NIC

— Nova Investment Club —

Newsletter

April 2021

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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, Madalena Azevedo, our Vice President, elaborates on Chinese inflationary pressures and impact on word prices. Moreover, in our Regional View, Vincent Sardinha Marques, our President, examines the downfall of France through the Covid-19 crisis.

Our Investment Banking Division will guide you through March's M&A overall activity. Read about AerCap Holdings to acquire GE Capital Aviation Services, Okta to acquire Aut0, and Canadian Pacific Railway to acquire Kansas City Southern. Additionally, get a detailed overview on what happened to Lufthansa and Deere & Co, as well as consider our opinion on regulatory reforms following the Wirecard scandal.

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 March was positive, with a cumulative return of 0.33%. A return that can be mainly attributed to Equities.

On the Hot Topics of this month, Francisco Guimarães examines the private company Stripe, while Antonio de Castilho Lima elaborates on Cryptocurrency. Lastly, on our ESG review in collaboration with Nordea, Francisco Guimarães writes about ESG in Emerging Markets equity.

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Macro Overview

Monthly

April 7th, 2021

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Market Moves

Market Moves

% change

	Last Close	-1W	-3M	YTD
S&P 500	3 973	2,15%	5,77%	5,77%
DJIA	32 982	1,73%	7,76%	7,76%
Nasdaq	13 247	2,20%	2,78%	2,78%
MSCI World	3 534	1,03%	5,68%	5,68%
MSCI EM	4 600	1,58%	0,75%	0,75%
Russell 2000	2 221	4,04%	12,44%	12,44%
Euro Stoxx 50	3 919	2,26%	10,32%	10,32%
FTSE 100	6 714	0,01%	3,92%	3,92%
Nikkei 225	29 179	2,72%	6,32%	6,32%
Hang Seng	28 378	1,65%	4,21%	4,21%
Dollar Index	93,23	0,76%	3,66%	3,66%
EUR/USD	1,173	-0,70%	-3,98%	-3,98%
GBP/EUR	1,175	1,42%	5,05%	5,05%
GBP/USD	1,378	0,71%	0,83%	0,83%
USD/JPY	110,720	1,83%	7,23%	7,23%
USD/CHF	0,94	0,86%	6,60%	6,60%
Brent Crude	63,540	-1,35%	22,66%	22,66%
Gold	1 713,8	-1,12%	-9,57%	-9,57%

Generic Bond Yields

change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	1,740%	13,2	82,7	82,7
GER 10Y Yield	-0,292%	6,1	27,7	27,7
JPY 10Y Yield	0,095%	2,2	7,4	7,4
UK 10Y Yield	0,845%	8,7	64,8	64,8
PT 10Y Yield	0,227%	6,6	19,7	19,7

**Source: Bloomberg, as of 2021-03-31*

In Focus

March

US Infrastructure spending plan. Biden will reveal a USD 2.2 tn long-term plan, together with the framework for his major infrastructure-and-jobs program. The US president will provide a first glimpse of the 2022 budget, with the spending plan split in two parts. The first part focuses on roads and highways, which both Democrats and Republicans agree on. The second part will address climate change, healthcare and childcare and will be presented in April. This new spending plan, focused on infrastructure, is expected to boost productivity in the country, while providing a great source of employment.

Archegos Capital Management implosion. The fallout of the family office placed significant pressure on investment banks across the globe. The asset manager's high use of leverage, combined with the recent plunge of media stocks, forced Archegos to liquidate more than USD 20 bn in shares after margin calls. Bloomberg estimates point to a USD 30 bn loss in the market capitalization of related companies.

Myanmar Coup. Mass protests have been taking place in the Southeast Asian country since the 1st of February, when the military seized control of the country. The coup is headed by Min Aung Hlaing, who declared a year-long state of emergency. Restrictions such as curfews and limits to gatherings have been put in place across the country. On the 27th of March more than 100 people were killed, the deadliest day since the coup.

New stimulus package. A new USD 1.9 tn Covid-19 relief package was approved by the House of Representatives. It includes a new round of direct payments of USD 1,400 to millions of Americans, plus an extension of federal top-ups to unemployment insurance. The bill comes at a very volatile time, with financial markets pricing in an economic rebound and higher inflation.

Ever Given ship stuck in the Suez Canal. On the 23rd of March, the Ever Given ship became stranded in the Suez Canal, after running aground while entering from the Red Sea. This brought the canal, one of the world's main shipping chokepoints, to a full stop and set off fears of disruption to world trade. The incident showcases how vulnerable the global economy is to extreme events, such as rising seas or strong winds.

Rising yields and inflation expectations. Investors seem to be wary of the prospect of rising inflation, with the reflation trade narrative gaining strength. Rising US 10-Year yields add to the overall hawkish environment felt in some emerging-market countries, with long-term government bond yields also rising in most countries. This increase in long-term yields has led to a decrease in valuations, with high-growth stocks suffering the most.

Unemployment rate. The US unemployment rate in March continued its recent downward trend, with hospitality and construction jobs surging. Despite the recent improvements since April's highs, unemployment is still higher than pre-pandemic levels. Nevertheless, expectations are high for the future, with the unemployment rate in December 2021 projected to be approximately one full basis percentage point lower than in December 2020, reflecting hopes of a quick economic recovery.

Economic risks in the Chinese economy. Policymakers in China are having a hard time with economic data in the country lagging behind. Household consumption data is still fragile, and both the real estate and infrastructure sectors show signs of saturation. Chinese policymakers have warned to the risk of a bubble within the country's real estate sector, posing a major risk to its economy.

Ruben Pratapsinh
Financial Markets Division

Deeper Dive

Chinese Inflationary Pressure on World Prices

Madalena Azevedo
Investment Banking Division

"There's definitely a risk [that inflation will increase]. It's not just the position of exporters. It's everything, from the bottlenecks caused in global shipping to the idea that the stimulus might unleash more demand than supply can keep up with."

– Nick Marro, Lead Analyst for global trade at the Economist Intelligence Unit

If back in the days, China was the disinflation driver of world economies, now the country has been acting on the opposite front. Following supply-chain constraints and commodity's fast pace rising prices, Chinese manufactures are being forced to raise costs, consequently creating an inflation fear on the world markets.

The tightening of global supply chains, and the spread of the Covid-19 pandemic, which helped to lead to a larger than expected demand for Chinese products, such as computer chips, and other goods, helped Chinese exporters boost prices. The global fear for an increase in inflation abroad was even largely extended, recently, with the container ship block on the Suez Canal.

These price increases come at a time of rising commodity prices, with mining climbing 6.6% in February YoY and raw materials gaining 2.9% following several months of declining prices. Besides, steel and cotton have already been too high compared to prehistorical levels. Together, prices for chemicals and metals, which are used in the manufacturing production of cushions, foams and frames in China and Indonesia have rapidly jumped in recent months. Shipping freight charges behaved similarly, climbing almost 90% since the last June.

Chinese producers, which were once characterised by cheap labour cost that helped to keep global prices low, are now facing the true barrier of factories' costs climbing. If such is confirmed, Chinese enterprises might be facing the risk of losing market share due to their decrease in the competitive advantage.

For the world markets, price increases in China alone cannot necessarily push inflation through the baseline, especially in the US. The American territory basket of prices is affected at 60% from services rather than consumer goods, and so the Chinese inflationary effect would not entirely reflect on the US. Also, much of the bum might be absorbed if Western retailers decide to ignore the cost increases themselves and block it from getting to final consumers. The problem with this would directly be the decrease in the retailer's profit margins.

Statistically, the Chinese producer index rose 1.7% YoY, which contradicted with the expectation of analysts on a rise on the index of about 1.5%. Parallelly, bond markets have been highly impacted by the previously mentioned facts and are now accounting for faster global growth and the massive fiscal stimulus that some of the biggest economies have been announcing.

According to the Wall Street Journal article, some Chinese companies have registered increases in prices of suppliers, from 10% to 30% in raw materials, that are used to produce boots and their packaging. Consequently, one specific company reacted by elevating the final consumer product by around 5%. In addition to the involuntary price increases, Chinese authorities have also started to limit fossil-fuel consumption to target CO2 reductions, which will make it even harder for producers to increase the production capacity and consequently decrease the supply of these types of products.

Rising concerns are getting shaped amongst economists regarding the fiscal stimulus that has been adopted worldwide, which can further provoke soaring prices in global supply chains. China exported, in 2019, USD 2.57 tn worth of goods around the globe, clearly showing the importance of their micro and macro-economic environment in the translation to other nations worldwide. In the future, one thing is to expect, concerns are building up, and debates around the theme will continue to roll on how bad the problem might become.

Madalena Azevedo
Investment Banking Division

Regional View

France: The Downfall of a 20th century Political Dream

Vincent Sardinha Marques
Financial Markets Division

"Everything will be done to protect our workers and our companies. Whatever the cost."

- Emmanuel Macron

"Whatever the cost". These three words pronounced by French president Emmanuel Macron at the start of France's fight against Covid-19 set the tone. However, one year later, on the 31st of March, a new country-wide lockdown was announced to counter a third wave of infections. These new measures extending the shutdown to schools and more than 150,000 essential businesses are casting doubts about the government's strategy and ability to effectively tackle the crisis. The French president however still appeared confident and reaffirmed that the government "had not lost control". This might be true, but this relative control and "whatever the cost" mentality has placed a sword of Damocles above the French population's head. A burden growing at an incredible rate of EUR 11 bn a day.

In the past year, the French government has been highly criticised and numerous are the ones who see this chain of mishaps, errors, and ultimate inability to deal with the problem at hand as signs of a country in decline. As an example, the vaccine race was seen as a humiliation, with France being the sole member of the UN Security Council without its proprietary vaccine. How could the country of pioneer Louis Pasteur, with a world-renowned research center bearing his name, and a leading pharma group in Sanofi be unable to produce a vaccine? When, in the meantime, you realise that US-based biotech company Moderna is lead by a French CEO, questions arise about the country's ability to fund research and retain talent.

A second example which encapsulates well French problems is the slow vaccine rollout. To this day, only 2.8m people have been fully vaccinated in France, which is about half of what has been done in the United Kingdom or Germany. Could it be because of the strong anti-vax sentiment, logistics and delivery problems, or even the suspension of the AstraZeneca shot? This question was asked to French epidemiologist and biostatistician Catherine Hill who simply answered: "This is typical French bureaucracy". And she might just be right.

"Inefficient" is probably the best word to describe France. It seems like there is a fundamental inadequacy between the politics France is rolling out, and the world it is living in. Not because it does not understand the changes or is not willing to embrace them, but because adapting would mean giving up on what has been built. In an intriguing way, it would be like driving towards a wall but still enjoying the ride so much that you do not mind closing your eyes on what is in front of you.

For decades now, politicians have been able to convince French people they could have it all. A thriving competitive economy, a generous social and medical environment, access to higher education for everyone, all while maintaining a powerful and prominent place in world politics. Following these ideals, which might have held true in the 20th century, France saw a major shift operate and the rug pulled right from under their feet, as they lost control of Europe to Germany, and are unable to compete on a globalised marketplace following Asia's rise. This way of thinking revealing itself to be extremely costly, both economically (116% Debt to GDP ratio vs 89.3% EU average) as well as socially (8.9% unemployment vs 7.4% EU average).

For many in France, this Covid-19 crisis is perceived as a mean to expose the reality of the country's situation. A country built on its rich history, but which has been mishandled for the past 50 years. A country which follows past principles and has difficulties adapting to this modern world, embracing Europe, globalisation, and outside competition. A country which relies on an outdated model but in which people still have faith. I believe that it is in this duality that France is losing itself. A strong need for change which is held back by a profound desire to remain the same. As new elections are looming in 2022, France will have a choice to make. However, the lack of credible opposition to president Macron is flagrant and after 5 tumultuous years, he has a high chance of being re-elected. And that might just be the most French thing to do.

Vincent Sardinha Marques
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

IMF & World Bank Spring Meeting

The week-long virtual meeting will be held from the **5th** to the **11th** of April. The events and discussions will focus on issues of debt aggravated by the Covid-19 pandemic, economic recovery, international vaccine rollouts as well as issues on climate.

Peru General Elections

Peru will be holding general elections on the **11th** of April. The candidates aim to address the rising corruption and political dysfunction in the past years which doused impressive economic growth. The Latin-American country has also been one of the most severely affected by the Covid-19 pandemic.

China Reports First-Quarter GDP

China will report its Q1 GDP results on the **15th** of April. As a fallout of the Covid-19 pandemic, last year's Q1 GDP contracted by 6.8%. This lower baseline will effect GDP results for 2021, with some analysts forecasting the Q1 GDP growth rate to be in the double-digits.

Central Bank Decisions

ECB Monetary Policy Statement

The Governing Council of the ECB will hold its monetary policy meeting on the **8th** of April. While inflation has been rising sharply, rates will likely remain unchanged until long term inflation is sufficiently close to 2%, even as yields begin to recover.

Bank of Japan Monetary Policy Meeting

The Policy Board's Monetary Policy Meeting will be held on the **26th** and the **27th** of April. Official interest rates and monetary policy will likely remain unchanged, as the goal of reaching price stability through a YoY increase in the CPI by 2% has not been achieved.

Fed Monetary Policy Meeting

The FOMC will meet on the **27th** and the **28th** of April to decide on target interest rates. While the Fed previously signalled there will be no dramatic changes to rates until 2024, the sharp recovery of 10-year yields to pre-pandemic levels shows that some investors are questioning the current status-quo.

Inflation and Deflation

Update on Euro Zone Inflation

The **16th** of April will see an update of the Harmonized Index of Consumer Products. Even though the HICP rose sharply to 1.3% in February, Christine Lagarde stated that this is mainly driven by temporary factors. The forecast for March lies at 0.9%.

US Core CPI Data

The U.S. Bureau of Labour Statistics has scheduled the release of CPI data for March 2021 on the **13th** of April. Rising yields signal that investors are weary the rapid increase in inflation over that past couple of months. Forecasted inflation for March is forecasted to rise 0.2%.

UK Consumer Price Inflation for March

The UK Office for National Statistics is releasing several measures on inflation data on the **21st** of April. This includes measures such as the CPI, CPIH, and RPI. The forecasted yearly inflation rate is set to increase from 0.4% in February to 0.8% in March.

Labour Market

US Employment Readings

The Bureau of Labour Statistics released its monthly employment readings on the **1st** of April. There are strong signs of recovery, with unemployment rate decreasing from 6.2% to 6.0%, and the Nonfarm Payrolls for March almost doubling in magnitude to over 900 thousand.

Spanish Unemployment Rate

The Spanish National Institute of Statistics will release the country's unemployment rate on the **6th** of April. Unemployment increased sharply over the course of the last year, peaking at 16.26% in Q3 2020. The government hopes to reverse these developments over the coming months.

Australian Unemployment Data

The Australian Bureau of Statistics will release its unemployment statistics for March on April **14th**. The country has been able to control the spread of the Covid-19 pandemic since October last year. As a consequence of the local economy reopening, unemployment levels have fallen from 7.5% in July to 5.8% in February.

Sebastian Hartmann
Financial Markets Division

Investment Banking

M&A
Overall Activity

Global

Global M&A in March continues its stable growth since the fall at the beginning of the year, with the worldwide deal volume standing at the monthly all-time value of USD 589.5 bn (according to Bloomberg). While the deal count followed the same trend, also being the biggest value ever recorded, with 5,955 deals occurring in the month of March, the average premium per deal followed the opposite trend plummeting from 19.32% in February to 4.14%. Telecommunications and Real Estate were the industries with the highest deal flow, followed by Oil & Gas. From these transactions, it is worth mentioning the biggest acquisition of the month in terms of deal value which was the acquisition of the Aerospace company GE Capital Aviation by Aercap for USD 29 bn, the Canadian Pacific Railway acquiring the insurance company Kansas City Southern, and the USD 6.5 bn acquisition of the identity platform Auth0 by Okta. In this month, the SPAC market exceeded February's record registering 108 SPACs, raising a total amount of USD 32.8 bn.

Selected Regions

North America
The region has been showing an increase, recovering fully from the notorious plummet at the beginning of the year. In March, the North American region was the global leader in M&A activity with 152 deals, amounting to a deal value volume of USD 320 bn. The Canadian market was active this month, driven by the acquisition of Shaw Communications by Rogers Communications for a total of USD 20 bn.

EMEA
In March, the activity increased YoY at 267.9%, reflecting its recovery since March of 2020 when the pandemic hit the markets. Europe is experiencing the same recovery trend as the North American market after the decrease in the first year of 2021. The largest transaction in the region, this month, was the USD 20 bn acquisition for the electric company Western Power Distribution by National Grid.

Asia
The M&A activity in the region has been kept steady compared with the previous month, with a deal volume of USD 100 bn across 2,198 transactions. Although this value represents a plummet on YoY of 10%, this amount was mostly driven by the transaction of E-Commerce company JD.com that sold Cloud & AI Business/China to the Chinese company Jingdong Digits Technology for USD 2.4 bn.

M&A
Deals of the Month

Announnced Date	Target	Buyer	Target Region	Target Business	Value (USD m)	Premium (%)
8 Mar 21	GE Capital Aviation Services	AerCap Holdings	US	Aerospace/Defense	29,164.62	-
21 Mar 21	Kansas City Southern	Canadian Pacific Railway	US	Ttransportation	28,396.04	26,41%
18 Mar 21	Hartford Financial Services Group	Chubb	US	Insurance	23,238.43	22.31%
18 Mar 21	Western Power Distribution	National Grid	UK	Electric	20,088.00	-
15 Mar 21	Shaw Communications	Rogers Communications	Canada	Media	20,019.09	78,02%
5 Mar 21	LeasePlan	Potential Buyer	NL	Financial Services	10,000.00	-
23 Mar 21	Discord	Microsoft Corp	US	Software	10,000.00	-
31 Mar 21	GlobalLogic	Hitachi	US	Commercial Services	9,600.00	-
8 Mar 21	Athene Holding	Apollo Global Management	US	Insurance	7,215.38	25.87%
25 Mar 21	Coherent Inc.	II-VI Incorporated	US	Electronics	7,033.89	51.27%

Gonçalo Pina Santos
Investment Banking Division

M&A: Top Deals

AerCap Holdings to Acquire GE Capital Aviation Services

General Electric announced, on the 10th of March, to have reached a deal to sell its aircraft-leasing arm of its subsidiary, GE Capital Aviation Services (GECAS), to AerCap Holdings for a consideration of approximately USD 31 bn. Out of this, USD 24 bn will be paid in cash to GE, USD 6 bn in equity consideration, giving GE a 46% stake in AerCap and the rest in notes or cash.

Buyer vs Seller

AerCap Holdings is headquartered in Dublin and is one of the global leaders in the aircraft leasing industry. It provides aircraft leasing, financing and asset management services. General Electric is a US diversified conglomerate operating in the technology and financial services industries with its financial services subsidiary, GE Capital, which comprises an insurance arm and the aircraft leasing business, GECAS. The latter provides fleet financing and other services to the commercial aviation industry.

Industry Overview

AerCap Holdings started to analyse a deal for GECAS when the Covid-19 pandemic started and hopes the aviation industry will rebound fast in the coming times. Before the pandemic, AerCap was already in a strong financial position and a merger between the AerCap and GECAS would create a fleet of 2000 jets. This will represent 7% of total commercial jets worldwide. The industry is expected to further consolidate in the future.

Peers	Currency	Market Cap (CUR m)
Honeywell International Inc	USD	150,784.65
Woodward Inc	USD	7,763.24
Hitachi Ltd	JPY	4,788,128.47
Thales SA	EUR	18,622.58
Rolls-Royce Holdings PLC	GBp	9,113.99

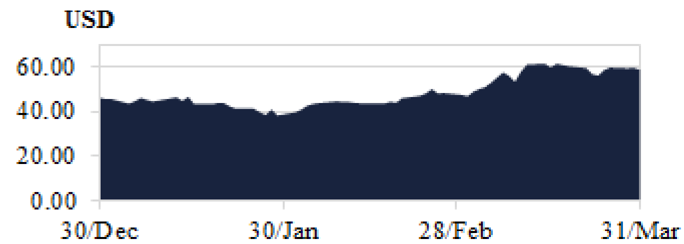
Deal Rationale

GE's strategy is to unwind its indebted arm of financial services, GE Capital, in which GECAS represented a large portion. The deal allows GE to focus on its industrial core of Power, Renewable Energy, Aviation and Healthcare and to deleverage its position by USD 30 bn using the proceeds from the sale and existing cash in its reserves. Additionally, GE lowers its financial risk and maintains its status as a well-capitalized firm. AerCap Holdings continues its path towards consolidation in the aircraft leasing industry and hopes to further gain market share in a less-competing market.

Market Reaction

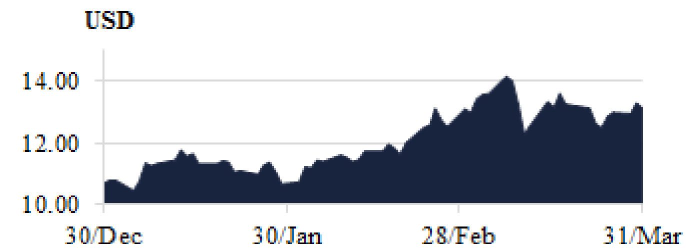
AerCap Holdings N.V.

On the announcement day, 10th of March, AerCap Holdings decreased by around 5% but has recovered to USD 59.50 from USD 53.39 since the announcement.



General Electric Company

The company's share performance on the announcement day decreased by 6% but has since picked up the pace to around USD 13.



Future Challenges

The deal is pending approval from AerCap shareholders and regulatory authorities and it is expected to complete in 9-12 months. This combined business is expected to create significant cost synergies, through a strengthened bargaining power with equipment suppliers and access to cheaper financing. Still, regulatory authorities view this deal as potentially hurting competition.

Pedro Santos Vitor
Investment Banking Division

M&A: Top Deals

Okta to Acquire Auth0

Okta has entered into an agreement to acquire Auth0 in an all-stock deal that values Auth0 to approximately USD 6.5 bn. In July 2020, Auth0 raised USD 120 m in private financing, valuing the company at USD 1.9 bn by that time. The acquisition is a 3.5 times jump in Auth0's valuation from last year.

Buyer vs Seller

Okta is a US-based company that offers authentication and authorization services and was founded in 2009. The company went public in 2017 raising USD 187 m. Auth0 was founded in 2013 and operates a cloud-based identity platform for developers. The company's platform includes services such as authentication, access management, extensibility, security and user management.

Industry Overview

The authentication and authorization industry has seen a significant uptrend over the last couple of years driven by technological innovations and strong growth rates in the tech industry. According to Todd McKinnon, the founder of Okta, the key value drivers of the markets will be the workforce identity and customer identity, reaching a total volume of USD 30 bn and USD 25 bn respectively in the upcoming years.

Peers	Currency	Market Cap (CUR m)
ANSYS Inc	USD	30,658.29
Unity Software Inc	USD	28,090.58
RingCentral Inc	USD	27,601.13
Paycom Software Inc	USD	22,676.03
HubSpot Inc	USD	22,511.95

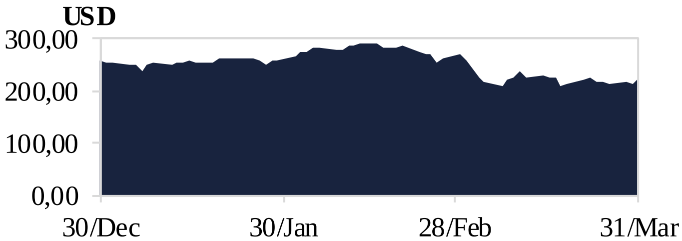
Deal Rationale

The acquisition of Auth0 by Okta was mainly driven by a strategic rationale. Okta and Auth0 have a strong overlap of their product and revenue streams. Auth0's revenue base is highly recurring and is expected to grow by over 50%. Furthermore, as the customer identity space effectively doubles Okta's addressable market, the company can gain excessive market power. This strategic direction will strengthen Okta's pricing power in its core markets. Ultimately, the acquisition was indicated by pressure coming from Okta's key competitors as Salesforce and Oracle showed interest in acquiring Auth0.

Market Reaction

Okta

Reportedly, after the announcement on 3rd of March 2021, Okta's stocks significantly plunged by 13% to USD 241.22.



Auth0

Auth0 is a private US-based company and thus not quoted on a public exchange. After the completion of the acquisition, Auth0 will operate as an independent unit inside of Okta. Both platforms, Okta and Auth0, will be supported and invested in.

Future Challenges

The past years have seen a significant increase in digital innovation and technology. However, the industry is heavily dependent on collecting data from its users, ensuring further innovations and technological progress. From an ethical perspective, it will be a future challenge to ensure user privacy and simultaneously collecting more data.

Hannes Stingel
Investment Banking Division

M&A: Top Deals

Canadian Pacific Railway to Acquire Kansas City Southern

On the 21st of March 2021, the railway group Canadian Pacific (CP) has announced the acquisition of Kansas City Southern (KCS) in a USD 25 bn cash-and-stock deal to create the first railway spanning Canada, the United States, and Mexico. The deal needs to be approved by the US Surface Transportation Board (STB), and the companies expect this would happen by the middle of 2022.

Buyer vs Seller

Canadian Pacific Railway is a Class I transcontinental railway, providing freight and intermodal services over a network in Canada and the US. Kansas City Southern is a US Class I railway as well and operates a railroad system providing rail freight services in the US and Mexico. Class I classification connotes carries with annual revenue greater than USD 40 bn. Kansas City Southern has been valued at USD 275 per share, implying a 23% premium to the closing price of the 19th of March.

Industry Overview

Like any other sector, the railway transportation has also been hardly hit by the Covid-19 pandemic. However, the transportation network was vital for the flow of groceries, pharmaceuticals, and other essential goods during 2020. The deal between CP and KCS comes amid a recovery in supply chains that were disrupted by the pandemic and it would be the largest ever combination of North American railways by deal value.

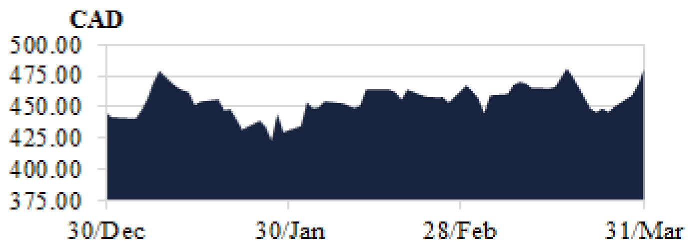
Peers	Currency	Market Cap (CUR m)
CSX Corp	USD	73,868.57
Canadian Pacific Railway Ltd	CAD	64,406.05
Union Pacific Corp	USD	146,814.91
Canadian National Railway Co	CAD	105,059.63
Norfolk Southern Corp	USD	68,085.86

Deal Rationale

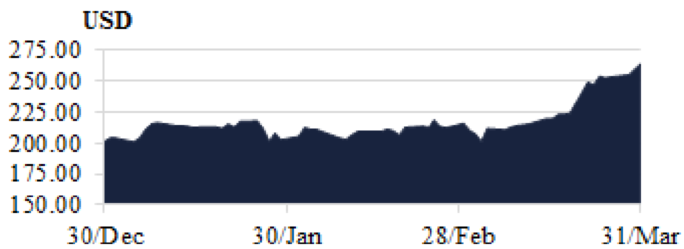
The deal would create the first rail network connecting Canada, the United States and Mexico, following the ratification of the US-Mexico-Canada Agreement (USMCA) from last year that removed the threat of trade tensions that had escalated under former US President Donald Trump. The integrated network's new single-line offerings will provide a greater market reach for the customers of both Canada Pacific and Kansas City Southern, deliver new competitive transportation service options, and support North American economic development. The companies expect to achieve significant revenue and cost synergies.

Market Reaction

Canadian Pacific Railway
CP share price drop by 5.80% on the trading day after the deal announcement. However, the price recovered fast and came back to the pre-announcement value.



Kansas City Southern
Investors' reaction to the deal announcement was extraordinary positive for KCS whose share price surged by 11.12% the day after the announcement.



Future Challenges

The biggest challenge for the two companies is to get the approval of the US Surface Transportation Board. STB might raise concerns about industry consolidation, which is harmful to competition. However, the deal would unite the two smallest of the seven so-called Class I railways in the US and the combined railway would still be smaller than the remaining five Class I railways.

Daniele Notarnicola
Investment Banking Division

What Happened To

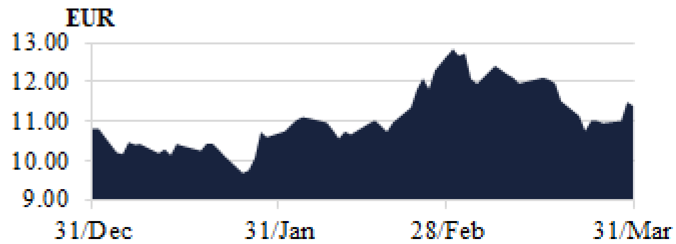
Lufthansa

The Lufthansa Group is a globally operating aviation group generating revenues of EUR 13,589 m with 110,065 employees in the financial year 2019. It is comprised of the business segments Network Airlines, Eurowings and Aviation Services. Aviation Services includes the business segments Logistics, MRO, Catering and Other Companies.

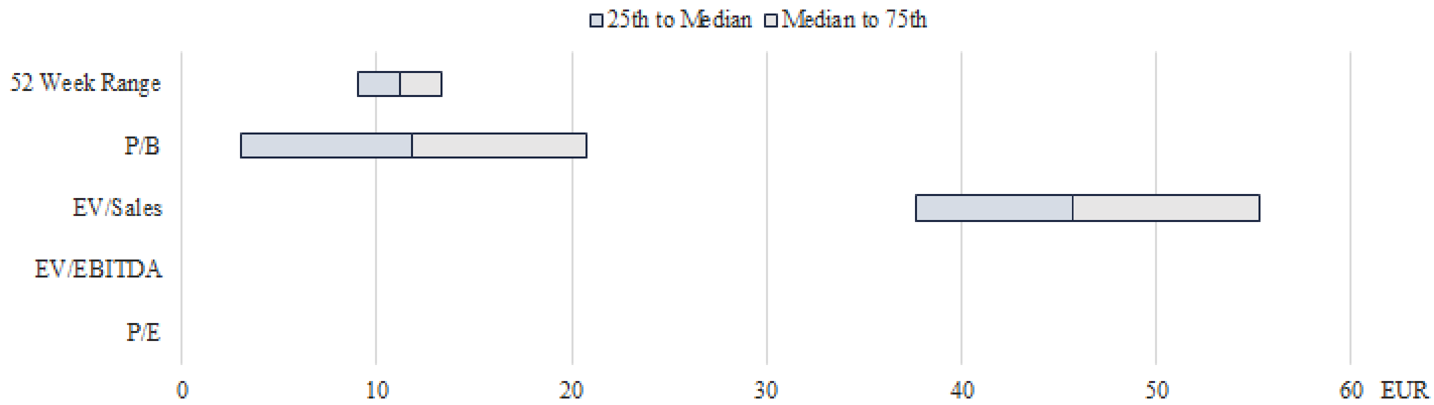
Corporate News

After the substantial investment by the German state and employee programmes such as staff reductions, unpaid leave, reduction of working hours and short-time work, the Lufthansa Group introduced its ReNew restructuring programme to get back to track and secure long-term success. This includes 4 programmes: ReStructure to implement a significantly smaller and more efficient production structure in all Group companies, ReOrg to implement a more efficient organisational structure, ReFocus to focus the Lufthansa Group on its core airline business and RePay to plan, coordinate and implement the refinancing and timely repayment of all financial resources from the government support packages and existing financial liabilities.
Nevertheless, the 2020 financial year report, published on the 4th of March 2021, shows a 63% drop in turnover compared to the previous year and a loss of EUR 6.72 bn.

Price (31 Mar 21, EUR)	**10.96**
Target Price (EUR)	7.00
3M Performance	1.34%
Market Cap (EUR m)	6,551.26
Enterprise Value (EUR m)	16,445.26
**Target Price is for 12 months*	



Valuation Analysis



Lufthansa was, on the day this article was written, trading at EUR 10.98 in Germany. Looking at the football field, it becomes clear that the dispersion in valuations in the airline industry is very big. By looking at the EV/Sales multiple, we can conclude the firm's share price has big upside potential assuming the valuation is fair. The non-existent reflection in the share price might be justified by the recent pandemic sales impacts and poor future short-term outlooks due to lock-downs and travel restrictions.

The Covid-19 pandemic has plunged the aviation industry into a much deeper crisis than those that followed 9/11 and the Great Recession. Prolonged growth was halted in 2020 and the next few years will be spent simply getting back to pre-Covid levels. Even as optimism around a vaccine spreads, cases and deaths continue to rise unchecked. As a result, lockdowns, travel restrictions and virus variants will keep the industry on its toes.

Peers	**Currency**	**Market Cap (Cur m)**
Finnair Oyj	EUR	1,020.08
Air France-KLM	EUR	2,201.46
International Consolidated Air	GBp	10,414.90
Turk Hava Yollari AO	TRY	18,009.00
SAS AB	SEK	15,004.37

Timor Domim
Investment Banking Division

What Happened To

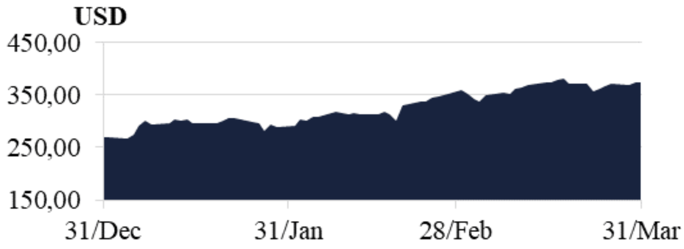
Deere & Co

Deere & Co manufactures a wide range of agricultural, construction and forestry equipment and supplies replacement parts for these products. Deere also provides financing and leasing services for equipment purchases. The group employs more than 70,000 people, and although it operates worldwide, its North America segment accounts for more than 60% of sales.

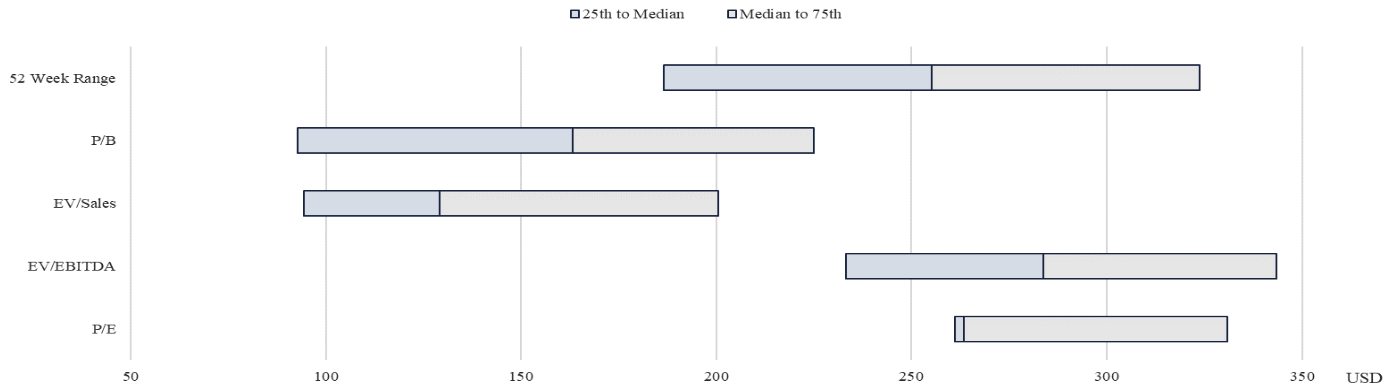
Corporate News

Currently one of the publicly traded companies presenting the highest growth, Deere's stock price more than doubled within the last year. Just in the last 3 months, the share price went up by 38.31%. This positive recent development is partially explained by the release of the first-quarter results for the fiscal year 2021, which once more exceeded market expectations by far. The agricultural and turf segment (representing 55% of sales) recorded a 27% increase, while the construction and forestry segment increased by 21% relative to the prior-year quarter. Besides this impressive top-line growth, the Net Income and EPS also present a consistent growth over the past years, mainly driven by the cost-cutting strategies implemented by the firm. The reported net income for the first quarter of 2021 was USD 1.2 bn and EPS amounted to USD 3.87 which constitutes the highest profit in the company's history.

Price (31 Mar 21, USD)	**372,12**
Target Price (USD)	380,00
3M Performance	38,31%
Market Cap (USD m)	116 636,89
Enterprise Value (USD m)	121 107,89
**Target Price is for 12 months*	



Valuation Analysis



On the 1st of April, Deere & Co was trading at USD 372, considerably above all the relative valuation methods used in the football field above. By taking a closer look at the comparable analysis we can observe a significant dispersion among the chosen methods, being EV/EBITDA the one that best approximates Deere's current market value. The reason why EV/Sales presents itself much less accurate than EV/EBITDA may be related to the bottom-line improvements previously mentioned.

As the world's largest farm equipment producer, Deere & Co has increased its production over the past quarter. The company states that such an increase was grounded on a "significant improvement of agricultural fundamentals". After the decrease in demand caused by Covid-19 in 2020, the recovery of the industrial sector is currently ongoing. The market for large agricultural equipment in North America, Deere's biggest combined segment, is expected to grow by 15-20% in 2021.

Peers	Currency	Market Cap (Cur m)
Kubota Corp	JPY	3 051 052,25
Escorts Ltd	INR	171 785,98
Lindsay Corp	USD	1 818,84
Exel Industries	EUR	457,50
AGCO Corp	USD	10 873,83

Gonçalo Marques
Investment Banking Division

NIC's View On

Regulatory Reforms in the Aftermath of the Wirecard Scandal

Jan Bich
Investment Banking Division

"When there are concrete indications of accounting fraud, as was often the case with Wirecard, we want to create a situation where BaFin addresses such tip-offs, processes them and deals with them effectively. When the concrete tip-offs come in, BaFin must always be able to undertake a forensic investigation and be equipped with the sovereign powers to do so."

- Jörg Kukies, Deputy Finance Minister of Germany

On the 22nd of June 2020, the Wirecard Balance Sheet fraud was uncovered and shortly after, the company filed for bankruptcy while former CEO Markus Braun was arrested, and CFO Jan Marsalek disappeared. As a result, media and politics discussed extensively potential solutions to prevent further accounting fraud, targeting accounting firms and regulatory authorities.

One of the most criticized players, in this situation, was German banking supervisor BaFin, together with the Financial Reporting Enforcement Panel (FREP). The current regulation facilitated the Wirecard fraud as it granted BaFin only limited powers to oversee the financial reporting of firms. BaFin had to ask the underfunded and understaffed FREP for the first audit of a companies financial reporting but did not influence that process. Only after BaFin got a result from the FREPs probe, they could start an investigation on their own being highly inefficient as BaFin can intervene at a late stage only. In reaction to that, a draft for the Financial Markets Integrity Strengthening Act was released. One countermeasure involved the termination of the contract with FREP that could not work the case properly to transfer investigating powers fully to BaFin. Additionally, a task force capable to carry out forensic audits of companies suspected of fraud will be created to ensure more manpower to handle cases. IT systems, and the position of BaFin president will be strengthened, to guarantee a faster, more transparent, and efficient exam of companies' financial reporting. Finally, the Act dictates the introduction of audit committees in every companies' supervisory board to enhance internal control systems and responsibility structures.

The draft Act will also have an impact on another key player: Accounting Companies. Since those companies offer audit and consulting services as well, the self-regulation mechanism through auditors has not been working properly as they get paid by the companies they audit, resulting in a conflict of interest. If the audit is carried out strictly, the auditor may not be hired on follow-up consulting projects putting a certain pressure on auditors, as those want to prevent this situation. In order to remove this conflict of interest, auditing and consulting will be separated and the ability to serve the same company with both services will be further tightened. Moreover, maximum auditor tenure will be reduced from 20 to 10 years and liability of auditors in case of wrongdoing will be extended.

Instead of tackling the issue on a national level, a European solution is discussed as well. For that purpose, either the existing ESMA needs to be renovated or a new authority created. In favour of this European supervisor is that one single supervisor would remove fragmentation and ambiguity from the regulatory base with the banking union serving as a role model. On contrary, national authorities show better knowledge of local ecosystems and therefore can better take on the specifics of their supervised companies.

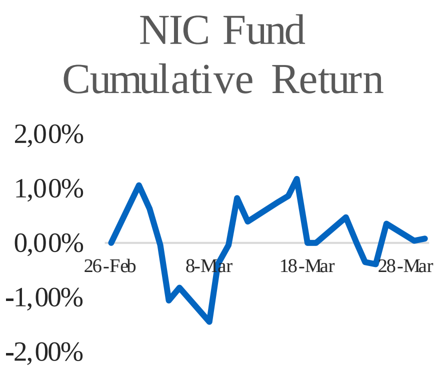
In any case, it will be interesting, if mentioned measures will deliver the desired results and if a national or European solution is favoured.

Date	Recent News
02 Feb 21	Germany to beef up financial regulator in wake of Wirecard scandal. **Source:** *ft.com*
02 Feb 21	Germany lays out reform of banking watchdog after Wirecard fraud. **Source:** *reuters.com*
19 Nov 20	What the Wirecard scandal reveals about the state of German financial supervision. **Source:** *blogs.lse.ac.uk*
28 Jun 20	Germany to overhaul accounting regulation after Wirecard collapse. **Source:** *ft.com*

Jan Bich
Investment Banking Division

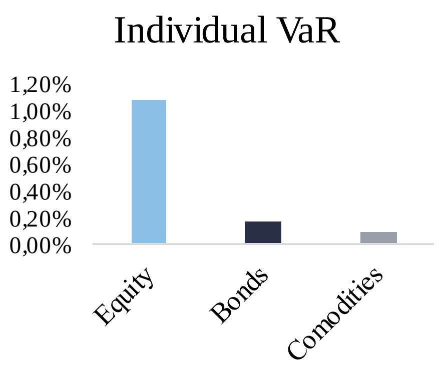
NIC Fund

NIC Fund
Portfolio Overview



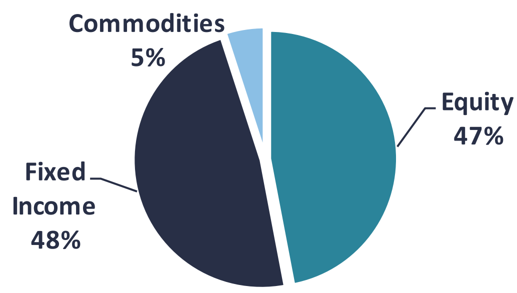
Portfolio Statistics	
Cumulative Return	0.33%
Annualized Return	4.01%
Daily St. Dev	0.63%
Period St. Dev	2.87%
Annualized St. Dev	9.95%
Info Sharpe	0.40
Skew (Daily)	-0.01
Kurtosis (Daily)	-0.91

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



Portfolio Snapshot

In March, the NIC Fund remained invested across the three main asset classes: Equities (47%), Fixed Income (48%), and Commodities (5%). The fund pursues a long-term investment strategy in line with its benchmark target allocation, that allows us to take on active weights depending on our expectations on sector and overall market performance. Last month, equities continued their long-term rally with German DAX crossing the 15,000 mark for the first time and the S&P 500 closing nearly at 4,000 on the last trading day of March. Given the quick recovery from the slump in equity markets exactly a year ago, we continue to deviate from the equity target asset allocation of 40%, remaining slightly overweight.



Return Metrics

The overall performance of the NIC portfolio amounted to 0.33%. Equities contributed a positive return of 0.62%, while Bonds and Commodities returned negative figures of 0.24% and 0.05% respectively. Moreover, returns varied widely across sectors. Our stock selection in Consumer Staples, Energy, and Consumer Discretionary yielded positive returns of 10.88%, 12.35%, and 8.73%. Main contributors were SONAE SGPS (SON PL), our only Consumer Staples holding, EOG Resources, Inc. (EOG US), and Volkswagen AG (VOW GR) which were the high performer this month, yielding returns of 10.88%, 12.35%, and 33.56% respectively.
By contrast, the Industrials and Communication Services sectors dragged down performance. Regarding the Industrials sector, our only holding Deutsche Lufthansa AG (LHA GR) had a negative 10.87% performance in March. Communications Services yielded -6.47% with Zynga Inc. (ZNGA US), the US social games provider, being the main reason for the negative sector performance. In-depth performance analysis of selected securities can be found in the Assets in Brief section on page 13.

Risk Metrics

In terms of risk, our fund presented a daily VaR of 1.07% taking into account the benefits of diversification. This figure is significantly below the maximum established threshold of 2.5%. Equities were the asset class with the highest individual VaR, which was around 1.08%. Bonds and Commodities registered lower individual VaR values of 0.17% and 0.09% respectively.

Julia Weber
Financial Markets Division

NIC Fund

Assets in Brief

Asset Class	Symbol	Comments
GR Equity	**VOW**	The German automobile manufacturer Volkswagen AG was the best performer in our portfolio in the last month with a MTD performance of 33.56% and a YTD Performance of 50.41%. The stock is currently trading at record levels since 2015, shortly before the emission scandal became public. The company increasingly stepped-up efforts regarding the development of electronic vehicles especially since Tesla announced its plans of opening a Gigafactory in Germany. Volkswagen's recent publication of renewed electric vehicle ambitions, including plans to build six new battery factories by 2030, gave the stock an additional push in March.
PL Equity	**SON**	A long position in the Portuguese conglomerate Sonae SGPS was added to the portfolio in February 2021 and it partly fulfilled our expectations already. The company operates across several industries with a strong focus on retail. It returned 10.88% to our portfolio in the first month. We will keep our long position as we see further potential coming from the re-opening of economies and a full return of stationary shopping.
US Equity	**EOG**	EOG Resources, Inc is one the largest US explorer and producer of crude oil, natural gas and natural gas liquids. The stock had suffered severely in 2020 reaching a level of around USD 34 as the markets bottomed out but is now back to pre-Covid levels at USD 75. With OPEC production curtailments expected to be prolonged, we believe pressure on crude oil prices will remain at current levels. Thus, we expect a positive outlook for oil stocks including EOG Resources which is reflected in the March performance figure of 12.35%.
US Equity	**ZNGA**	The US provider of social games services added a negative 8.43% performance to our portfolio. The stock had seen a strong rise in 2020 due to the general rise of gaming stocks fueled by the pandemic, which boosted demand for mobile games and helped drive revenue to record levels. We consider the gaming trend to be a long-lasting development with 5G providing additional growth and the gaming sphere becoming more and more diversified moving away from a solely male dominated field. Thus, we keep our long position in Zynga Inc., but will continue to review this position in the next months.
US Treasury Bonds	**TIP**	Our iShares TIPS Bond ETF position allows us to protect our portfolio partly against rising inflation as it tracks inflation-protected U.S. Treasury bonds, so government bonds whose face value rises with rising inflation. We increased this position in February amidst rising concerns of rapidly building inflation in 2021. This inflation protection costs us -1.68% YTD, and -0.26% in March.
Commodity	**AAAU**	The Goldman Sachs Physical Gold ETF, which was originally launched by Perth Mint but fully acquired by Goldman Sachs in December 2020, provides our portfolio some exposure to physical gold. The listed gold ETF returned -1.16% MTD, which reflects the current weak gold demand. The precious metal had the worst quarterly performance in more than four years in the first quarter of 2021 due to a slower pace of stockpiling by investors and a slump in jewelry market demand following the pandemic.

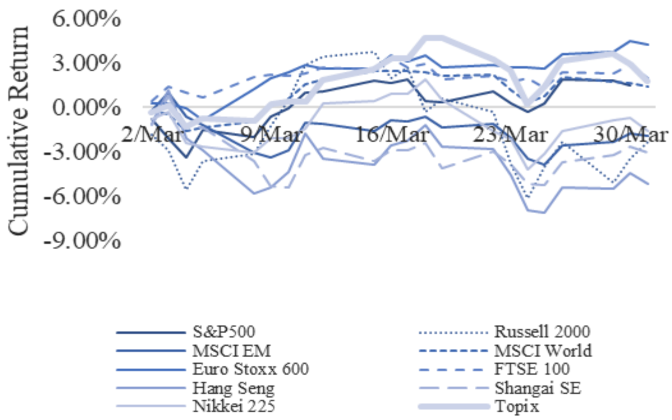
Julia Weber
Financial Markets Division

NIC Fund

Equities

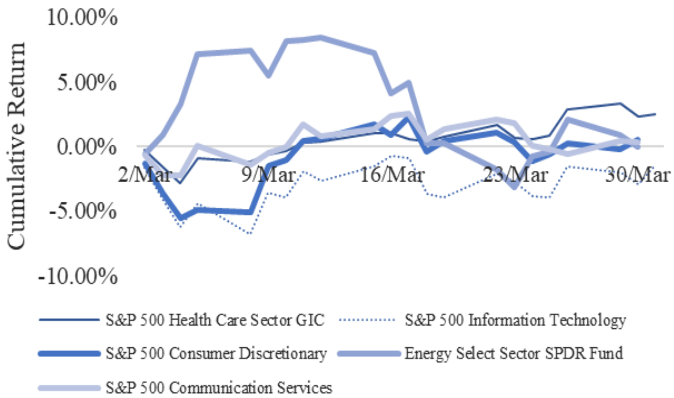
World Equities

The first week of March was characterized by the USD 1.9 tn stimulus plan signed by President Joe Biden and by some of the major world economies reopenings. The S&P 500 was smoothly pushing higher like in the previous months, gaining 1.82% in March. However, many tech star performers and instead, commonly unloved sectors like Financials and Energy companies are taking the lead. The shift was boosted by expectations for rising inflation all around the world, that in turn pushed interest rates sharply higher. Investors have also started to move towards sectors such as Materials, Consumer Goods and Industrials. MSCI's global value index, which follows companies with a low Market-to-Book Value of Equity, has risen 8.7% since the beginning of 2020, reaching an all-time high during the first half of March. As discussed in previous newsletters, 2021 was expected to trace the passage from growth to value equity and March was the perfect example of this movement. The Stoxx Europe 600 index has gained 4.16% in March, while the Industrial Goods and Services subsector of the index, which comprises companies such as German conglomerate Siemens, has yielded 8% in 2021. By contrast, fear among emerging markets investors concerning stringent regulations and rising inflation has dragged down Asian indexes. Particularly, Hang Seng closed the month down -5.19% and SSE Composite lost -3.08%.



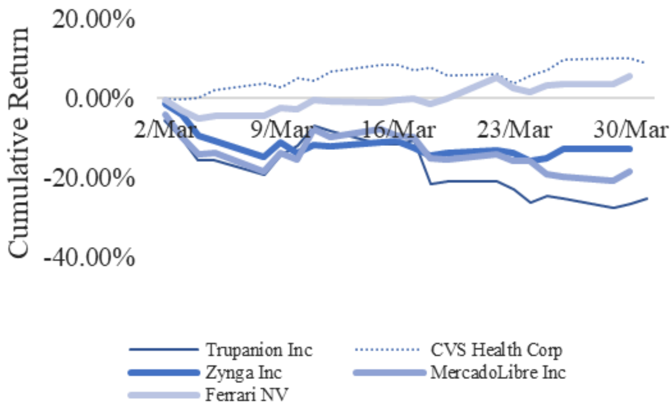
In Depth: Top Opportunities for Active Managers

In 2021 passive US strategies reached roughly USD 8 tn, almost the same amount of active managed assets. The trend was supported by more than 50% of active funds having difficulties to outperform their passive counterparts. However, as the head of US equities at Amundi Asset Management, Marco Pirondini said: "Robust economic growth is a good environment for active managers to outperform the index, either through stock picking or via an equal weighted approach". He pointed out top opportunities for active managers all around the world, not only through stocks' selection and direct picking, but also through index equal-weights rebalancing, a strategy right in the middle between active and passive investing. As a matter of fact, the equal-weighted version of the S&P 500 has returned around 32% over the past six months, far better than the same index commonly used as reference of the market performance. Furthermore, the economic recovery will most likely support small and mid-sized cap stocks, which historically have prospered amazingly during sharp upswings.



Our Performance

In March, equities' contribution to the overall portfolio performance was positive, with a 0.62% cumulative return. Vaccine rollouts and the reopening of some of the world's major economies have dragged down the performance of stay-at-home stocks such as Zynga Inc. (ZNGA) and MercadoLibre, Inc. (MELI), down -8.43% and -10.13%, respectively. However, equities' return was led by Volkswagen Ag-Pref (VOW) with a gain of 33.56% during March and by the Portuguese conglomerate SONAE. The new entry in our portfolio closed the month up 10.88%, driven by its food retail division.



Alessandro Astore
Financial Markets Division

NIC Fund

Fixed Income

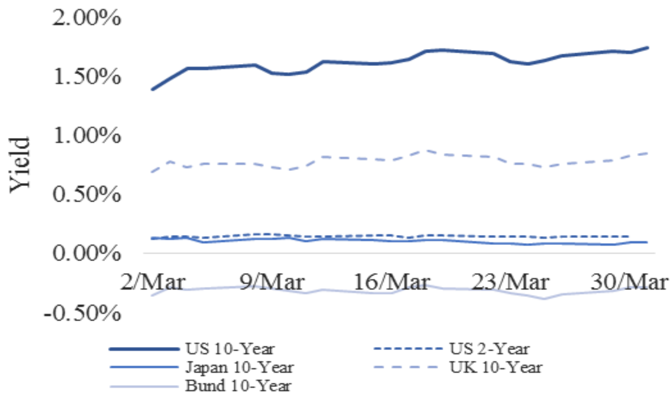
World Yields

March was a significant month for the bond market as the yield on the benchmark 10-year US treasury note reached a 14-month high of approximately 1.78% in the end of the month due to the USD 1.9 tn stimulus plan signed by Joe Biden. As a result, inflation picked up which may result in the Fed adjusting the yield upwards in order to control inflation

In the Eurozone, the yield of the German 10-year bond touched the level of -0.298% in the beginning of the month, which corresponds to the highest level since the 11-month high of -0.292% that was hit in the end of February, amid hopes of a promising economic recovery in the current year. In the end of March, the Bund fell to a five-week low, dragged by the tighter restrictions to limit the newest wave of Covid-19 that could affect Eurozone economy. Moreover, the gap between UK and German yields reached its highest level since 2019.

Last month, the ECB stated that it would increase the pace of asset purchases under its pandemic emergency program within the next quarter with the aim of curbing rising bond yields.

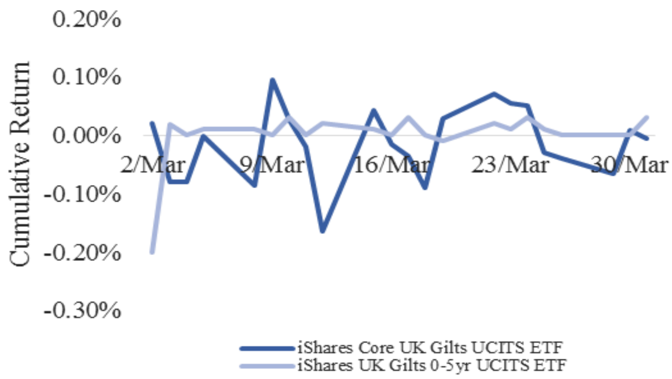
Taking a look at the Asian bond market, Japan's 10-year bond yielded a five-week low of 0.066%. However, in the end of the month it rose again on speculations that the Bank of Japan will decrease the amount of bond purchases.



In Depth: UK Bond Markets

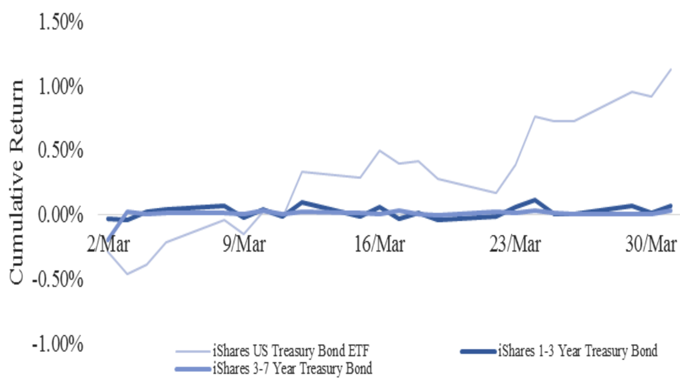
UK government bonds' investors suffered the worst quarter in the last twenty years. The global bond markets plunged significantly within the first three months of 2021, as the selling of UK debt has increased significantly and resulted in a loss of approximately 6.5% on a total return basis. As the head of UK Rates Strategy at NatWest Markets, Theo Chapsalis, said: "The gilt strength is over. This is the market to be short as a global investor", enhancing the strategy of betting against the debt, expecting for future corrections in gilts yields.

Adverse to the current situation in the rest of Europe, Britain's economy seems to overcome recent struggles from the Covid-19 driven by a comparably successful rollout of vaccines. The pandemic response has been better than expected, which enabled a better economic recovery and positive prospects for investors. For now, the BoE followed the steps of the Fed by keeping its policy unchanged and upgraded the outlook for UK economy.



Our Performance

In March, our fund was invested 47.72% in Fixed Income securities. The contribution return was -0.24%. The iShares 1-3 Year Treasury Bond had a return of -0.06%, whilst iShares 3-7 Year Treasury Bond returned -0.84%. As mentioned before, the first three months of 2021 were marked by significant pressure on yields. The prospect for this asset class will now depend on Central Banks' decisions regarding bond purchases and policy levers.



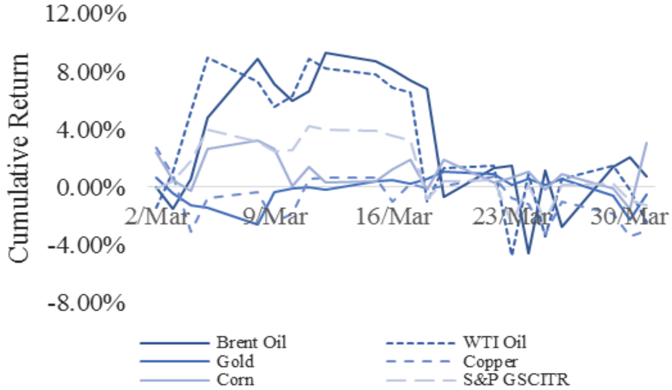
António de Castilho Lima
Financial Markets Division

NIC Fund

Commodities

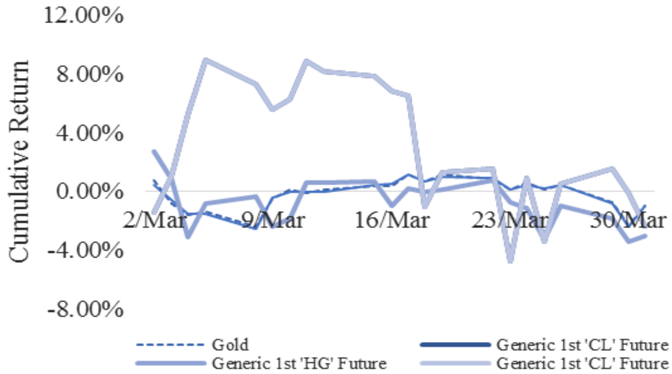
March Round-Up

For the month of March, the S&P GSCI Total Return Index, which tracks 24 commodities, fell -1.25%. This development can be primarily attributed to the pressure on oil prices this month. Both Brent and WTI have gained more than 60% since early November as economies began to reopen from lockdowns. However, in the last weeks, demand concerns put a hold on this rally. Authorities in Beijing announced lower imports of heavy emission fuels and US inventories increased as petrochemical plants take longer than expected to come back online after the Texas freeze. Additionally, the sell-off can at least partly be attributed to the rise in US Treasury yields which lowered the risk appetite of investors. Gold has been hit this year by a rally in equity markets and expectations of continued economic stimulus from central banks. The precious metal showed a monthly loss of -0.53%. During March, a rise in US real yields, attributed to Biden's USD 1.9 tn stimulus package, put further pressure on gold. Gold tends to not perform well when yields on other asset classes rise as it does not provide interest payments itself. Apart from that, gold faces competition from cryptocurrencies which investors also consider to be a hedge against inflation. Corn had a particularly strong month with a cumulative gain of 3.06%. In mid-March, The U.S. Department of Agriculture (USDA) reported one of the strongest weeks of corn export inspections on record. Additionally, corn sales to China have been the highest since January.



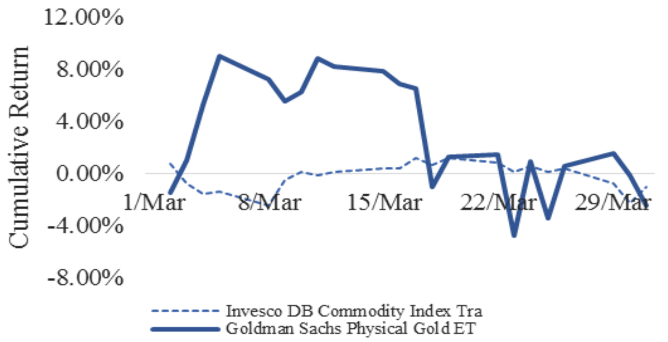
Outlook for April

More upside is expected for brent crude oil prices in the coming months by the U.S. Energy Information Administration (EIA). This is driven by the decision of OPEC's largest oil producer Saudi Arabia to cut 1 mn bpd of crude output in February and March. Hence, oil supply is tight with a seasonal summer demand boost, higher refinery runs, and an improving economic outlook due to increased vaccination efforts. Furthermore, demand for corn could further rise in the month of April as China faces a threat from armyworm, which attacks corn. Current climate conditions accelerate the spread of these worms in China. The outlook for gold remains uncertain. However, President Biden's proposed tax hikes in combination with a continued loose monetary policy by the Fed could lead to a recovery of the precious metal in the short term. Biden has announced that his USD 2.25 tn infrastructure package should be paid in part by raising the corporate income tax rate to 28% and setting a 21% minimum levy on global corporate earnings. This could lead to investors pulling out their positions from equities and moving their capital to the gold market.



Our Performance

In March, the NIC fund was invested 4.99% in commodities. In terms of performance, commodities contributed with a negative return of -0.05%. The Powershares DB Commodity Index returned -0.72% and the Goldman Sachs Physical Gold ETF returned -1.16%.



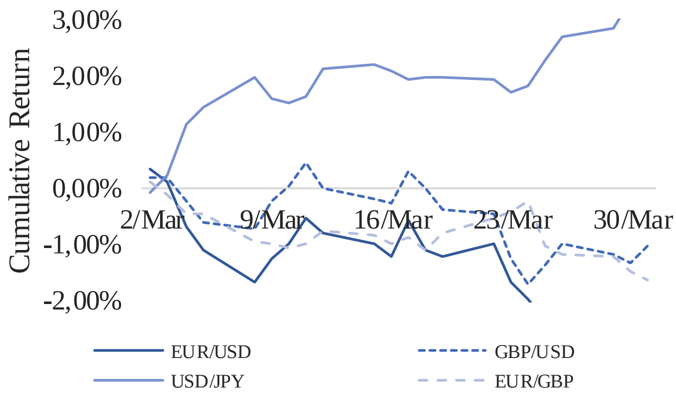
Fitore Zeciri
Financial Markets Division

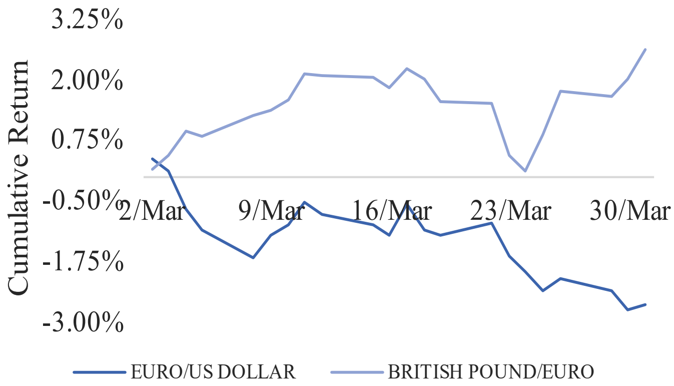
NIC Fund

Currencies

World Currencies

US manufacturing activity in March greatly beat expectations, with a manufacturing PMI of 64.7, the index's highest read in 37 years. Combined with a strong number from February, the manufacturing sector shows continued strength. Since the PMI serves as a proxy for US GDP, this supports the expected economic recovery. This also supports the assumption that the American economy is well-positioned for a strong second half of the year. As a result, despite falling to a three-week low in February, the US Dollar rebounded as longer-term yields moved higher in March. During the last week of the month, the DXY rallied and broke above the 93.25 level for the first time since November 2020. With robust economic data being released that helps the US outperformance narrative, safe-haven flows into the USD continue to strengthen it. Furthermore, with the US distributing vaccines faster than the Eurozone, the Euro has weakened, with EUR/USD trading at a monthly low of 1.1704 at the end of the month. The Euro is facing additional headwinds due to the ECB possibly ramping up the face of the Pandemic Emergency Purchase Programme (PEPP). A similar story can be found in EUR/GBP, with the Euro giving back most of its gains made against the British Pound in 2020. The Eurozone has struggled in dispensing the Covid-19 vaccine, while the United Kingdom has provided at least one dose to 50% of its adult population, a stark contrast. USD/JPY is also approaching pre-pandemic levels due to longer-term Treasury yields rising rapidly and is currently sitting at a yearly high of 110.97 and further appreciation is expected.





April Outlook

Heading into the second quarter of 2021, the USD will benefit from the significant US growth, as well as however much of Joe Biden's USD 2.2 tn infrastructure bill makes it through Congress. With American headline inflation set to rise to 3.5% - 4.0% this quarter, the Fed will have to deal with pressure to reduce accommodative monetary policies, and there will likely be temporary corrections in risk assets as 10-year Treasury yields move towards 2%. To challenge a stronger USD, there must be more attractive opportunities overseas, especially in the Eurozone and EUR, which is not the case at the moment. The Banque de France Governor recently commented that "speed is the EU's handicap," referring to German constitutional courts slowing down the Eurozone's EUR 750 bn stimulus package. Until this fiscal stimulus is distributed, and more importantly, the Eurozone makes much more progress regarding vaccinations, it is poised to weaken against the US Dollar. These macroeconomic trends will likely pressure EUR/USD to drop to 1.1550 in the coming weeks. The UK saw some healthy revisions to its 4Q20 GDP data at the end of March (to 1.3% QoQ from 1.0%), which was largely driven by investments. This should continue to support GBP on a relative basis, with EUR/GBP remaining pressured around 0.8500.

Our Performance

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

Emily Rushforth
Financial Markets Division

Extras

Hot Topic

Stripe - Silicon Valley's Most Valuable Private Company

Francisco Costa Guimarães
Investment Banking Division

"Stripe itself is now bigger (by payment volumes) than the entire e-commerce market was when we started working on Stripe"

– John Collison, Co-Founder and President of Stripe

For the ones still not familiar with Stripe, in this last month of March, it became the most valuable company within the famous tech hub of Silicon Valley. Stripe is an Irish-American financial services firm focusing on payment processing software solutions and application programming interfaces (APIs) for e-commerce websites and mobile applications. The firm reached a valuation of around USD 95 bn following the last successful round of fundraising.

Founded in 2010 by two Irish entrepreneurs, Patrick and John Collison, Stripe's valuation path throughout last year has been nothing but steady growth: it tripled in 12 months, surpassing the values achieved by firms such as Uber or Facebook before they went public. Regarding this latest Stripe's financing, big assets management names like Allianz, AXA or Baillie Gifford were all on the move.

As one can intuitively perceive, such a boom is not independent of the exponential growth experienced by dozens of firms within the tech industry. The pandemic rose the trend of moving faster consumer habitats to digital services or resources, and Stripe followed that path. Nevertheless, it has been debated over these last months whether tech companies will be able to keep this profitable and growing levels. The pandemic is expected to smooth its penetration rate on the population given the mass effort from governments to administer vaccines, and the inflation forecasts have been fearing investors, which has made many big names like Tesla or Zoom decrease their market performances.

Despite the fears, the numbers of Stripe have been robust. Only in Europe, 200 k companies signed up to the platform services since March 2019, and 5 k requests per second in 2020 were handled, a higher number than its European big rival Adyen. Moreover, key leading roles in the company have been fulfilled. Another interesting point would be to better assess how profitable Stripe is, as by being private, the company has opted to keep revenues or profitability figures away from the public. Stripe's strategy to start selling payment services to other tech start-ups triggered business relationships with software companies such as Zoom and Salesforce, or e-commerce services Shopify, Deliveroo and Instacart.

Analysts expect the funds collected to be used for Stripe's expansion in Europe, namely to increase the workers within the Dublin office and implement launches in India, Indonesia and Brazil in the coming future. It is, however, seen by industry experts more difficult for Stripe to succeed in Europe as well as it did in the US, given the more fragmented European market.

Given the current economic and social outlook, it is still quite questionable whether Stripe will continue this trend or not. We are talking here of a multitrillion-dollar market, where using a credit card has become very competitive because it has been commoditised. More traditional players like Worldpay and Fiserv, the next generation including PayPal or Adyen, but also the growing swarm of smaller start-ups looking for their share of the market give us strong evidence of the competition Stripe is likely to face. Despite this, Stripe's speed and simplicity of integration, allowing small businesses to join the services without the need for much sales force or support team, have been convincing investors of its capability to position itself as a key leader in the market.

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Hot Topic

Cryptocurrency Prospects

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"For digital money to exist, the central bank must play a fundamental role, guaranteeing the stability of the value, ensuring the elasticity of the aggregate supply of said money and overseeing the general security of the system. Such a system must not fail and cannot tolerate serious errors."

– Agustín Carstens, General Manager of Bank for International Settlements (BIS)

It is no secret that cryptocurrencies have been gaining momentum and their popularity has been constantly rising since 2009. In order to get a sense of how attractive it can be to invest in these currencies, it makes sense to look at their returns. At the end of March, the three most renowned cryptos, namely Bitcoin, Ethereum and Litecoin marked YoY gains of approximately 93%, 130% and 49%, respectively. A considerable debate has arisen which centered around the question whether cyptocurrencies can be considered as safe-haven assets. As in any theory, there are the ones who are in favor and the ones who are not. However, in this case there is a new suggested approach: asset-backed cryptocurrencies, also called "stablecoins" because they are normally attached to stable assets such as gold or even traditional currencies, which attribute less volatility to the digital coin. *Tether* is the first and largest stablecoin.

As time passed, more issues arose regarding the unpredictable impact of digital coins at multiple fronts. The uncertainty associated to each cryptocurrency's behavior is mainly related to high levels of speculation, announcements, demand and regulation. The last factor has been heavily discussed recently since the technology in which this type of coins is based, named blockchain, is well known for being used in a decentralized way. The goal is that "no single person or entity has control, but all users have control, collectively". This way of functioning has a positive side but raises also some concerns since there is no centralized way to protect this type of currency from being hacked or stolen and moreover, there is no insurance from Federal Deposit Insurance Corporation (FDIC) for bitcoin. Additionally, more than 3 mn out of 18.5 mn bitcoins in the market can not be accounted because there is no ability to check all the transactions and where they came from. It creates space for several illegal actions, for example it increases the risk of money laundering. Driven by those threats, the GM of the Bank for International Settlements, Agustín Carstens, stated that digital currencies should be regulated, also adding that many of them have been used "to do some arbitrage, or to circumvent some regulations". However, they did not harm global financial markets as severely as expected because several central banks, including US Federal Reserve, the European Central Bank and the Bank of England showed in their reports the requirements for central banks digital currencies (CBDCs) already last year . This plan of pushing CBDC was speeded up by Facebook's initiative of introducing its own coin in partnership with other private companies. Initially, Facebook's coin currently known as "Diem". The virtual token faced problems with global regulators due to concerns that it could erode sovereign currencies.

Another relevant topic within the broader discussion is about how impactful cryptocurrencies are in terms of sustainability. The energy consumption of each transaction is at such high levels that the electricity consumption of bitcoin transactions is considered to be higher than that of the whole country of Argentina, according to BBC. The economist Nouriel Roubini deems that bitcoin may see further hurdles, because besides its fundamental value being zero, it would be negative if a proper carbon tax would be applied to its "massive polluting energy-hogging production", as stated by the economist.
With all these issues the future of cryptocurrencies remains as obscure as before.

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ESG Review

ESG in Emerging Markets Equity: A Growing Trend

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"We will never be "done" when it comes to evolving into a sustainable bank. The bar will – and should – keep rising"

– Ylva Hannestad, Deputy Head of Group Sustainability at Nordea

Environmental, Social and Governance (ESG) practices have undoubtedly been surging among many investors, becoming not only a more accepted investment approach but also more competitive and interesting to have in a portfolio. The 2020 figures from ESG show an exponential trend, with around USD 960 bn of assets invested this way. Moreover, beyond these reliable statistics, it is also worth mentioning the difference between risks in Emerging Markets (EM) and those in Developed ones.

As one can intuitively expect, compared to Developed Markets, there is a considerable incremental risk for an ESG investor in EM, given the dispersion of practices, reporting and ESG regulation among these less developed countries. Hence, EM ESG investing poses a plethora of challenges for an investor to assess the suitability of an investment within his/her strategy and risk profile. The main idea here would be to properly understand whether the ESG criteria established for developed countries are indeed fulfilled in the EM. However, this can be difficult given the lack of ESG reporting in many emerging markets, with higher uncertainties and less robust economies. The assessment and decisions should be properly taken, as a wrong investment could trigger not only financial losses, but also reputational risks for the investor as would arise through being associated with unethical labour practices, ecological disasters, pollution, blood diamonds, and other very strong ethical violations.

Nordea Asset Management (NAM) firmly believes that more sustainable businesses can both find opportunities and reduce risks when managing ESG issues well.

NAM therefore uses a proprietary ESG scoring system, which highlights the most attractive businesses and differentiates the potential of each case. To find the ideal investments for Nordea's ESG STARS strategies, NAM not only pays close attention to the fundamentals but also conducts a careful analysis of the material ESG topics within a firm's business. By creating a strong interaction between portfolio managers and NAM's Responsible Investment (RI) team, and having a dedicated ESG specialist for each ESG STARS strategy, NAM ensures the quality and effectiveness of the ESG assessment in each investment decision.

In addition to its aim to beat the benchmark with its ESG STARS Strategies, NAM aims to make an impact by engaging with potential investments and their stakeholders. Particularly given the generally low levels of disclosure of ESG risks in Emerging Markets, Nordea meets firms and evaluates how can they improve their business models and lower their material risks, such as how they look after their workers, or to what extent those firms are closely connected with industries such as weapon manufacturing, oil sands and coal extraction. Fortunately, improvements have been seen and Emerging Markets companies are starting to disclose more information in relation to ESG themes. For instance, Hong Kong Stock Exchange is making firms' boards responsible for disclosing ESG material issues. All in all, Emerging Markets open an unique window for investors and to asset managers like NAM, as those markets offer attractive returns and a margin to engage with companies so that a positive ESG impact is achieved.

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Thank you!

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

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