NIC

— Nova Investment Club —

# Newsletter

**March 2021**

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 Santos elaborates on the rise of SPACs. Moreover, in our Regional View, Sebastian Hartmann examines the Covid-19 vaccine rollout in Africa.

Our Investment Banking Division will guide you through February's M&A overall activity. Read about Jazz to acquire GW Pharmaceuticals, LVMH to acquire Birkenstock, and Goodyear to acquire Cooper. Additionally, get a detailed overview on what happened to Daimler and PJSC Gazprom, as well as consider our opinion on Private Equity and Climate Change.

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 February was positive, with a cumulative return of 1.46%. A return that can be mainly attributed to Equities.

On the Hot Topics of this month, Sebastian Hartmann, examines the ethics of short selling, while Madalena Azevedo, our Vice President, elaborates on Alibaba. Lastly, on our ESG review in collaboration with Nordea, Pedro Vitor, writes about Active engagement and fixed income, focusing on the Amazon rainforest.

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# Macro Overview

## Monthly

March 8th, 2021

Deeper Dive

### The Beginning of a "SPACtacular" Year

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Regional view

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### Market Moves

**Market Moves**

*% change*

| | Last Close | -1W | -3M | YTD |
|---|---|---|---|---|
| S&P 500 | 3,811 | -2.45% | 5.23% | 1.47% |
| DJIA | 30,932 | -1.78% | 4.37% | 1.06% |
| Nasdaq | 13,192 | -4.92% | 8.15% | 2.36% |
| MSCI World | 3,427 | -2.47% | 6.70% | 2.47% |
| MSCI EM | 4,628 | -4.86% | 7.64% | 1.36% |
| Russell 2000 | 2,201 | -2.90% | 20.95% | 11.45% |
| Euro Stoxx 50 | 3,636 | -2.07% | 4.12% | 2.36% |
| FTSE 100 | 6,483 | -2.12% | 3.47% | 0.35% |
| Nikkei 225 | 28,966 | -3.50% | 9.58% | 5.55% |
| Hang Seng | 28,980 | -5.43% | 10.02% | 6.42% |
| Dollar Index | 90.88 | 0.57% | -1.08% | 1.05% |
| EUR/USD | 1.208 | -0.36% | 1.24% | -1.15% |
| GBP/EUR | 1.154 | -0.18% | 3.31% | 3.17% |
| GBP/USD | 1.393 | -0.59% | 4.58% | 1.92% |
| USD/JPY | 106.570 | 1.06% | 2.17% | 3.22% |
| USD/CHF | 0.91 | 1.36% | -0.04% | 2.63% |
| Brent Crude | 66.130 | 5.12% | 38.96% | 27.66% |
| Gold | 1,728.8 | -2.65% | -2.64% | -8.78% |

**Generic Bond Yields**

*change in bps*

| | Last Close | -1W | -3M | YTD |
|---|---|---|---|---|
| US 10Y Yield | 1.405% | 6.9 | 56.6 | 49.2 |
| GER 10Y Yield | -0.260% | 4.5 | 31.1 | 30.9 |
| JPY 10Y Yield | 0.162% | 5.3 | 13.0 | 14.1 |
| UK 10Y Yield | 0.820% | 12.2 | 51.5 | 62.3 |
| PT 10Y Yield | 0.317% | 6.4 | 28.3 | 28.7 |

**Source: Bloomberg, as of 2021-02-26*

In Focus

## February

**Mario Draghi on an Italian rescue mission.** After salvaging the Eurozone from a near fatal sovereign debt crisis as president of the ECB from 2011 to 2019, the Italian technocrat has a new mission: pulling Italy out of its current troubles. After the collapse of Giuseppe Conte's coalition government, the head of state Sergio Mattarella called Mr Draghi to the rescue asking him to take over as Prime Minister which he accepted. His main goal is to redesign and apply a EUR 200 bn recovery plan, the largest sum of any EU country.

**Myanmar coup. The military junta back in place.** This South East Asian country neighbour to Thailand and Bangladesh has seen the military seizing control again. Since the country gained independence from Britain in 1948, it has already been ruled by the military from 1962 to 2011. It is under their rule that the country changed name (from Burma to Myanmar). The freedom icon and peace Nobel price recipient Aung San Suu Kyi who had led the NLD to victory in 2015 has been detained and will appear in court. In response, the population has been disputing that coup through bloody protests as death toll is quickly rising.

**Jerome Powell reaffirms the Fed's direction.** Central bank Chairman Jerome Powell assured that inflation and employment levels remain well below the Federal Reserve's goals despite the increased bond yields accompanied by heightened inflationary concerns. He added that the Fed was "committed to using our full range of tools to support the economy from this difficult period". Thus follows the new approach adopted by the Fed to let inflation rise over the 2% barrier for a short period of time. Powell further affirmed that "We will not tighten monetary policy solely in response to a strong labour market."

**Grounded Boeing aircrafts after United Airlines engine failure.** Dozens of Boeing 777 aircrafts have been grounded following an engine failure on a United Airlines flight right after its departure from Denver. After the incident, a number of countries such as Korea, Japan, and the United Kingdom grounded planes with the same or similar engines, waiting for further expertise on the failure's source. This is yet another blow to Boeing, after the 18 months grounding of its 737 max model which was involved in two crashes in 2018 and 2019, killing 346 passengers.

**Arctic blast triggers power squeeze in Texas.** A wave of freezing cold temperatures hit Texas hard in the past month, making energy markets suffer. Indeed, Texas is the US largest oil and gas producer as well as biggest electricity consumer. This cold wave has squeezed the supply of US natural gas needed to serve homes, businesses, power plants, and industrial complexes. This supply shortage blended with high level demands sent futures contracts up and created the perfect storm.

**HSBC's pivot to Asia.**
The raising tensions between China and the Western world have been significantly rising and have therefore left the Hong Kong-founded but UK-headquartered bank in a delicate position. Indeed, HSBC has been extensively criticised for its support of the controversial national security law imposed by the Chinese government upon Hong Kong. HSBC has decided to refocus on Asia, moving top executives from London to Hong Kong, scrapping its US retail banking operations, and planning further expansion in Singapore. These moves could end up slashing more than 35,000 jobs and redeploy about USD 100 bn to Asia.

Vincent Sardinha Marques
Financial Markets Division

Deeper Dive

# The Beginning of a "SPACtacular" Year

Gonçalo Pina Santos
Investment Banking Division

*"We are open to SPACs as a product and have all the conditions in place for more of these to go public in Germany. They have been the go-to topic in most calls with issuers, banks, and lawyers over the past six months so we expect SPAC listings to accelerate in Europe"*

– Renata Bandov, head of capital markets at Deutsche Börse

One of the most noticeable market trends in 2020 was the increase in funds directed to Special Purpose Acquisition (SPACs), which are frequently denominated as "blank-check companies". This method is used for private companies to become public, and it has been, not only, going through a notorious increase in the number of transactions but also in terms of capital raised.

In 2020, a total of 127 SPACs were able to collect more than USD 79 bn, corresponding to an increase of more than 600% compared to the previous year. In 2021, there were already launched more than 128 SPACs raising a total of USD 38.3 bn, surpassing the USD 23.2 bn produced from the traditional initial public offering (IPO).

These companies act as shell-companies without operational assets, raising their capital through their IPOs. The capital raised cannot be used until the target company acquisition date. The team that manages the SPAC searches for approximately 24 months to find a potential target. After the target is selected, the capital is used by SPACs to acquire or to merge with that private company turning it, in that way, public to all retail investors. In case their management team is not successful to select any target, the capital is returned to the investors.

The growing trend in the usage of SPACs, as an alternative to IPOs, are the result of the confluence between several different factors. In the first place, the large quantity of capital currently owned by Private Equities is not allocated to any investment, being this amount estimated to surpass USD 1.45 bn.
Secondly, the fact that traditional IPOs are considerably affected by the current volatility in the market, can cause very significant price oscillations, consequentially opening space in the market for SPAC operations to take place. These provide a higher amount of certainty regarding the company's valuation.
The former happens since the company's price after becoming public depends substantially on negotiations occurring before the company goes public.

Lastly, SPACs show, in overall terms, that they are significantly simpler in terms of deal procedures comparing to IPOs. Furthermore, it is also known that SPACs are fairly cheaper to be operated than traditional IPOs.
From the investors' perspective, there are meaningful differences between investing in a SPAC or investing in an IPO. In the latter case, investors know beforehand the company that they are investing in. On the other hand, in most cases, the investors acquire shares for USD 10/share and, only after the capital is fully raised, the management team will look for the target company. For that reason, the investors will not have the possibility to know which enterprise will be selected until it is announced, relying fully on the capabilities of the SPACs' management team to select a fruitful target.

Although these operations are not exempt from associated risks, beyond investors not knowing where their money will be allocated, there are other risk factors. Among others, it should be highlighted the lockdown period between the investment and the moment SPAC acquires the company and starts to run its operations. In this period, the money will be stagnant for up to two years, existing the possibility of the operation not even taking place. Additionally, research made by the Financial Times in 2020, concluded that about two-thirds of these operations, launched between 2015 and 2019, result in a final stock price standing below the initial USD 10/share.

In 2021, it is expected that the growing trend on these operations remains, considering that by the end of last year, SPACs already achieved a total of 53% of market share, in comparison to the IPOs.

Gonçalo Pina Santos
Investment Banking Division

Regional View

# The Politization of Africa's Covid-19 Vaccine Rollout

Sebastian Hartmann
Financial Markets Division

*"It's an unprecedented acceleration of global inequality and it's politically unsustainable too because it's paving the way for a war of influence over vaccines. [...] It won't change our vaccination campaigns, but each country should set aside a small number of doses it has to transfer tens of millions of them, but very fast, so that people on the ground see it happening."*

- Emmanuel Macron

The African continent has not been spared by the Covid-19 pandemic. Alone in South Africa 50,000 deaths have been reported to this day. The full extent of infections and deaths is hidden in obscurity due to prevailing data gaps. The economic fallout has taken a toll on the people causing a rise in hunger, joblessness, and civil unrest. As the world battles its way out of the pandemic, the importance of how quickly and efficiently Africa is helped must not be understated.

African nations reacted to the pandemic in similar fashion to developed nations. Lockdowns were imposed, corporate taxes were suspended, and social transfers to citizens were guaranteed. Many countries received support from the IMF through debt-suspension programs. The G20 however, has only suspended a small portion of debt owed to them, sparking criticism. More must be done to ensure the African continent does not fall into financial distress in a post-pandemic world.

To support the African nations to emerge out of the pandemic without prolonging a period of financial distress, the developed economies must band together and support the creation of a USD 500 bn fund for the global economy through the IMF. If these Special Drawing Rights (SDRs) are issued, fund money will be divided amongst the world's economies, based on a formula which takes into account the desperate need for funds in individual economies. The support must not end there, however, since through this allocation system, Africa would only receive USD 25 bn, while the G7 would receive a total of USD 217 bn. This is where international solidarity must be shown by developed nations towards the emerging economies. The G7 or G20 could voluntarily allocate these funds to the IMF's Poverty Reduction and Growth Trust. With a current interest rate of 0.05%, this would lower the borrowing costs for African nations, and help them overcome the financial burden the pandemic places on their economies.

Not only should the financial situation be taken seriously, but the African nations must also gain access to vaccines as soon as possible. The longer the pandemic remains uncontrolled, the higher the likelihood of mutations which could undermine all efforts made so far in overcoming these trying times. One example of this already unfolding is the South-African strain, which has reduced the efficacy of the AstraZeneca vaccine. More and faster mutations could pose a real threat to the global economies and everyone's lives.

Contrary to the financial situation, where Africa must hope on international solidarity to help it emerge from the pandemic, a more cynical reality might help Africa gain access to the vaccines at a faster pace than it currently experiences. The EU's and the US's geopolitical rivals, China and Russia, have begun vaccine donations to allied nations or nations in which they can increase their influence, a practice coined as "vaccine diplomacy". This development has many EU and US politicians worried.

In a recent interview, French president Emmanuel Macron is urging the EU and the US to allocate up to 5% of current vaccine supplies to developing economies, which includes the African nations. Although Macron mentions that this is "not a power game" or a matter of vaccine diplomacy but "a matter of public health", he also emphasizes the need for a fast European response "so that people on the ground see it happening". Macron is hoping to convince the US, which has rejected the proposal until there is a plentiful domestic supply of vaccines. An increase in vaccine donations by geopolitical rivals may force the west's hand to increase their own transfers of vaccines.

The current pandemic has forced us to face our own morals and motivations in more than one way. The way the world will come to Africa's aid will be another reflection with potentially far-reaching consequences.

Sebastian Hartmann
Financial Markets Division

Macro Overview

# Economic Calendar

## Economic and Political Events

### US Manufacturing PMI Reading

On the **1st** of March, the Manufacturing Purchasing Managers Index for February was released. The index had finished 2020 at its highest level since 2014 at 56.5. This trend continued in the new year with a February figure of 58.6.

### General Elections in the Netherlands

The Netherlands General Elections take place on the **17th** of March. After the government resigned in January following a tax fraud scandal, a new lower house of parliament will be elected for a four-year mandate. Election polls suggest that VVD, the People's Party for Freedom and Democracy, will be in the lead.

### UK Census

The UK Office for National Statistics will run a nationwide census on the **21st** of March for the first time since 2011. England, Wales and Northern Ireland will be asked to fill out an online survey with questions on their household. The census in Scotland will follow in 2022.

## Central Bank Decisions

### ECB Interest Rate Decision

The Governing Council will meet on the **11th** of March. The base rate remained unchanged after the last meeting in January at 0%. With rising concerns about an increase in inflation, the upcoming decision will be followed with heightened attention.

### Fed Interest Rate Decision

In January, the target rate range remained unchanged at 0% - 0.25% and a continuation of the quantitative easing program was announced. On the prospects of higher inflation, investors' expectations on a rise in US interest rates are strengthening. The next decision will be announced on the **17th** of March.

### Brazil Interest Rate Decision

On the **17th** of March, the Central Bank of Brazil's (BCB) Monetary Policy Committee will decide on the overnight interest rate. The benchmark interest rate, which is also called Selic rate, is currently at 2% after several cuts in the first half of 2020 in reaction to the Covid-19 pandemic.

## Inflation and Deflation

### China's Inflation

On the **9th** of March, China's consumer price index (CPI) data for February 2021 will be published. January figures were in a deflationary sphere with a CPI of -0.3%, exceeding the forecast of -0.1% and following a low inflation rate in December of 0.2%.

### US Core Consumer Price Index

February figures for the US core CPI will be announced on the **10th** of March. The forecasted MoM figure is 0.1%. While a debate in markets over the course of inflation is intensifying, January figures remained largely unchanged with a YoY inflation of 1.4%.

### Update on Germany's Inflation

Germany's latest inflation data will be published on the **12th** of March. Inflation figures compared to the same month of the year prior had increased with 1.0% in January, following a period of deflation in Q4 of 2020. Next to the Netherlands, Germany currently has the highest inflation in the Euro area.

## Labour Market

### Eurozone Unemployment Rate

Labour data for the Eurozone was announced on Thursday, the **4th** of March. The forecasted unemployment rate for January was 8.3%, which was the actual figure in December and November. The actual unemployment rate in January was reported a bit lower at 8.1%.

### Swiss Labour Market

Switzerland's forecasted unemployment rate for February is 3.5%, which equals the previous month's figure and is the highest rate since May 2016. The State Secretariat for Economic Affairs (SECO) will publish the actual figure on the **8th** of March.

### Canada Unemployment Data

On the **12th** of March, the national statistics office of Canada will announce the unemployment rate for February. Forecasts prospect a rate of 8.9%, equal to the previous month's forecast which was exceeded with an actual figure of 9.4%. The unemployment rate had peaked in July 2020 and is still far above previous years' levels.

Julia Weber
Financial Markets Division

# Investment Banking

M&A
## Overall Activity

### Global

Global M&A activity remains stable in February with a worldwide deal volume of approximately USD 459.3 bn (according to Bloomberg), slightly up compared to January. The deal count, instead, is a bit lower than in the previous month, signaling a higher value per deal boosted by an average premium of about 22.62%. Software and Telecommunication industries have been the most active ones during the month, followed by Biotechnologies and Oil & Gas. Notwithstanding the spreading of Covid-19 mutations, the hope in the effectiveness of vaccines is high, and the M&A market showed resiliency thanks to major players that are still investing and acquiring companies to prepare for the post-pandemic phase. Among these, are worth to be mentioned the acquisition of the shoe manufacturer Birkenstock by LVMH, the USD 7.2 bn acquisition of the cannabinoid medicines producers GW Pharmaceuticals by Jazz Pharmaceuticals, and the USD 2.5 bn acquisition of the tire manufacturer Cooper Tire by Goodyear. In addition, SPACs continue to be one of the hottest product in financial markets, registering a record monthly deal count of 46 targets.

### Selected Regions

#### North America
The US remains the strongest region in terms of M&A value, recording a volume of USD 211.86 bn accounting for half of the total M&A worldwide. One of the leading industries remains Healthcare, as confirmed by the USD 11.7 bn acquisition of PRA Health Science by Icon Plc. Also, the Canadian market resulted to be quite active driven by the USD 10 bn acquisition of Inter Pipeline Ltd by Brookfield Infrastructure.

#### EMEA
European M&A market slowed down in February, with a deal volume lower by around 20% compared to the previous month. The main reason might be the renewed lockdowns here and there around Europe that are hurting the overall economy. Nevertheless, the French company Veolia Environment SA has entered an agreement to acquire Suez SA for USD 22.65 bn, becoming the largest deal in 2021 so far.

#### Asia
M&A activity keeps being quite effervescent. The deal volume in February is in line with January's one, but still a lot below the peak reached in July 2020. Asian economies are recovering fast from the pandemic, especially China which is fast proceeding with its vaccinal campaign. The largest transaction of the month was the USD 3.02 bn acquisition of the Hong Kong-based company Kerry Logistics by the Chinese SF Holding Co.

M&A
## Deals of the Month

| Announnced Date | Target | Buyer | Target Region | Target Business | Value (USD m) | Premium (%) |
|---|---|---|---|---|---|---|
| 8 Feb 21 | Suez SA | Veolia Environment SA | FR | Utilities | 22,655 | 5.18% |
| 24 Feb 21 | PRA Health Science | Icon Plc | US | Healthcare | 11,700 | 32.27% |
| 28 Feb 21 | Notre Dame Intermedica Participacoes SA | Hapvida Partecipacoes e Investimentos SA | BR | Healthcare | 10,600 | 2.28% |
| 22 Feb 21 | Inter Pipeline Ltd | Brookfield Infrastructure Corp | CA | Oil & Gas | 10,000 | 16.51% |
| 4 Feb 21 | Core Logic Inc. | Stone Point Capital LLC | US | Software | 7,600 | 20.48% |
| 3 Feb 21 | GW Pharmaceuticals Plc | Jazz Pharmaceuticals Plc | UK | Pharmaceutical | 7,200 | 50.00% |
| 5 Feb 21 | Signature Aviation Plc | Cascade Investment LLC | UK | Transportation | 6,900 | -2.76% |
| 8 Feb 21 | Dialog Semiconductor Plc | Renesas Electronic | DE | Semiconductors | 5,600 | 20% |
| 26 Feb 21 | Birkenstock | LVMH | DE | Manufacturing | 4,850 | - |
| 22 Feb 21 | Cooper Tire & Rubber Company | Goodyear Tire & Rubber Company | US | Manufacturing | 2,800 | 24.00% |

Daniele Notarnicola
Investment Banking Division

M&A: Top Deals

# Jazz to Acquire GW Pharmaceuticals

The Dublin-based global biopharmaceutical company, Jazz, has agreed to acquire a pioneer cannabinoid-based drugmaker, GW Pharmaceuticals. The cash-and-stock consideration is valued at USD 7.2 bn, including debt and represents a 50% premium on GW's closing share price a day prior to the announcement.

## Buyer vs Seller

Jazz Pharmaceuticals develops and commercializes rare-disease drugs mainly in the fields of neuroscience and haematology. GW Pharmaceuticals is the market leader in the cannabis-based medicine sector, being the UK's largest cultivator and exporter of those products. Its star product is Epidiolex, a childhood epilepsy treatment, generating sales of over USD 500 m, in 2020. Evercore and Guggenheim serve as financial advisors for Jazz, while Goldman Sachs and Centerview Partners are advising GW Pharmaceuticals.

## Industry Overview

The deal is the first of a kind, in which a more traditional pharma company acquires another, with a novel therapeutic based on the marijuana plant, serving as a validation of the potential of the new niche sector. There is a growing number of applications for medicinal cannabis products being researched, and countries are loosening regulations around the sector, making it more prone to further acquisitions and growth.

| Peers | Currency | Market Cap (CUR m) |
|---|---|---|
| Vectura Group PLC | GBp | 678.20 |
| Arena Pharmaceuticals Inc | USD | 4,634.30 |
| Pacira BioSciences Inc | USD | 3,130.10 |
| Alkermes PLC | USD | 3,055.78 |
| Corcept Therapeutics Inc | USD | 2,907.00 |

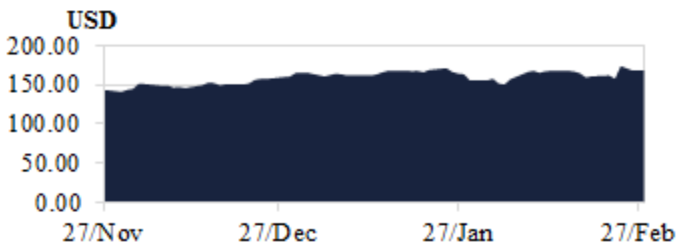
## Deal Rationale

The acquisition of GW, by Jazz Pharmaceuticals, will give access to Epidiolex, a potential blockbuster drug that has the potential to reach sales of USD 1 bn in the short-term, giving the possibility for Jazz to expand its drug pipeline, and include other cannabis-based therapies in the neuroscience scope. For GW, it will allow the firm to gain access to a larger market and to grow at a faster pace with Jazz's manufacturing expertise. The acquisition is expected to be accretive in the first year of combined operations and to create even more gains in the years to come, expecting substantial revenue growth.

## Market Reaction

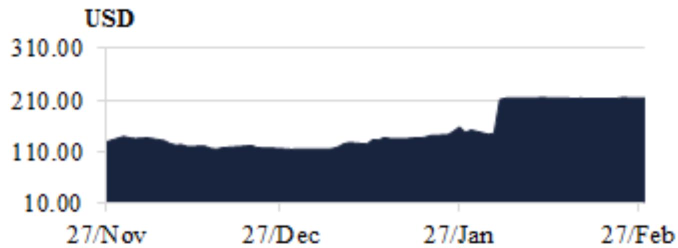
**Jazz Pharmaceuticals**

In the announcement day, 3rd of February, the stock price had a small decrease of 5%, reflecting investors reluctance to the deal.




**GW Pharmaceuticals**

The company's share performance increased 47% in the pre-market of the announcement day, indicating the considerable premium incurred in this transaction.




## Future Challenges

The deal has been confirmed by the Board of Directors of both sides, and it is still subject to approval by the GW shareholders and regulatory consent. Future challenges will lie ahead on leveraging both firm's similar cultures and combining their geographical differences. The deal is expected to close in the second quarter of 2021.

Pedro Santos Vitor
Investment Banking Division

M&A: Top Deals

# LVMH Moët Hennessy Louis Vuitton to Acquire Birkenstock

L Catterton and its affiliates including Financière Agache have agreed to acquire a majority stake in Birkenstock, a German sandal company based in Neustadt. Details about the purchase price have not been disclosed, however, several sources value the transaction to approximately EUR 4 bn.

## Buyer vs Seller

L Catterton is the largest global consumer-focused private equity house operating in the luxury brand segment, while Financière Agache is a family investment company of Bernard Arnault. The company is holding 95.5% ownership in Christian Dior and is the majority shareholder of LVMH Moët Hennessy Louis Vuitton. Birkenstock is a German shoe manufacturer that transformed itself into a global lifestyle brand founded in 1774.

## Industry Overview

The demand for Luxury brands has significantly increased as global wealth continues to rise. The global sandal market volume amounts to around USD 23 bn, representing 5.48% of the overall footwear market in 2018. North America and Europe are dominating the sandal market. However, Asia Pacific is increasing its influence. 2021-2025 CAGR of over 5% indicates attractive growth rates and a stable outlook.

| Peers | Currency | Market Cap (CUR m) |
|---|---|---|
| Wolverine World Wide Inc | USD | 2,912.34 |
| Steven Madden Ltd | USD | 3,157.12 |
| Skechers USA Inc | USD | 6,144.21 |
| NIKE Inc | USD | 217,003.85 |
| Urban Outfitters Inc | USD | 3,338.43 |

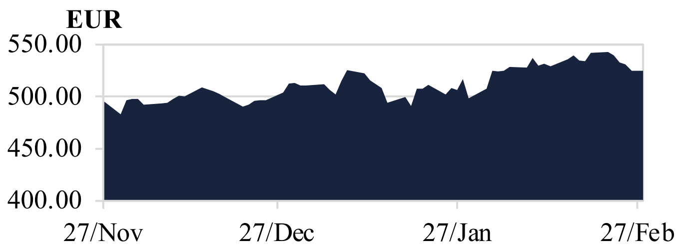
## Deal Rationale

The acquisition has been a remarkable step for Birkenstock's strategic direction for the next years. Due to high growth rates in the past, Birkenstock now further thrives its potential by expanding its business. As LVMH has a stable market share in growth markets such as China or India, Birkenstock will benefit from LVMH market presence in Asia. Furthermore, LVMH will help to improve Birkenstock's direct-to-customer business and e-commerce platform.

## Market Reaction

**LVMH**

Reportedly, after the announcement on the 25th of February 2021, LVMH's stocks reacted unimpressed, decreasing from 0.17% to EUR 531.90.




**Birkenstock**

Birkenstock was founded in 1774 and positioned itself as a high-quality manufacturer of sandals within its sixth generation. Despite a familiar company structure, Birkenstock employs more than 4,300 people and sells its products in over 100 countries worldwide. Regardless of its increasing international orientation, the company's production facilities are located in Germany and planned to maintain its local origin. Due to the increasing popularity of its products during the past years, Birkenstock achieved attractive growth rates and was able to establish a generous customer base.

## Future Challenges

Luxury brands have to deal with increasing cost and margin pressure from China. Furthermore, the industry has suffered from the impact of Covid-19 as stores mainly remained closed during the lockdown in many countries. However, this might also be an attractive change, as many brands are shifting their business model towards e-commerce.

Hannes Stingel
Investment Banking Division

M&A: Top Deals

# Goodyear to Acquire Cooper

On the 22nd of February, Goodyear Tire & Rubber Co. agreed to acquire Cooper Tire & Rubber Co. for approximately USD 2.8 bn, reinforcing its position as the largest tire manufacturer in the U.S. This cash and stock transaction implied a total share price of USD 54.36, which reflects a premium of 24%. Cooper shareholders will own 16% of the combined tire maker.

## Buyer vs Seller

Founded in 1898, Goodyear manufactures, distributes, and sells tires for most applications worldwide. The company's integration in the industry supply chain enables it to produce and sell rubber, as well as providing automotive repairment services. Cooper manufactures and markets replacement tires, with a focus on the passenger car and light truck segments. The firm's operations can be divided into two main segments: the American segment (80% of sales) and the International segment.

## Industry Overview

The global tire industry suffered a big strike in 2020, with the pandemic causing a sharp decrease in the demand for both replacement and original tires. Although the recovery from this hit is still an ongoing process, industry experts project a rebound in the demand to be reached this year. This recovery is grounded on the rollout of COVID-19 vaccines and the increased consumer savings as large purchases were held off during the pandemic.

| Peers | Currency | Market Cap (CUR m) |
|---|---|---|
| Goodyear Tire & Rubber Co/The | USD | 3 988,26 |
| Apollo Tyres Ltd | INR | 155 504,46 |
| Kumho Tire Co Inc | KRW | 1 141 859,64 |
| Cheng Shin Rubber Industry Co | TWD | 139 867,08 |
| Nexen Tire Corp | KRW | 822 363,52 |

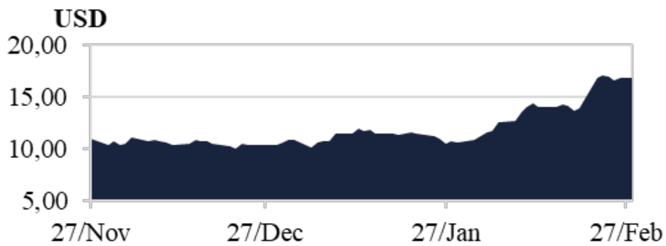
## Deal Rationale

The deal will double Goodyear's presence in China while expanding the distribution of Cooper's replacement tires through the broad network of Goodyear's retail stores in the US and China. Goodyear also expects to benefit from Cooper's position in the rapidly growing light truck and SUV product segments. Given that both companies are based in Ohio, cost synergies also played a major role in the acquisition. These synergies will arise from combining corporate functions, R&D, procurement, and, possibly, a combined production system in the year to come. The companies expect cost savings to amount USD 165 m in the first two years.

## Market Reaction

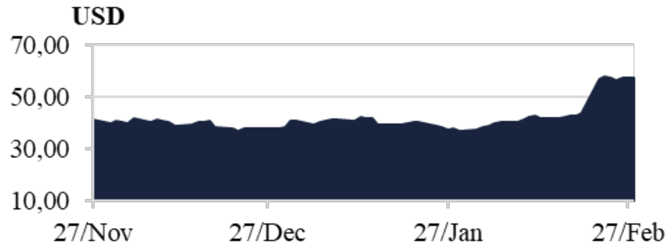
**Goodyear Tire & Rubber Co.**

On the announcement day, the share price increased from USD 13.90 to USD 16.82. The positive market reaction suggests the value of the cited synergies to investors.




**Cooper Tire & Rubber Co.**

On the 22nd of February, the share price surged, from USD 43.77 to USD 56.64. Since then, it has been relatively stable.




## Future Challenges

The deal is expected to be closed by the second half of 2021, but until then it must comply with both regulatory requirements and approval by Cooper' Shareholders. Moreover, although the current projections for the evolution of the pandemic are positive, the successful realization of synergies for the combined company will be dependant on the accurateness of these projections.

Gonçalo Marques
Investment Banking Division

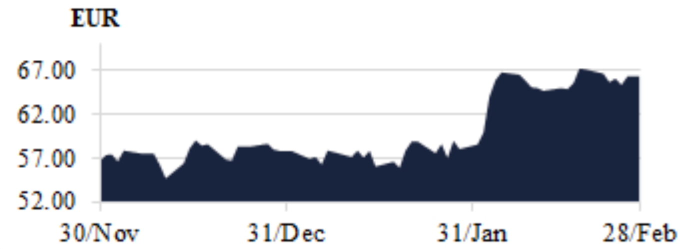
What Happened To
# Daimler

Daimler is with EUR 154.3 bn in revenues (2019) one of the most successful automotive companies in the world, headquartered and originating in Germany. With its Mercedes-Benz Cars & Vans, Daimler Trucks & Buses and Daimler Mobility divisions, it is one of the world's leading suppliers of premium and luxury passenger cars and one of the largest manufacturers of commercial vehicles.

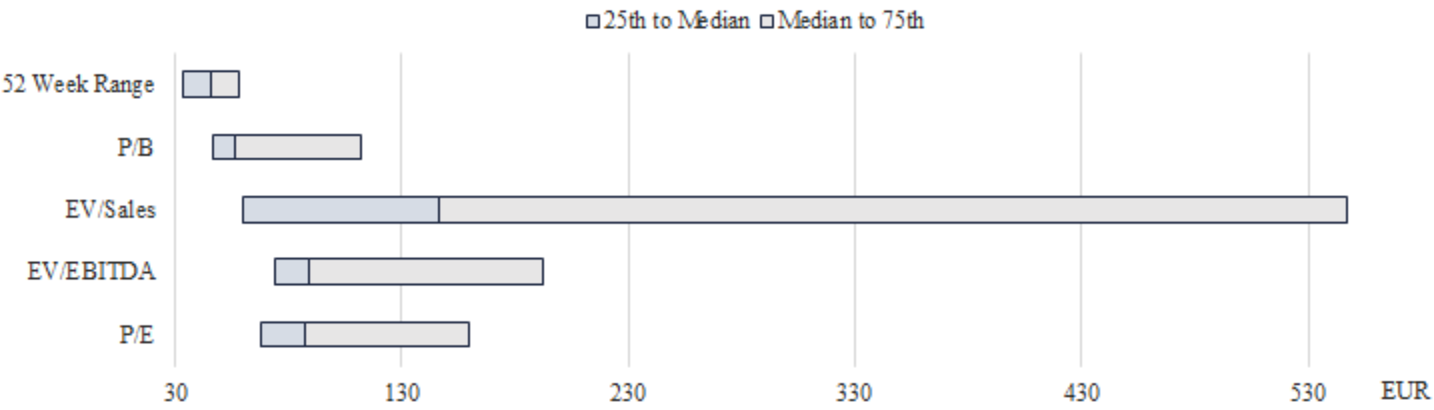
## Corporate News

The first two months of 2021 were not only pivotal for the Group, but were also used to usher in opportunities for the automotive sector of the future. The announcement of plans to split the group into the passenger car and truck divisions and to subsequently list the truck division on the stock exchange was one reason for the share price jump of up to 9% on the 3rd February. Although Daimler suffered a 10% drop in revenue in 2020, which can be attributed to a slump in vehicle sales of almost 15%, the outlook for 2021 and subsequent years is positive. With a market share of just under 3% of the total global car market and the largest share of the luxury car market, Daimler intends to focus even more on electromobility in the future. To this end, Daimler Truck recently founded a joint venture with Volvo. There will also be a fundamental change in the corporate structure and the company will be repositioned digitally and emission-free.

| **Price (28 Feb 21, EUR)** | **69.82** |
|---|---|
| Target Price (EUR) | 79.50 |
| 3M Performance | 23.34% |
| Market Cap (EUR m) | 74,696.05 |
| Enterprise Value (EUR m) | 57,322.05 |
| **Target Price is for 12 months* | |




## Valuation Analysis




Daimler was, on the day this article was written, trading at EUR 69.79 in Germany. Looking at the football field, it becomes clear that the spread of valuations on Daimler is very large. By looking at the EV/Sales multiple, we can conclude the firm's share price has a big upside potential assuming the valuation is fair. This indication is supported by the EV/EBITDA multiple. The non-existent reflection in the share price might be justified by the recent pandemic sales impacts and costly electric revolution.

The car industry is dominated by performance, design and branding. As Daimler attracts more premium and luxury customers, it must also cater to very demanding customers who want to see new technologies implemented in their favourite brand. Daimler seems to have understood this trend, not only since the last CEO Dieter Zetsche changed the entire design concept, but also since the new CEO Ola Källenius took the helm and pushed the electric transition.

| **Peers** | **Currency** | **Market Cap** (Cur m) |
|---|---|---|
| Volkswagen AG | EUR | 99,661.50 |
| Bayerische Motoren Werke AG | EUR | 48,708.82 |
| Aston Martin Lagonda Global Ho | GBp | 2,321.66 |
| Renault SA | EUR | 11,697.29 |
| Ferrari NV | USD | 36,299.27 |

Timor Domim
Investment Banking Division

What Happened To

# PJSC Gazprom

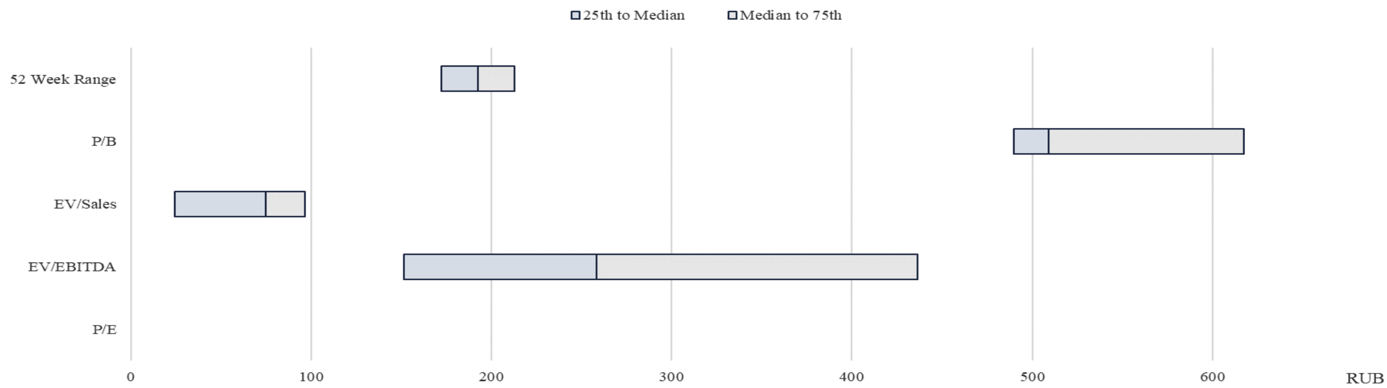
Gazprom is a Russian majority state-owned global energy company committed to geological exploration, generation, transportation, storage, processing and sales of gas, gas condensate and oil, as well as production and marketing of heat and electric power. The world's biggest publicly-listed natural gas company realized USD 118 bn in revenues and employed 473,800 people in 2019.

## Corporate News

Gazprom recently delivered a solid 3M stock performance as shares went up 21.63% despite the growing uncertainties relating to the continuation of the Nord Stream 2 project due to sanctions discussed in the aftermath of the Nawalny attack in August 2020. However, the main drivers for the stock price developments are the resumption of construction of the pipeline in December 2020 and support in completion through a public sector foundation planned by German state Mecklenburg-Vorpommern, which cannot be targeted with sanctions as easily as private companies. Generating 12% of the global gas output and 68% in the domestic market, Gazprom is the world's leading gas producer. To maintain its position, it pursues a diversification of sales markets, assurance of energy security and sustainable development, along with improving operating efficiency. Gazprom's median target price for the next 12 months is set at RUB 271.50.

| **Price (28 Feb 21, RUB)** | **221,24** |
|---|---|
| Target Price (RUB) | 271,50 |
| 3M Performance | 21,63% |
| Market Cap (RUB m) | 5.237.527,99 |
| Enterprise Value (RUB m) | 9.988.273,99 |
| **Target Price is for 12 months* | |


## Valuation Analysis




As of 1st of March 2021, Gazprom was trading at RUB 221.24 slightly above the 52 Week Range. The firm is placed with an Enterprise Value of RUB 9,988.27 tn. Taking a closer look at the football field, the valuation of Gazprom seems fair taking EV/EBITDA into account. In contrast, the EV/Sales multiple indicates an overvaluation, while the P/B ratio the opposite, suggesting a strong undervaluation and therefore leading to different conclusions.

With a market cap of RUB 5.238 tn, Gazprom is one of the biggest players in the industry planning to cooperate with competitor Lukoil in a joint-venture. After a drop in demand for gas by 4% in 2020 due to Covid-19, an expected recovery from the pandemic with a 2.8% growth in 2021 suggests a 1.50% CAGR from 2021 to 2025. Additionally, emerging environmentally friendly energy alternatives will influence the development of the industry.

| **Peers** | **Currency** | **Market Cap** (Cur m) |
|---|---|---|
| KOC Holding AS | TRY | 58.376,37 |
| Polskie Gornictwo Naftowe i Ga | PLN | 32.693,71 |
| MOL Hungarian Oil & Gas PLC | HUF | 1.860.104,88 |
| Rosneft Oil Co PJSC | RUB | 5.553.975,08 |
| LUKOIL PJSC | RUB | 3.910.534,36 |

Jan Bich
Investment Banking Division

Private Equity | Venture Capital | DCM | ECM | Spinoff | Restructuring

NIC's View On

# Private Equity and Climate Change: How to Tackle Both Phenomena?

Francisco Costa Guimarães
Investment Banking Division

*"I would say we're in a climate crisis, just like a financial crisis, where action needs to be taken. A question for every company, every financial institution is: what's your plan?"*

– Mark Carney, former governor of the Bank of England

The Private Equity (PE) industry has become an important contributor to urge climate change topics. Due to the nature of PE, after an acquisition of a portfolio company, the interest often shifts to other issues rather than climate action during the holding period of a company. However, there is no doubt that the PE industry plays a crucial role in the global economy. Hence, to prepare for the future, sustainability criteria should be integrated into all asset classes across an entire portfolio, PE included.

One investment case that has recently been discussed is climate-resilient investments. They refer to adapting and preparing the economy to respond and recover from the effects of climate change. Investing in climate resilience is differentiated and adds value to fast-growing companies that will grow even faster due to the increasing macro trend. Moreover, climate resilience investments serve as a natural hedge against climate risks. Furthermore, investments in climate resilience are likely to be less correlated with other investments since the growth of climate resilience companies is likely to be more connected to the rising outcomes of climate change rather than changes in trade barriers of interest rates, for example.

At this stage, one could ask: so why to invest in private equity and not in public market investments that build climate resilience? To foster climate resilience investments within many asset classes is much needed. Investing in climate solutions in the PE asset class enables diversification, both in sector and stage. Moreover, PE is an efficient way to invest since it allows engagement and active investment in companies over a period of three to five years, which can, in turn, support those firms to extend their focus in tackling climate risks and extending their scope.

Recent evidence from what has been argued is the Lightsmith Group, a PE-based in New York that pursues superior financial returns along with measurable social and environmental impacts by investing in growth-stage companies that tackle major societal needs. Their focus areas include climate resilience, food and agriculture as well as energy solutions. They developed the investment strategy CRAFT – the world's first investment strategy that is focused on climate resilience investments.

CRAFT was able to point out twenty market segments where private sector businesses are ready for scale, including areas like disaster risk modelling, distributed water solutions and weather analytics, cumulating to USD 130 bn of the current market size. Most of the firms in these sectors do not identify themselves as climate resilience companies but their products and services can help to understand and prepare for the challenges of climate change. Those segments already show a growth rate of 20-30% per year, but the partners of Lightsmith predict that they will grow faster in the coming years. At this point, the firm has identified over 800 companies that have solutions to manage climate change risks. Lightsmith also developed a system that enables them to track how their investments in climate resilience companies support society in preparing for what is yet to come.

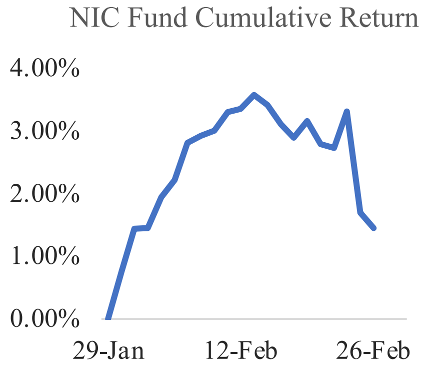
| Date | Recent News |
|---|---|
| 06 Dec 20 | Climate Change shapes Private Equity deal Making<br>***Source:*** *The Wall Street Journal* |
| 19 Mar 20 | How Private Equity can fight climate change<br>***Source:*** *Forbes* |
| 27 Dec 19 | Private Equity can fight climate change, says Lightsmith Group's Jay L. Koh<br>***Source:*** *Nordic Development Fund* |
| 06 Dec 18 | Article regarding the lack of finance in the Paris Agreement<br>***Source:*** *World Resources Institute* |

Francisco Costa Guimarães
Investment Banking Division

# NIC Fund

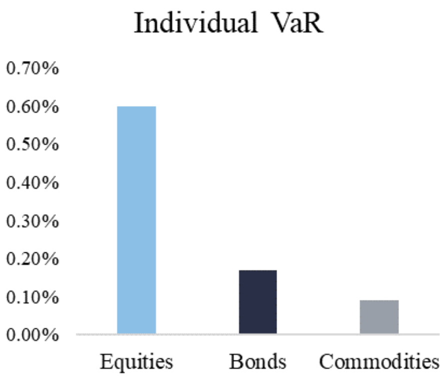
NIC Fund

## Portfolio Overview



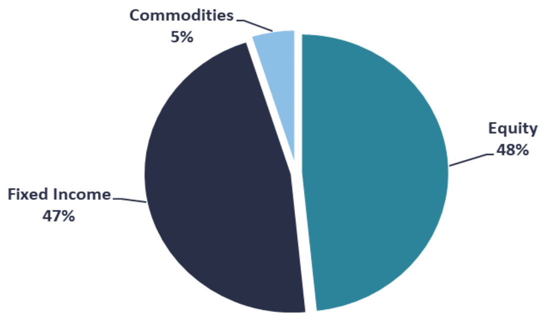

| Portfolio Statistics | |
|---|---|
| Cumulative Return | 1.46% |
| Annualized Return | 17.49% |
| Daily St. Dev | 0.52% |
| Period St. Dev | 2.37% |
| Annualized St. Dev | 8.22% |
| Info Sharpe | 2.13 |
| Skew (Daily) | -1.43 |
| Kurtosis (Daily) | 2.89 |

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




### Portfolio Snapshot

In February, the NIC Fund remained invested in Equities, Fixed Income, and Commodities with asset allocations close to our benchmark targets. Overall, allocation to Equities increased to 48% with the introduction of the Global X Data Center REITs & Digital Infrastructure ETF (VPN), while in return Fixed Income decreased to a 47% weight. In the last month, the remaining 5% of the fund remained devoted to Commodities. The decision to increase the share that is invested in Equities is a direct result of the current low interest rate environment and it seems to have been the right choice given the double-digit performance in the last month of several sectors in our portfolio.




### Return Metrics

The overall performance of the portfolio was positive, with a cumulative return of 1.46%. Best performing asset class was Equities, supporting the fund with a positive return of 1.99%. Commodities also yielded a slightly positive return of 0.02%. In contrast, Fixed Income contributed negatively to the portfolio, with a loss of -0.56%. In terms of Equities, Energy and Industrials were the top performing sectors, up 26.69% and 15.32% respectively. February brought several changes to our portfolio. Firstly, the Portuguese conglomerate Sonae SGPS SA (SGPMY) replaced Bank of America Corp. (BAC) to reduce sector overweight in Financials. Secondly, we reduced our position in iShares 3-7 Year Treasury Bond in favour of iShares J.P Morgan USD Emerging Markets Bond ETF (EMB) to reach a lager exposure to EM credit. Thirdly, the position in the before mentioned Treasury bond was further decreased to 14.61% to introduce the Technology REIT VPN that has both upside potential and the capacity to offer a consistent dividend yield. Lastly, to protect against future rising inflation, we raised the weight in the iShares TIPS Bond ETF to 10.96%.

### Risk Metrics

In terms of risk, we observed a daily VaR of 1.10% for our portfolio, taking into consideration the benefits of diversification. The value is significantly below the maximum established threshold of 2.50%.

Equities were the asset class with the highest individual VaR, which was around 0.60%, given the high volatility in the market throughout the month. Bonds and Commodities showed lower VaRs of 0.17% and 0.09% respectively.


Alessandro Astore
Financial Markets Division

NIC Fund

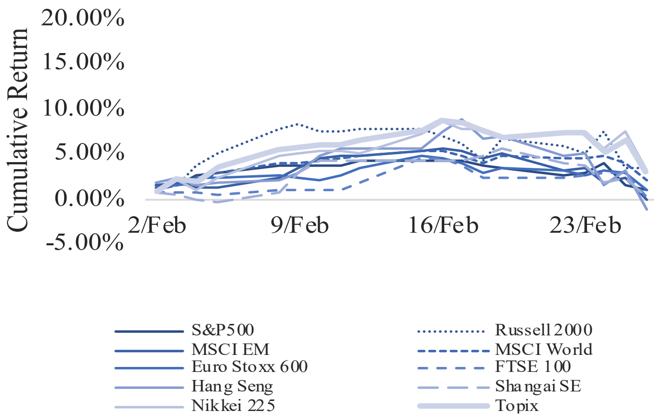
# Assets in Brief

| Asset Class | Symbol | Comments |
|---|---|---|
| US Equity | TRUP | The US pet insurer Trupanion Inc. registered a negative cumulative return of -13.76% in February, which interrupts its strong upward trajectory in 2020. The decline can be linked to a mismatch between the actual Q4 earnings released by the company and analysts' forecasts. |
| FR Equity | BNP | BNP Paribas was our second performer in February with a return of 23.77%. The French bank has nearly reached pre-pandemic levels, but it has even more potential to raise in the future given given its reduced provisions for bad loans and its higher trading revenues compared to peers. Furthermore, the bank set aside 50% of its profits to distribute them as dividends. |
| US Equity | EOG | EOG Resources Inc. reported Q4 2020 adjusted earnings per share of USD 0.71 beating Zacks' consensus estimate of USD 0.38. Total revenues for the reported quarter of USD 2,965 m also beating Zacks' consensus estimate of USD 2,901 m. The results better than expectations were due to a decrease in leases, offset in part by lower oil equivalent production volumes. This leads the company to a return of 26.69% in February, being our best performer. |
| PT Equity | SGPMY | Sonae SGPS has strong upside potential given its current share price and in the meantime we can enjoy the very tempting dividend yield of 6.2%. These are the two main reasons that lead us to add the Portuguese conglomerate to our portfolio. Furthermore, we could introduce an holding also from the Consumer Staples sector, enhancing our diversification strategy. |
| US Equity | VPN | VPN seeks to invest in companies that operate data centre REITs. The ETF combines the advantage of an income generating REIT with the outstanding upside potential of a tech company, establishing itself in the middle between a value and a growth asset. This is exactly what makes it unique and explains our strong interest to add it to the NIC Fund. |
| EM Bonds | EMB | The newly added iShares J.P. Morgan USD Emerging Markets Bond ETF (EMB) provides exposure to US Dollar denominated government bonds issued by over 30 emerging market countries. It is the largest and most liquid emerging market bond ETF available. We expect that strong global demand for EM debt, coupled with low net bond supply will benefit the upward movement of the fund in 2021. |
| US Treasury Bonds | IEI | The iShares 3-7 Year Treasury Bond ETF was strongly reduced from approximately 30% to a current weight of 14.61%. The decision was taken in order to opt for other higher yielding securities, capable to provide better returns in a current low interest rates environment. |
| US Treasury Bonds | TIP | With central banks injecting a considerable amount of money into the markets, inflation can rise very quickly in the close future. To protect our portfolio against this effect, we decided to rise our position in iShares TIPS Bond ETF to 10.96%. However, the position yielded a slightly negative return in February of -1.69%. |
| Commodity | AAUU | The Goldman Sachs Physical Gold ETF dropped -6.32% in February, being the fourth worst performer of the month in our portfolio. Gold is historically renowned to be a good hedge against a bullish market, given its low correlation with stocks. For this reason, the asset class is often suffering during prosper market times. Furthermore, the quantitative ease policy by central banks and positive vaccination prospects are not supporting demand for this asset. However, it is always useful to keep it in a well diversified and balanced portfolio, especially in times of high global volatility. |

Alessandro Astore
Financial Markets Division

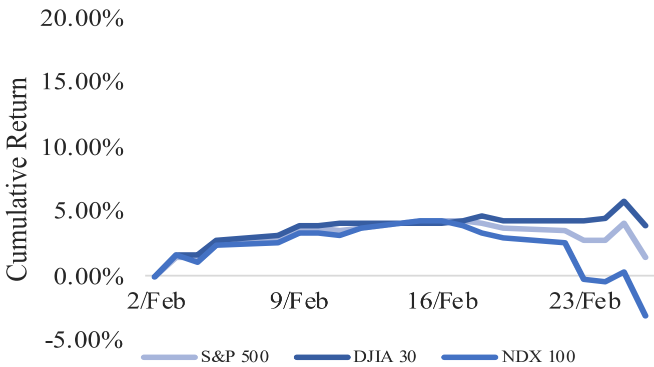
NIC Fund

# Equities



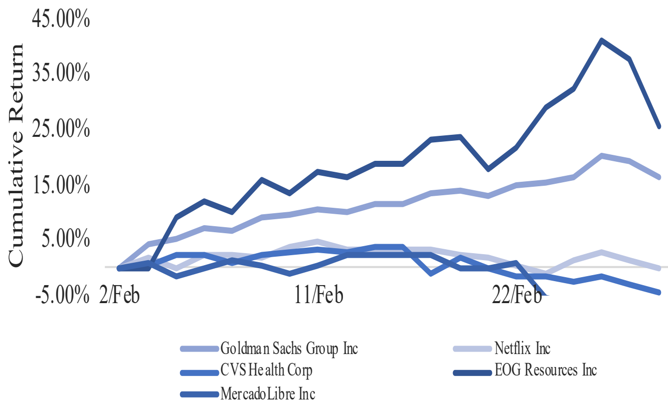

### World Equities

In the past month, the FTSE 100 rebounded from January lows, being traded at a one-month high of 6,770 in the middle of February, as the UK's fast distribution of Covid-19 vaccines raised hopes that the country could end the lockdown sooner than expected. However, in the end of the month, the index suffered a loss of 2.5%, as investors feared a surging inflation pressure could encourage central bankers to tighten monetary policy earlier than expected. In the US, the major stock indexes, namely, S&P 500, DJIA and, NDQ reached their all-time highs of 3,950.43, 32,009.64 and, 13,879.78, respectively, given the fact that investors remained optimistic about a global economic recovery from Covid-19, and additional fiscal stimulus. Despite these high levels, at the end of February US stock markets plunged, dragged down by technology equities as bond yields continued to rise to 1-year highs, due to investors remaining concerned about how fast the economic recovery will be. On the other hand, The Nikkei 225 surpassed the level higher than 30-year high of 30,684 due to a rapid improvement in domestic economic growth. Moreover, Japan's economic index for December was revised higher to 95.3 from a previous value of 94.9.




### In Depth: Uncertainty in the US Markets

As seen in February, US Equities are far from being as stable as they were expected to be, given hopes of a global economic recovery. After the three major US equity indexes reached their all-time highs in mid-February, the US stock market suffered a big plunge in the end of the past month driven by technology stocks that were under pressure following a surge in benchmark US treasury yields. Accordingly, investors will remain expectant about the recovery for some equities of that sector, such as Tesla which is among the worst performers amid valuation concerns due to the fact its stock is still priced at twenty-three times the company's trailing revenue. Additionally, investors' attention will also be on central banks in order to predict possible changes in the monetary policy since an expansive monetary over the last year fueled a stock market rally, leading to a reduced demand for bonds. Finally, the White House passed a USD 1.9 tn Covid-19 stimulus plan that will now head on to Senate. The outcome will certainly have a significant impact on the future of US markets.




### Our Performance

In February, the NIC Fund yielded a return of 1.99% from equities. Almost all equity sectors had a positive contribution, with the Energy sector being the best player with a cumulative return of 26.69%. The Health Care, Consumer Staples and Consumer Discretionary sectors showed slightly negative performances of -2.99%, -2.77% and, -0.44%, respectively.

The Financial Markets Division will continue to consider the different performances across sectors for future investment strategies, always with the aim of benefitting the most from current equity market conditions.

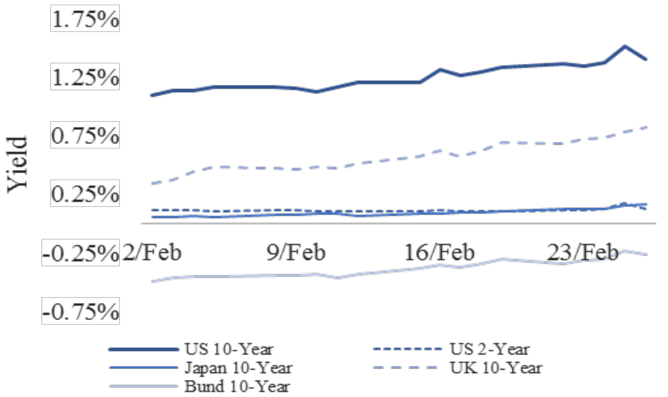
António de Castilho Lima
Financial Markets Division

NIC Fund

# Fixed Income

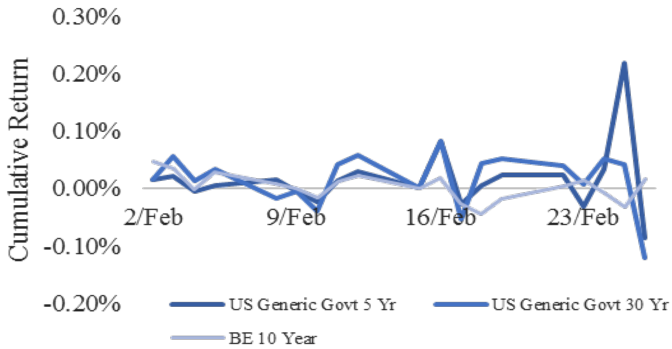
**World Yields**

The global bond market is suffering its worst start to a year since 2015. February has been determined by a major sell-off in government bonds across the board. This also affected equity markets tremendously this month as the development accelerated raising concerns about valuations. Bond yields increased significantly, particularly in the US and Australia, which is to be expected in an economic recovery since investors pull out of defensive assets and anticipate stronger nominal growth. This has been accelerated by recent positive news on loosening restrictions in large economies, vaccination progress combined with the ongoing boost provided by policy stimulus.



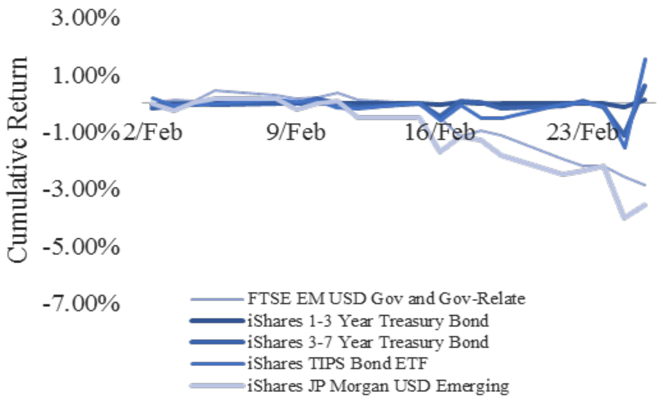

**In Depth: US Market**

In the first week of the month, treasury yields considerably steepened with the 30-year Treasury and the 5-year note difference hitting 147.3 bp, its widest gap since October 2015. This development can be attributed to the prospect of further economic stimulus pushed by President Biden, which would increase inflation further, as well as stronger global growth expected from increased vaccination efforts. This steepening trend continued throughout the month as Jerome Powell stressed the importance of a "patiently accommodative" monetary policy to support the pandemic-stricken US labor market. However, Powell also stressed that price rises would be transient and unlikely to affect monetary policy. In the last week of February, as the prospect of Biden's fiscal package getting through the Congress grew, the sell-off in the government bond market by investors deepened. The 10-year Treasury note yield hit a 12-month high with 1.61%. Investors and economists expect the Fed to respond to this recent turmoil in the bond market as soon as the upcoming mid-March Open Market Committee meeting takes place. Possible actions could include the following. The Fed could run Operation Twist again, which was carried out the last time during the European debt crisis nearly a decade ago. It would involve selling shorter-dated government notes and buying about the same UD Dollar amount in longer-duration bonds, which aims to flatten the yield curve. Another possibility could be an increase in the rate paid on reserves to address issues in the money markets, while the Fed also might adjust the rate on overnight repo operations in the bond market.




**Our Performance**

In February, the NIC fund was invested 46.68% in fixed income securities. Its contribution return was negative at -0.56%. There were several factors putting pressure on yields. As mentioned, the risk of inflation lowered yields of short-term US government bonds. Additionally, the respective rise in long-term US bond yields undermined the risk-on investor appetite for emerging market bonds which could be observed earlier in the year.




Fitore Zeciri
Financial Markets Division

NIC Fund

# Commodities

### February Round-Up

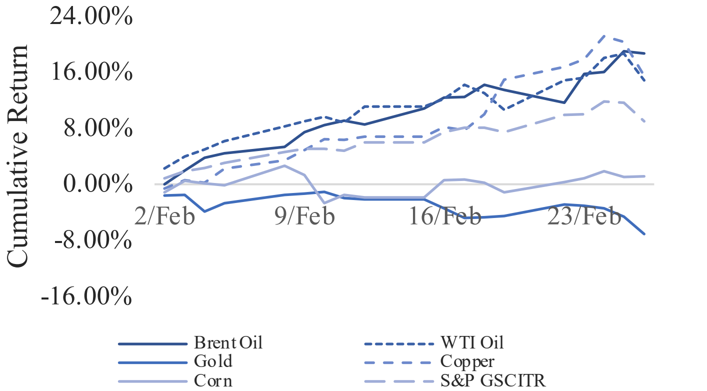
For the month of February, the S&P GSCI Total return index, which tracks 24 commodities, rose 10.58% overall, with copper and energy performing the best. Rising inflation expectations lifted nearly all commodities during the month, while gold, which is often used to protect against inflation, lagged. After a strong January, the S&P GSCI Crude Oil index gained further, increasing another 17.82% in February. The catalysts driving this were OPEC countries remaining compliant and an unprecedented storm in Texas eliminating more than four million barrels per day of production. The other energy commodities performed similarly, all surging during the month. Similarly, the S&P GSCI Copper rose 15.58%, nearly double the second-best industrial metal, aluminum. Copper inventories fell to levels unseen since 2005 due to the increase in manufacturing activity worldwide, supported by strong PMI readings. On the other hand, the S&P GSCI Gold fell 6.57%, as safe haven assets sold off due to investors favoring more bullish asset classes and US Treasury yields jumping. This was the largest monthly drop in gold since late 2016. The S&P GSCI Agriculture ended 1.88% higher as a result of China's constant purchasing of soybean and corn causing a rally. Sugar also rose 3.92% as sugar surplus estimates were cut. Finally, livestock was headlined by lean hogs, which rallied 13.70% because of higher wholesale prices, extreme weather events, and increasing exports to other markets outside of China.

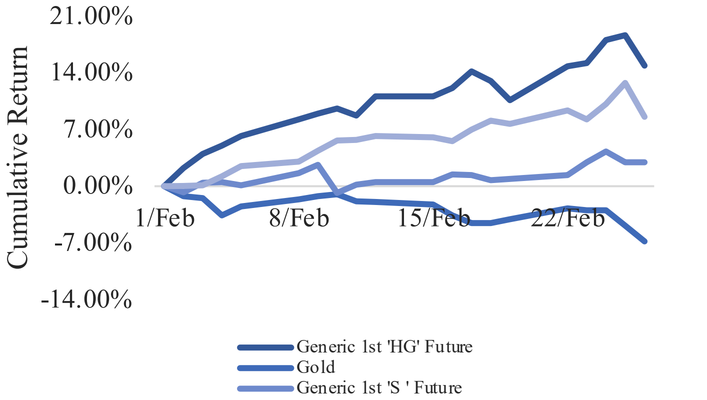
### Outlook for March

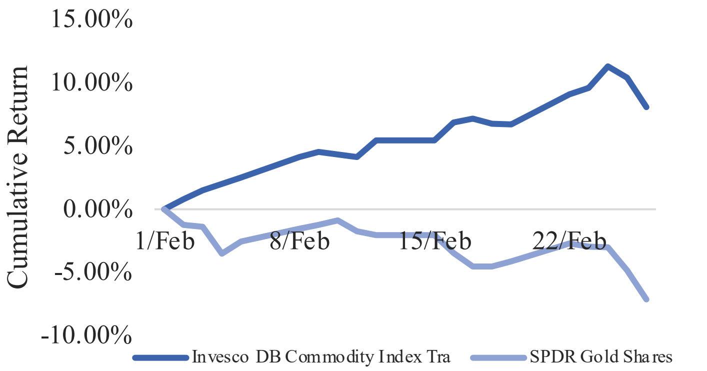
Crude oil prices rose for the fifth consecutive month in February as markets reacted to the anticipated economic recovery, voluntary supply cuts from Saudi Arabia, and the ongoing winter storm in Texas. With the energy market remaining relatively resilient in the past few months, its future depends on rising US rig counts, trends in US inventories, the upcoming OPEC meeting, and the overall performance of the economy. During the first week of March, OPEC leaders will meet to discuss their next moves as Saudi Arabia has stated that it will start increasing its production again. As for base metals, prices are expected to return to normal during 2021, with the demand-side being supported by increased government spending, especially in infrastructure projects. This is particularly true in the United States, where President Biden is prioritizing increased spending on infrastructure. Overall, the sector as a whole is seeing demand recover, benefitting from reflation trades, trades that involve asset classes that perform well during periods of economic growth.

### Our Performance

During the month of February, the Powershares DB Commodity Index returned 10.14% and the SPDR Gold Shares Index returned -6.32% for an overall return of 0.02%.



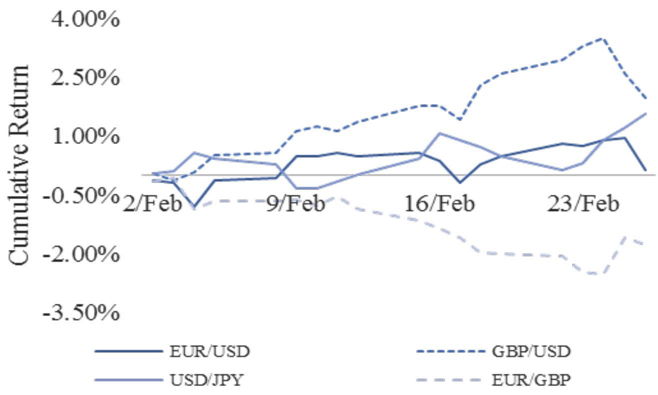



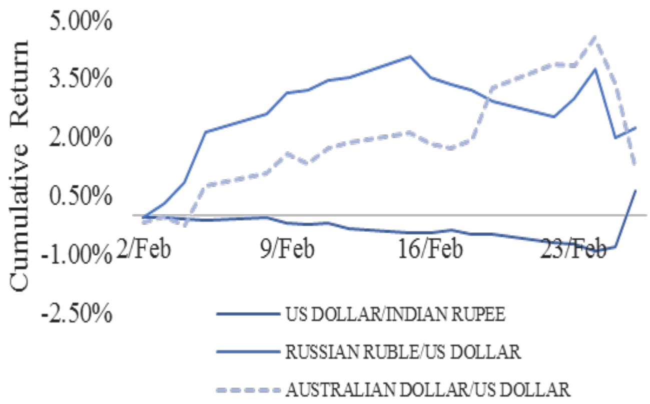

Emily Rushforth
Financial Markets Division

NIC Fund
# Currencies

**World Currencies**
In February, the EUR/USD kept close to the 1.21 level. It almost reached a one-month low after the release of mixed economic data and the statements of several European Central Bank policymakers. The PMI results for February were positive, showing a smaller than expected contraction in Europe's private sector activity. However, unemployment numbers in Germany and Spain surged last month, and German retail sales decreased for a second consecutive month in January. Given this mixed economic data, investors were cautious, and Europe's single currency remained fairly stable throughout the month. Moving on to the UK, the British Pound surged significantly against the US Dollar last month, reaching a three-year high of GBP 1.42 in late-February. This rally has made the British Pound the best-performing G10 currency of the year, as hopes of economic recovery in the country strengthen given the UK's rapid pace of vaccinations and the settlement of a Brexit trade deal with the EU. Regarding the Japanese Yen, it is reaching 7-month lows against the US Dollar after weak economic data was published for the country. The Japanese services sector stumbled for the 13th month in a row in February, after the sector was hit hard by the lockdown restrictions put in place to slow the spread of the pandemic.




**Outlook for the next month**
Starting off in India, the Indian Rupee is expected to recover its losses from the Covid-19 pandemic, with global macro models expecting it to trade higher than USD/INR 73.00 by the end of the quarter. The Indian economy has showed signs of growth in recent months, after suffering its biggest recession since 1996, when the country started publishing its GDP numbers. The Reserve Bank of India has made clear it would continue supporting the economy, with the country's retail inflation levels remaining within the target range for the second straight month in January. Similarly, another currency which has experienced a great run in recent months is the Russian Ruble. The currency has been hovering around the RUB/USD 74.00 level, after reaching a 2021 low of 76.50 on the 29th of January. The strengthening of oil markets and prospects that the country would be safe from further Western sanctions have supported the currency in recent times. Also, investors have been more risk loving after hopes of a vaccine-led economic recovery and the possibility of a new fiscal stimulus package gain strength. Russia's Central Bank also kept rates at a record low and hinted it would not pursue further rate cuts during its meeting last month. Another country which has been dealing with the pandemic quite well is Australia. The Australian Dollar is trading close to 3-year highs, around 0.78 against the US Dollar. The efficient way in which the country handled the pandemic proved to be extremely beneficial to its economy, with official data showing a 3.10% advance in economy QoQ in the last quarter of 2020. This represents the second straight quarter of growth, stemming from a massive monetary and fiscal aid. The Aussie is expected to keep up its good momentum for the remainder of the quarter.




**Our Performance**
We currently hold no currency related assets in our portfolio.

Rúben Pratapsinh
Financial Markets Division

# Extras

Hot Topic

## The Ethics of Short Selling

Sebastian Hartmann
Financial Markets Division

*"I go after bad people, bad companies, frauds, criminals, things like that. People have ended up in prison because of real, diligent work by members of the short community who do their work. And those people right now are out of business or very close to being out of business."*

– Marc Cohodes, CEO
Alder Lane Farm

Last month, we talked about the nature of the unfolding events surrounding the GameStop short squeeze. Swaths of retail investors pouring their savings and stimulus checks into heavily shorted stocks in hopes of benefitting handsomely from the squeeze. It was not long before the movement became politicized, as people used the momentum to paint a picture of evil corporate hedge funds benefitting off struggling companies. In this case, Melvin Capital bore the brunt of the aggression, having a significant short position in numerous companies, including GameStop, which was already shorted to a dangerous level. As the dust momentarily settled around the trading frenzy ending January, short selling's question of morality has re-entered the stage of public discourse.

Short selling has been controversial since the very beginnings of modern stock trading in the 1600s. Even before the first building of the Amsterdam Stock Exchange opened in 1611, the Dutch East India Company successfully requested the practice be banned in 1610. Several years later, the Dutch government decided to tax short selling instead, and reallowed the practice. The discussion has been held ever since, with continuously changing levels of restrictions as a result. Humans inherently enjoy success stories of an underdog who is able to achieve success in honest ways and against all odds. Betting against the success of a company goes against this very instinct of human nature, which is partly why it receives so much scrutiny.

Not only is short selling a question of morality, it also has implications on honest and hard working people who have no connection to the dealings on the stock markets. Each trade, no matter if long or short, inherently gives out a signal to the market. If investors are confident about a stock and are buying large quantities, it is presumed that the company must be doing well. Likewise, a large short interest in a stock is a signal that there is something wrong with the company, which can damage the company's reputation and aggravate the situation. This self fulfilling prophecy can spiral out of control, eliminating scores of jobs, pensions, and people's livelihoods.

Companies dedicated to making a profit off short selling can take it a step further, becoming activist short sellers. These funds tend to short a stock, and then force the stock down by releasing reports on impending lawsuits, malpractices, and mismanagement. While uncovering fraud can be highlighted as a positive effect of activist short sellers, some extreme short sellers have given this practice a bad name through seeking public appearances in the press and spreading false rumours of mismanagement, damaging the reputation of the company in question and thus their ability to successfully do business.

Short sellers defend their practices, saying that this same issue could be said about long-only investors who buy certain stocks and spread false or misleading positive information on the company, pumping the price up before dumping their position, leaving many investors holding the bag as the stock corrects its price level.

Short selling makes an important contribution to the market. It provides liquidity and helps correct the market in driving down overpriced securities. Short sellers issue very detailed research and often are the first in detecting fraud in a company. The uncovering of the Wirecard scandal is a testament to this ability. However, the debate on the ethics, scale, and methods of short selling will undoubtedly continue into the future.

Sebastian Hartmann
Financial Markets Division

# Extras

Hot Topic

## Alibaba – Something Less Than Desirable

Madalena Azevedo
Investment Banking Division

*"The market's focus on possible regulatory risk may be obscuring Alibaba's strong performance"*

– Brock Silvers, chief investment officer at Kaiyuan Capital

On the 24th of February, the company who is the most valuable enterprise in China suffered "an attack" of hedge funds titans. Market giants, Point72 Asset Management and Moore Capital Management drop USD 101 m in positions from Alibaba. These actions translated into a Market Capitalization loss amounting to USD 89 m, being the most dumped stock in the US market.

Jack Ma's enterprise has seen its shares decreasing 18% since November as a consequence of the regulators in Beijing blocking, unexpectedly, the USD 35 m IPO offering of Alibaba's affiliate Ant Group. The State Administration of Market Regulation announced the opening of an investigation into Alibaba for monopolistic acts, highlighting practices related to preventing its suppliers from selling on other platforms.

The CCP (Chinese Communist Party), which holds an unseen amount of power compared to any western institution, unappreciated Jack Ma's speech of power and criticism to the government. The Chinese company has, since then, been under attack by the Chinese antitrust watchdogs. This scrutiny is impeding the advancement of its strategic operations to continue freely. To recall, the company has been highly investing in a wide range of sectors with a big focus on innovation and further developments of e-commerce.

The degree of control of CCP and its unpredictable behaviour is the main source of the recent discount the market is applying on Alibaba's share price. As an illustration, currently, Alibaba is trading at a low PE ratio of just 24x, translating into a significantly lower multiple once compared with the S&P500, even though the Chinese power is as dominant as any other American tech giant acting on e-commerce, amongst other areas. In addition to this fact, Alibaba also released positive revenues growth of 30% in the most recent quarter and a generation of USD 1 tn annually in gross merchandise volume. Based on this valuation, the sell-off might translate into a buying opportunity, even if attached to considerable risks.

Amid confirmation of antitrust rules, Alibaba can see its revenues decreasing almost 10%, speculatively, justifying the divestment of big hedge funds. Point72 dumped all its USD 413 m in holdings last quarter and Moore Capital decreased the position by 99%. To worsen the situation further, in December, former US President Donald Trump signed legislation to kick Chinese companies off from the US stock exchange. This would reduce substantially the value of Chinese enterprises as they would not be any more in the most liquid market of the world.

Notwithstanding, only 3 out of 61 analysts rating recommendations are evaluated as a sell. The market sees Alibaba's stock as a risk-reward calculation that creates uncertainties for investors looking to hold the long position. One of the major concerns is that the allegations against monopolistic features potentiate the opportunity for Alibaba to get blocked from expanding their business through acquisition of smaller players.

As stated by Rajiv Jain, Chairman and CIO of GQG Partners, "The regulatory risk is usually underappreciated until it's too late. In other words, you cannot handicap that." It rests to wait if the market will outweigh valuation over fear and speculation.

Madalena Azevedo
Investment Banking Division

# Extras

ESG Review

## Fixed Income and Active Ownership: The Amazon Rainforest

Pedro Santos Vitor
Investment Banking Division

*"We are very concerned about Brazil's climate policy. We are worried about the financial impact that deforestation may have on portfolio companies by increasing reputational, operational and regulatory risks."*

– Thede Rüst, Head of Emerging Market Debt at Nordea Asset Management

Sustainable investing has emerged from a niche of investing to a standard in the global investment scope. Institutional investors are increasingly concerned about how their investees are performing regarding ESG. One way which has been proven to lead to superior financial performance is taking an active ownership role with the investees, by entering into dialogue with them and ensuring their commitment to financially material ESG factors. This approach is well known with respect to companies but not much is said about how the holders of sovereign debt engage with governments in their compliance with ESG standards. A great example of how fixed income portfolio managers engage with a government is the Amazon rainforest case, involving Nordea Asset Management among a group of investors in its engagement with Brazil to curb deforestation.

Tropical rainforests such as the Amazon are key in the fight against climate change, as they cool the planet acting as a sponge, by absorbing two billion tons of carbon dioxide a year from the atmosphere, which accounts for 5% of annual global emissions. Unfortunately, the rainforest has seen massive deforestation to make way for farming and to open space for roads and mining. In November 2020, data was released by Brazil's space agency which revealed that deforestation had reached a 12-year record with a 9.5% yearly increase.

Investors, and Nordea Asset Management on their behalf, are increasingly concerned over this matter, as it is financially material to their investment portfolios and pose significant risks in terms of reputation, operations and regulation which can directly impact the sovereign bonds. This problem can affect investments in general as climate change will ultimately reduce the planet's productivity and severely impact the growth of economies. Fixed income managers are worried as countries especially those at the root of the problem, will have to pay coupons and repay the principal in long-term bonds. In Brazil, this could cause a devaluation of assets in general and a reluctance of investors to invest in the country due to the reputational risk it harnesses.

Fixed income managers have a role to play in curbing deforestation by using their active ownership to apply pressure and hold governments responsible. In July 2020, Nordea Asset Management was a founding member of the Investors Policy Dialogue on Deforestation (IPDD), which role comprises engaging with public entities and industry associations on this specific issue. It set out a list of demands to the Brazilian government and sent a letter to the latter with a request to curb deforestation, being invited by the president of Brazil's Central Bank, the vice-president of Brazil and other ministers to dialog. The Brazilian government has since responded via the president of the Chamber of Deputies, Rodrigo Maia, and reassured bondholders that the Chamber would not pass any environmental legislation that damages the state's image and recognised the need to reconstruct the trust with investors. Nordea Asset Management, which considers engagement with investees to be a key pillar of its investment approach, is still not convinced that the Brazilian government has done all it can regarding this matter, but it is a work in progress.

The active ownership approach used in this case could be applied by fixed income managers to other governments which are not complying with certain areas that contribute to climate change or with governments which violate human rights. The question is whether we will see this trend consolidate in the future.

Pedro Santos Vitor
Investment Banking Division

# Thank you!

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

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