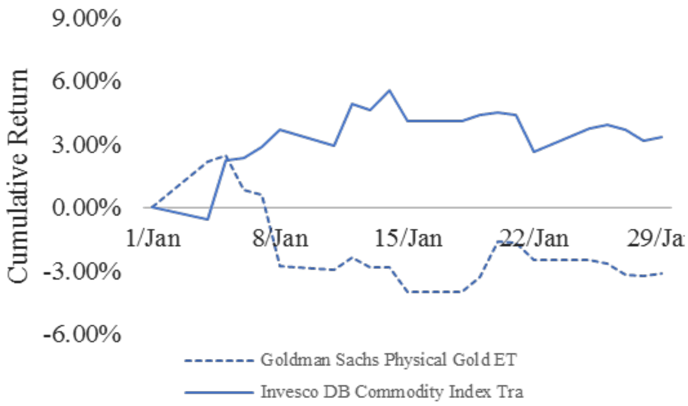
Outlook for February

Looking ahead into the upcoming month, it is expected that commodities maintain the current upwards trend. With the continued rollout of vaccination programs, economic growth expected to pick up and major central banks to maintain supportive and expansionary policies, it is likely that investors allocate more money to commodities. Regarding the oil market, there will be various OPEC+ meetings during the first days of February. No change in policies is expected, as OPEC+ has already made agreements on output levels until the end of the first quarter of 2021. However, further production cuts until the end of the year could mean a reduction in inventories throughout 2021, setting them back to standard levels. Additionally, vaccine rollouts should help international air travel, which would also be a great driver for oil demand. Regarding gold, the safe heaven asset has not been able to get back to the all-time highs it reached in 2020. However, as uncertainty looms given the recent lockdowns and growing inflation fears, it is expected that investors will look for safety, and we might see demand for the metal increase again. With uncertainty about the pandemic remaining, February will present risks, with many countries still facing a resurgence of new Covid-19 cases and new variants of the virus being discovered. On top of that, the distribution and administration of vaccines has been lagging, especially in Europe.



Our Performance

During the month of January, the Powershares DB Commodity Index returned 3.33% and the SPDR Gold Shares Index returned -3.12%, leading to an overall commodities return of 0.21%. Being currently underweighted in commodities, the NIC fund is looking for opportunities to further diversify its exposure to the asset class.



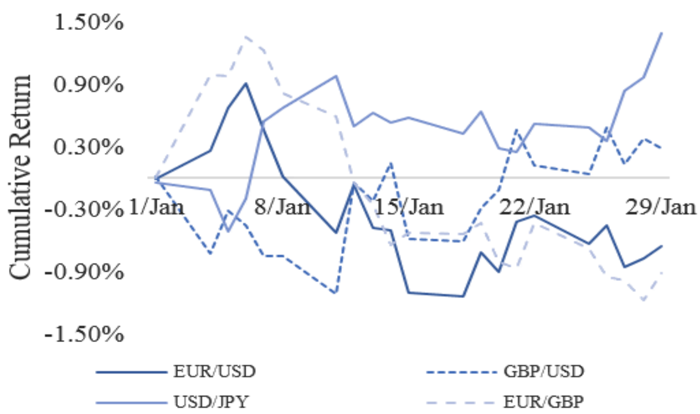
Ruben Pratapsinh
Financial Markets Division

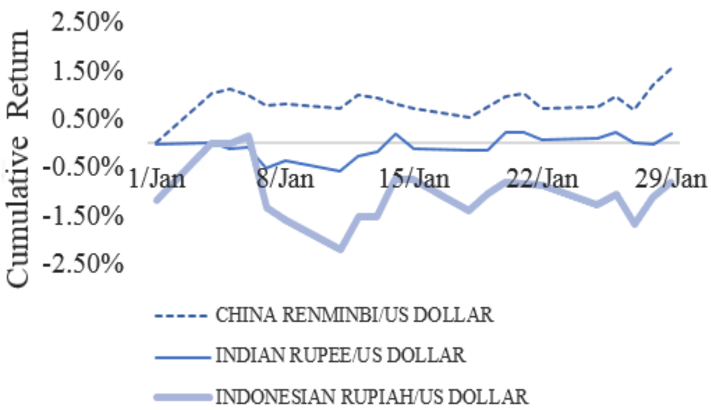
NIC Fund

Currencies

World Currencies

With the first month of this year coming to a close, it provided us with some key elements and early trends that could be in place in 2021 as well as early focus points to follow throughout the year. First of all, the US Dollar looks like it is going to continue to struggle after losing nearly 7% of its value in 2020 (against a selected basket of peers) as bets against the currency in the futures market have reached their highest level in a decade. As examples, over the month of January, both the British Pound and the Chinese Yuan appreciated against the US Dollar as the GBP/USD and the CNY/USD were respectively up 0.28% and 1.53%. Secondly, in the meantime in Europe, following the Brexit announcement and the conclusion of trade talks between the EU and the UK, we saw the Euro losing some ground to the British Pound as EUR/GBP was down 0.92% with a Euro at the 1.13 level. The current sanitary situation in the Eurozone, coupled with the increased doubts about the economic recovery ability of the region might keep pushing the Euro downward which also lost value against the US Dollar this month. In line with this situation, the EUR/USD was down 0.65% this month and might be heading for some more trouble in February. Finally, after a strong rally towards the end of 2020, Emerging Market currencies showed no signs of weakness through this first month of the year and look set to continue on that positive trend.





In Depth: Boosting your portfolio with EM currencies

As stated above, the new year could be a really interesting and prosperous year for Emerging Market currencies. Indeed, the US Dollar experienced a large selloff in 2020, posting its largest annual loss since 2017 and it does not appear that this trend will change anytime soon. In the meantime, EM currencies have rallied and are looking to keep prospering in 2021. In the coming months, it is not an overreach to expect a globally improving economic outlook as vaccine schemes are rolled out all over the world. In addition, the rock-bottom US interest rates and the ongoing bond purchase programs in place have dented the US Dollar's appeal for a substantial period of time. On top of all these, Joe Biden's election will also potentially put added-pressure on the currency as expected changes in tariff policies and additional stimulus packages will likely rise fiscal and current account deficits. In Asia, where economic recovery has been faster and stronger than in the rest of the world, we see strong currency appreciations as the Chinese Yuan has gained 13% on the US Dollar since May. Other countries in the region such as India and Indonesia are prone to progress as investors will be looking for higher yields in the coming months. In addition, in line with that high yield search, other Emerging Market currencies in different regions such as the Russian Rouble (RUB), the South African Rand (ZAR), or the Polish Zloty (PLN) could be set to appreciate against a weak US Dollar and would be intriguing options to explore.

Our Performance

We currently hold no currency related assets in our portfolio.

Vincent Sardinha Marques
Financial Markets Division

Extras

Hot Topic

The Electric Vehicles Market: Two Top Gainers in a Global Pandemic

Alessandro Astore
Financial Markets Division

“CATL will continue to increase investment in R&D and strive to build four major innovation systems, namely, material innovation, system structure innovation, intelligent manufacturing innovation and business model innovation.”

– Robin Zeng, founder and chairman of CATL

The transition from non-renewable sources of energy to renewable ones is particularly reflected in the car market. It is fundamental to use alternative sources of fuel to reduce detrimental emissions and to not further harm the environment. The global electric vehicle market was valued at USD 162.34 bn in 2019, and is projected to reach USD 802.81 bn by 2027, registering a Compound Annual Growth Rate (CAGR) of 22.6%. The major part of the profits comes from the Asian-Pacific area, that is estimated to reach a value of USD 357.81 bn by 2027 with a CAGR of 20.1%.

The growth of the electric car market is further enhanced by stringent regulations for vehicular emissions. The EU is committed to achieve the intermediate target of a 55% net reduction in greenhouse gas emissions by 2030 and an even more ambitious goal to be climate neutral by 2050. For this reason, targets are already defined as a percentage reduction from the 2021 starting points for cars and vans as 15% reduction from 2025 and 37.5% and 31% respectively from 2030 onwards. Moreover, the Regulation (EU) 2019/631 adopted by the European Parliament and the European Council implemented a crediting system from 2025 onwards to incentivize the increased demand for Zero and Low Emission Vehicles (ZLEV). Incentives have been implemented successfully also in Asia, particularly tax differentials for unleaded gasoline in several countries. Furthermore, by creating financial incentives in Taipei, China, many people were convinced to exchange their 2-stroke scooter for a cleaner electrical one.

The main players operating in this sector of the market include Tesla, BMW, NIO, and BYD Company Motors. In contrast to many other industries, the electric vehicles market was not damaged by Covid-19, rather it saw growth.

A positive example of this hike in sales is BYD that released its sporty Han sedan, a competitor to Tesla’s popular Model 3, in July . The group, backed also by the “Oracle of Omaha” Warren Buffett, increased its market value by 359% during a difficult 2020 for many other companies, and reached a USD 78 bn valuation at the end of 2020. The last two weeks of the year were marked by the delivery of 246 eBuses to the global public transport provider Keolis in Europe’s largest ever electric bus order and agreements for pure electric bus fleet in Colombia and Japan for the first time. Moreover, on the 10th of January 2021 BYD won the largest pure-electric bus order outside of China, giving a signal that the rally observed in 2020 might not slow down in the current year.

A rebound in sales of electric cars in 2020 helped also Chinese battery manufacturer Contemporary Amperex Technology (CATL) to close the year with a 271% increase in market value leading to a valuation of USD 125 bn. CATL produces and distributes lithium-ion batteries and owns about half of the market share. The company is planning to expand to the European market by building a new factory in Germany in the next years. The speech by Dr. Robin Zeng, founder and chairman of CATL at the Fifth International Summit on Power Battery Application, clearly denotes CATL’s strengths and future growth. He stated that the company will continue to increase investment in R&D and strive to build further major innovation systems.

The development on electronic vehicle markets in 2020 suggests further strong growth potential in the future. It will be definitely worth it to take a closer look at major players, who we might see significantly raise their equity value which could already be observed with Asiatic NIO, BYD and CATL.

Alessandro Astore
Financial Markets Division

Extras

Hot Topic

GameStop: The History Behind a Phenomenal "Short Squeeze"

Gonçalo Pina Santos
Investment Banking Division

"20 years ago I started Citron with the intention of protecting the individual against Wall Street, against the frauds and the stock promotions were just all over. Where we started Citron was supposed to be against the establishment, we've actually become the establishment"

– Andrew Left, CEO of Citron Research

A growing herd of traders, gathered in the fast-expanding r/WallStreetBets community, has been the propulsor for the recovery of several stocks since last March sell-off. The combination of lockdowns, low-interest rates and fast way to exploit market dynamics were the fuel that stimulated these rallies, such as GameStop. It also ended up as a message for the rise up against the wealthy people, redistributing amongst the less fortunate.

The event culminated in a turbulent week for these shares and even the triggering of curbs and restrictions from brokers on what customers were permitted to buy. With this increasing volatility, the finance industry and people far beyond it have been transfixed by the clash between individual investors and Wall Street.

For months, Reddit members had started to consider investing in GameStop which is currently attempting to make a turnaround in an environment of harsh competition. The investment opportunity was boosted by the possibility to profit by pushing against Melvin Capital and other hedge funds that had bet heavily that GameStop's share price would plummet. To an extent that more than 100% of GameStop's stock was out of loan, driven by the fact that a stock can be borrowed many times.

With this phenomena, day traders arrived at the finding that if they could push the share price higher, the short-sellers would be facing huge losses. This would, consequently, force them to buy back the shares to "cover" their short position, although, by covering their positions that would worsen the losses for other shorts and would trigger a spiral effect that would increase the stock price even higher. This event is known as "short squeeze" which was proven to be successful since Melvin Capital and Cintron Research ended up closing their positions taking significant losses.

This episode was also significantly nourished by the uprising amount of calls traded by the day traders. When these instruments are bought, the dealer as to acquire the underlying asset to protect itself, which encourages the share price to increase even further. Many analysts suggest that the day-trading crowd has acquired the knowledge to use these dynamics to push even further the rally. This is called the "gamma squeeze" which magnifies the effect that has big proportions of their shares out on loan to short-sellers.

The episode related with GameStop quickly grew to other stocks that were under the attention of short-sellers such as AMC Entertainment. This has become undoubtedly a global phenomenon that is not limited to stocks, since in the last few days the price of the silver-back exchange-traded fund had a significant increase due to the same trend. Although, a "short squeeze" on silver would be unattainable due to regulation already in place, but also the ample physical supply.

Many analysts have warned that this might be a risky strategy for individual investors since they might incur in huge losses when the euphoria around a given stock fades. Or when businesses decide to take advantage of stock price increases to raise new equity, diluting existing shareholders.

The next question mark stands around the possibility of whether the regulators will move in to take control of eventual further speculation events as it already happens with silver or if it should let the market trade for itself and adjust accordingly.

Gonçalo Pina Santos
Investment Banking Division

Extras

ESG Review

Active Engagement: Pharma pollution in India's water supply

Ruben Pratapsinh
Financial Markets Division

"Beyond the social impact, India's economy depends on a reliable supply of clean water. The effects of water pollution therefore present a material risk for businesses operating or using suppliers in India, and by extension to investors"

– Eric Pedersen, Head of Responsible Investments at Nordea Asset Management

The bright future of ESG investing is at this point undeniable, as 2020 saw a record move into ESG funds with over USD 19 bn flowing into these securities over the year. However, there is a side to this story which is often overlooked and presents a big challenge for the future of sustainable investing. Besides all the funding benefits this increasing demand brings to ESG-friendly projects, the need for an active engagement from financial firms will prove to be extremely relevant, in order to effectively foster change in communities and businesses.

Asset managers are increasingly turning their attention towards Responsible investing. However, those who are able to actively engage with their portfolio companies, helping them bring positive change to local communities, will be closer to meeting conscious investors' demands.

Nordea Asset Management is a proof of how financial firms can seek and promote this active relationship with their invested companies. A great example of its engagement is the issue of antimicrobial resistance in India's water supply. The country's chemical industry is the main provider of pharmaceuticals to Western countries. Despite being a great driver for the local economy, the industry is also a major source of water pollution, which exacerbates the problem of antimicrobial resistance which is responsible for more than 700,000 deaths annually. Nordea Asset Management's Responsible Investments team was quick in identifying the problem of pharma pollution, and understanding the impact it could have worldwide.

Nordea therefore initiated a long-term engagement with pharma companies that operate a supply chain in India, in an effort to understand the challenges these companies face, and how they impact local communities.

As part of this engagement, Nordea commissioned an independent field investigation regarding the environmental and health impacts of pharmaceutical manufacturing in Hyderabad, India. The results were published in 2016, in a report highlighting the extent of local pharma pollution, the opaque pharma supply chains and the lack of regulatory action. The findings were communicated to pharma companies Nordea was invested in, as well as to the Pharmaceutical Supply Chain Initiative (PSCI), an industry-led group with the goal of promoting responsible supply chain management. A follow up investigation was conducted two years later, in 2018, and the results suggested a lack of improvement. In response to the findings and Nordea's expectations, PSCI took action, developing an industry-wide approach to address water pollution related to drug manufacturing in India. The PSCI invited Nordea to become the only investor member of PSCI's Advisory Panel, allowing for a regular and constructive engagement with the industry. Finally, in 2020, the Indian government issued a draft bill to limit concentrations of antibiotics discharged by pharmaceuticals factories into waterways.

As ESG criteria plays an increasingly important role in the investment sphere, this active engagement with invested companies creates a dialogue to ensure a positive impact and provides a differentiated ESG offering. This role holds significant importance for asset managers, since a simple passive approach to ESG investing does not allow for a meaningful engagement with companies, where fund managers bring positive changes to management and help integrate sustainability factors into firm's businesses, as seen with Nordea's engagement regarding the pharma sector.

Ruben Pratapsinh
Financial Markets Division

Thank you!

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

Our team:

Investment Banking Division
Timor Domin
Francisco Costa Guimarães
Hannes Stingel
Gonçalo Pina dos Santos
Daniele Notarnicola
Madalena Azevedo
Jan Bich
Pedro Vitor
Gonçalo Marques

Financial Markets Division
Julia Weber
Vincent Sardinha Marques
Ruben Pratapsinh
Alessandro Astore
Fitore Zeciri
Emily Rushforth
Sebastian Hartmann
António de Castilho Lima

Corporate Partners:

Bloomberg
KPMG
Jornal de Negócios
Atrium
Nordea Asset Management
ActivoBank by Millennium

Academic Partners:

Nova SBE Career Services
Nova School of Business & Economics Finance Knowledge Center

Email us at:
nic@novainvestmentclub.com

—
Design by: Carmo Cunha e Sá