NIC

— Nova Investment Club —

Newsletter

May 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, Francesco Guimarães, elaborates on recent setbacks in Chinese markets. Moreover, in our Regional View, Ruben Pratapsinh examines the inflationary pressures on the US economy.

Our Investment Banking Division will guide you through April's M&A overall activity. Read about Microsoft to acquire Nuance, Veolia to acquire Suez, and Thermo Fisher Scientific to acquire PPD Inc. Additionally, get a detailed overview on what happened to Deliveroo and United Rentals, as well as consider our opinion on the Coinbase IPO.

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 3.41%. A return that can be mainly attributed to Equities.

On the Hot Topics of this month, Emily Rushforth, examines the Archegos implosion, while Jan Bich, our Head of IBD, elaborates on the US capital gain tax. Lastly, on our ESG review in collaboration with Nordea, Hannes Stingel, writes about ESG assessment and plastic pollution.

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Macro Overview

Monthly

May 5th, 2021

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Market Moves

% change

	Last Close	-1W	-3M	YTD
S&P 500	4,181	0.02%	12.57%	11.32%
DJIA	33,875	-0.50%	12.98%	10.68%
Nasdaq	13,963	-0.39%	6.82%	8.34%
MSCI World	3,649	-0.32%	9.88%	9.11%
MSCI EM	4,737	0.20%	3.57%	3.75%
Russell 2000	2,266	-0.24%	9.30%	14.77%
Euro Stoxx 50	3,975	-0.96%	14.17%	11.88%
FTSE 100	6,970	0.45%	8.78%	7.88%
Nikkei 225	28,813	-0.72%	4.15%	4.99%
Hang Seng	28,725	-1.22%	1.56%	5.49%
Dollar Index	91.28	0.46%	0.77%	1.49%
EUR/USD	1.202	-0.64%	-0.96%	-1.60%
GBP/EUR	1.1492	0.12%	1.82%	2.74%
GBP/USD	1.3822	-0.39%	0.83%	1.11%
USD/JPY	109.31	1.33%	4.42%	5.87%
USD/CHF	0.9131	-0.10%	2.56%	3.15%
Brent Crude	67.250	1.72%	20.35%	29.83%
Gold	1,767.7	-0.52%	-4.31%	-6.72%

Generic Bond Yields

change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	1.626%	6.8	56.0	71.3
GER 10Y Yield	-0.202%	5.5	31.6	36.7
JPY 10Y Yield	0.097%	2.6	4.3	7.6
UK 10Y Yield	0.842%	9.8	51.5	64.5
PT 10Y Yield	0.480%	8.0	44.1	45.0

**Source: Bloomberg, as of 2021-04-30*

In Focus

April

Biden unveils the American Families Plan. President Joe Biden presented a USD 1.8 tn investment in education, childcare, and paid family leave. The plan aims to help working- and middle-class families and would be funded by implementing tax hikes on high-income Americans making over USD 1.0 m annually. Republicans are expected to oppose the plan fiercely, but it still has a chance at becoming law due to reconciliation.

Covid-19 variants spreading in India become a global concern. A new virus variant has emerged in India. It is being called the ”double mutant” due to two key mutations on the spike of the virus. There is some scientific proof that this strain is slightly more contagious and that antibodies may struggle with blocking the virus, but so far there is no evidence that it is an escape mutation, which would mean that vaccines are ineffective against it.

The Federal Reserve holds interest rates near zero. The Federal Reserve maintains its easy monetary policy despite acknowledging that the economy is accelerating. As expected, at the end of the month, the central bank announced that it decided to keep short-term benchmark interest rates near zero and to continue to buy at least USD 120.0 bn in bonds each month. Chair Jerome Powell said that the recovery is "uneven and far from complete," despite temporary inflation pressures.

China's State Administration for Market Regulation fines Alibaba for its anti-competitive practices. The Chinese government issued a record USD 2.8 bn fine on the e-commerce giant Alibaba for violating its anti-monopoly regulations. Despite being equivalent to 4.0% of 2019 sales, Alibaba does not expect the penalty to have a material impact on its business. Chinese technology firms hold significant power in the country, and this is likely only the beginning of the government cracking down on the sector.

Draghi claims that "Italy's destiny hangs on EUR 248.0 bn recovery plan." Italy's prime minister warned that the country's destiny depends on the success of a EUR 248.0 bn package of investments and reforms that will relaunch its economy. Severely hurt by the pandemic in both health and economic terms, Italy will focus on three main objectives: closing the gap between the country's wealthy and poor, improving gender equality, and bridging the divide between generations.

Bank of Japan explores issuing a digital currency. The Japanese central bank is studying the feasibility of issuing its own digital currency. The first phase will be conducted until March 2022 and will concentrate on the technical aspects of issuing, distributing, and redeeming a central bank digital currency. This aligns with the pattern of central banks worldwide beginning to develop digital currencies to modernize their financial systems, with China in the lead by far.

The European Union may welcome vaccinated American tourists again. The European Union is at an advanced stage of talks with the United States over mutually accepting vaccine passports to spur international tourism this summer. While many northern EU member states have been hesitant to allow tourists to enter, ministers in Spain and Greece, among others, have emphasized the importance of their country's tourism sector for the economy. Spanish tourism minister Fernando Valdés specifically mentioned that the country is "desperate" to welcome tourists this summer. Noticeably, the European Commission has yet to begin discussions with the British government.

Emily Rushforth
Financial Markets Division

Deeper Dive

Setbacks in the Chinese Markets Open-Driven Reform

Francisco Costa Guimarães
Investment Banking Division

"The Star [Market] was genuinely meant to be a step in the direction of reform – what's happening now is most certainly not."

– Fraser Howie, independent analyst and expert on Chinese finance

Around two years ago, the Shanghai Stock Exchange was about to launch Star - a new facility at that time created by the Chinese authorities to encourage investment in domestic tech innovators, ensuring they would have the necessary resources to develop. Under the system, companies could list quickly on Star as long as they submitted to the Regulatory Authorities the necessary financial statements. Such reforms of how companies trade and list – of course, backed by President Xi Jinping - came at a time when China and the US were engaging in an open dispute for technological control worldwide. Hence, the main purpose of such an initiative from China was to move businesses from Hong Kong and New York to Shanghai.

Two years after, and the same dispute over technological supremacy is still a strong reality among the two countries just mentioned. However, what is now, here at stake, is China's willingness to keep the Star program running smoothly and easily for firms to go public within the Chinese territory. Things started to run badly in November when China decided to halt Ant Group's giant IPO, which would be the world's largest IPO, reaching USD 37 bn. The reasoning of Chinese authorities was to "keep market stability". Nevertheless, as it was expected, such action led entrepreneurs to take a lower profile, as it was a clear response to Ant's size and success, which potentially poses a systemic risk, whether in digital payments, lending or wealth management. Moreover, some also believe that Jack Ma's (Alibaba's founder and Ant's controlling shareholder) visibility and wealthy position might have triggered concerns among top officials within the Chinese Communist Party.

Adding to the IPO being blocked, Chinese regulators also decided very recently to demand a deep restructuring process in Ant's business model, stating the goal is to restrict the financial nature of Ant's activities and to keep the firm focused as a payments platform. Last but not least, the Alibaba group was fined a record USD 2.8 bn, with accusations of forcing merchants to sell exclusively on its Tmall and Taobao online shopping platforms.

Chinese tech groups dropped IPOs ideas at an urge speed after Ant listing was pulled, with the increasing scrutiny by regulators being the main concern among both companies and investors. The amount of cancellations pushes the total number of aborted attempts to list on Star to more than 180. This number elevates its importance when we see that when Ant's IPO was declined by regulators, in November, there were only 12 companies who stopped their plans to go public in the Shanghai Stock Exchange. Furthermore, the number of companies waiting to list in China has now risen to more than 2,000, enhancing the dangers of a possible liquidity crisis within the Chinese Stock markets, which have been underperforming other major financial hubs since the beginning of this year.

I believe it is pretty interesting to see how things will evolve within China, especially looking at Asian tech companies results from this first trimester of 2021. Companies in the region across tech and internet areas raised more than USD 38.5 bn from new listings, and according to many analysts, such a boom has only just begun. Not only are many companies surging from countries such as India (food delivery app Zomato), South Korea (Kakao Bank) and Indonesia (Tokopedia), but also India is increasingly being considered an option for firms to list publicly.

Hence, China is facing fast and growing competition in Asian public equity markets, with lots of firms surging and many countries with fewer market regulated pressures from authorities and governments. Either China will come back to the path created two years ago for firms to smoothly go public, or it will keep severe constraints to increase access to markets, with the two scenarios having undoubtedly totally different outcomes.

Francisco Costa Guimarães
Investment Banking Division

Regional View

US Debate on Potential Inflationary Pressures in the Economy

Ruben Pratapsinh
Financial Markets Division

"Inflation expectations are now more consistent with the Fed's 2% inflation target than pre-pandemic"

\- Jerome Powell, Fed Chairman

Inflation in the US has been a topic of high debate in recent months, with macroeconomists and analysts watching inflation data very closely. Even Google trends show an all-time high search intensity for the word "inflation". These concerns come at a time when the US government has been printing money at record rates to stimulate the economy. The Biden administration is also committed to its fiscal stimulus policy, with the USD 1.9 tn American Rescue Plan still fresh in investors' mind.

Adding to the recent expansionary policies and the Fed's dovish behavior, we have a global pandemic with an end at sight. The vaccine rollout in the US is picking up quite fast, hitting the 100 million vaccines mark, which represents almost 40 percent of the nation's adults. This brings hope of a return to normalcy, which should help push employment up and increase personal consumption, as people are finally able to spend their amassed savings. The US economic rebound is gaining momentum in the first quarter of 2021. However, as compelling as this narrative might be, a further analysis needs to be made to assess the true impact the pandemic has yet to make in the American economy.

US consumer spending rebounded in March after most households in the middle- and low-income brackets received the one-time USD 1,400.00 stimulus checks, building a strong foundation for a further surge in consumption in the second quarter of the year. Economic data for consumer spending, which represents more than two-thirds of the country's economic activity, jumped 4.20% in March, after a 1.00% fall in February. Additionally, we see measures of household sentiment rising to a 13-month high in April. Even though the economy has yet to reach full employment, the rising labor cost growth gives enough reason to expect inflation to settle above its historic low levels. The personal consumption expenditures deflator, the Fed's favorite inflation measure, registered at 2.30% in March, strongly surpassing the 1.60% expectations. These apparently high numbers only reinforce investor's concerns regarding high inflation.

One issue about inflation expectations is that they can not be directly observed, with a variety of different data used as an indication for market sentiment on future price hikes. Despite being informative, the disparity of data used creates a potential bias, which makes it difficult to interpret in the context of the Fed's 2% inflation target introduced in 2012. Since then, inflation has generally hovered below the target, which acted as more of a ceiling than a long-term average, leading to low inflation expectations. However, the Fed's recent shift to a flexible average inflation-targeting mechanism hints that if the Fed wants to sustainably reach its target, it must raise inflation expectations, which in turn will likely require a period of above-target inflation.

Conversely, the pandemic led to the steepest three-month drop in the core personal consumption expenditures (PCE) price index since the creation of the measure in 1959. As a result, prices are still well below what a 2% future trend would have looked like. This sudden drop is important when interpreting the recently issued PCE price index for March 2021. Since inflation is typically reported as the change in prices over a 12-month period, this sharp drop in prices in March 2020 will make the comparison month fall for the March 2021 reported data. In fact, even if prices were to increase at the 2.00% rate, the PCE index will need to rise to 2.70% by April. Therefore, if we focus on the rebound prices without accounting for the normal return to pre-pandemic prices, it might seem that inflation is running out of control.

Despite the different views regarding the actual materialization of higher inflation expectations, one thing we can expect in the next few months is each inflation reading coming under intense scrutiny, potentially pushing volatility levels higher in markets.

Ruben Pratapsinh
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

UK Local Elections

Local elections which were supposed to take place last year in May and got pushed back 12 months will be held on the **6th** of May. It will be the first post-Brexit elections of national significance.

UK GDP

The Office for National Statistics will communicate the UK's QoQ and YoY GDP figures on the **12th** of May. QoQ is forecasted to come at 0.5% (versus 1.3% previously) and YoY at -8.1% (versus -7.1% previously).

JPN GDP

On the **17th** of May, the Japanese Cabinet Office will announce the QoQ GDP figure. Forecast is 2.3%, which would be slightly lower than the previous 2.8%.

Central Bank Decisions

RBA Interest Rate Decision

The Reserve Bank of Australia will communicate its interest rate decision for the month on the **4th** of May. The forecasted figure is in line with previous announcement at 0.10%.

BOE Interest Rate Decision

On the **6th** of May the Bank of England will announce its decision for the month interest rate level. Forecast is perfectly aligned with the previous figure at the 0.10% level.

TRY Overnight Borrowing Rate

The Central Bank of the Republic of Turkey will release its overnight borrowing rate on the **6th** of May. It is the lowest rate at which large creditworthy banks can borrow and lend. Last figure reported was at 17.50%.

Inflation and Deflation

US Core CPI

The US Bureau of Labor Statistics will communicate the MoM Core CPI figure on the **12th** of May. Forecast is in line with previous month announcement at a 0.3% increase. The Fed follows this figure extremely closely as to maintain price stability.

GBP CPI

Great Britain's YoY Consumer Price Index will be released by the Office of National Statistics on the **19th** of May. As a reminder, previous announcement was at 0.7%. A strong figure could help drive the British Pound higher in the near term.

EU CPI

YoY figures on consumer prices in the EU will be made public on the **19th** of May. Forecast is slightly under the previous figure at 1.3% (versus 1.6%). The ECB will pay close attention to this figure in further decision-making processes.

Labour Market

US Unemployment Rate

On the **7th** of May, the US Bureau of Labor Statistics will release its unemployment rate figure for the past month. Forecasted value is at 5.7%, which would be slightly lower than the previous reported figure of 6.0%.

UK Claimant Count

The Office for National Statistics will publish on the **18th** of May its claimant count figure which encapsulates the number of unemployed individuals receiving benefits. As a reference point, last figure was at 10.1k.

AUS Employment Change

The Australian Bureau of Statistics will release its employment change level on the **19th** of May. This figure allows to understand the change in the number of employed individuals across the country. Last figure reported was 70.7k.

Vincent Sardinha Marques
Financial Markets Division

Investment Banking

M&A

Overall Activity

Global

This month, the path of M&A activity continues its track. The boost for rapid recovery was endorsed by increasing strategic consolidation, cross-border activity, and an extended spike in the Covid-19 affected industries. April recorded a deal flow count of 5,294, equivalent to USD 574 bn with a respective average premium of around 18.04%. This premium represents a value lower than the average registered in the first quarter of 2021 and one of the lowest premiums compared to the yearly average of the past 5 years. In terms of industry breakdown, the Financial industry and Industrials represented, together, 37% of the overall value of the month and in regional concentration terms, the US took the focus. The most sizeable M&A activity of the month, and therefore essential to highlight was the acquisition of Kansas City Southern by the Canadian National Railway Co, which entered the top 3 of year-to-date deals in terms of value transactions, marking a USD 33 bn deal with a 25% premium. It followed the proposal for the acquisition of Suez SA by Veolia Environnement SA with a deal value set at USD 22 bn.

Selected Regions

North America

During the first quarter of 2021, both the US and Canada contributed to an extensive growth YoY of 1,000% of deals' value. The USD 309 bn world deal value had the contribution of the 7th largest deals during April, with the Kansas City Southern transaction representing the largest north American deal of the year. Canada only granted USD 8 bn for the monthly count.

EMEA

In the month of April, Europe recorded an increased YoY deal volume, registering a boost of 82.9%. Associated is the acquisition of Suez SA, with multiple buyers showing interest in the water sector company, which now is pending approval on one specific buyer. Regarding the African and Middle East regions, it recorded a drop of 34.8% YoY in deal volume terms.

Asia

The announcement of the acquisition of Toshiba Corp by CVC Advisers led to the top rank of deals during the first quarter of 2021. This transaction represents a substantial 17% of overall deal value in the Asian market, which continues to improve YoY. The region recorded USD 133 bn in deal amount, spreading equivalently between Asia Emerging and Asia Developed countries.

M&A

Deals of the Month

Announnced Date	Target	Buyer	Target Region	Target Business	Value (USD m)	Premium (%)
20 April 21	Kansas City Southern	Canadian National Railway Co	US	Transport Rail	33,011.48	25.09%
12 April 21	Suez SA	Veolia Environnement SA	FR	Water	22,629.47	12.80%
15 April 21	PPD Inc	Thermo Fisher Scientific Inc	US	Medical Labs & Testing Srv	20,329.09	25.67%
12 April 21	Nuance Communications Inc	Microsoft Corp	US	Applications Software	17,241.47	27.05%
29 April 21	VEREIT Inc	Realty Income Inc	US	REITS-Office Property	16,394.41	15.53%
19 April 21	Advanced Info Service PCL	Gulf Energy Development PCL	Thailand	Cellular Telecom	16,128.01	-
10 April 21	Aramco Oil Pipelines Co	Private Investor	Saudi Arabia	Pipelines	12,400.00	-
14 April 21	Univision Communications Inc	Grupo Televisa SAB	US	Broadcast Serv/Program	10,851.70	-
26 April 21	Proofpoint Inc	Thomas Bravo LLC	US	Internet Security	10,298.96	34.23%
23 April 21	Blue Yonder Group Inc	Panasonic Corp	US	Enterprise Software/Serv	7,100.00	-

Madalena Azevedo
Investment Banking Division

M&A: Top Deals

Microsoft to Acquire Nuance

Microsoft has entered into an agreement to acquire Nuance for a total cash consideration of USD 20 bn, including Nuance's net debt. The acquisition represents a premium of 23% as Microsoft will buy Nuance's shares for USD 56.00 compared to a closing price of USD 45.58 on the 9th of April 2021. The transaction is expected to close by the end of the year.

Buyer vs Seller

Microsoft is a US-based technology company that develops, licenses, and supports a range of software products, services and devices. Its cloud services are offered through Microsoft Azure. Nuance was founded in 2013 and is a provider of conversational AI serving clients across financial services, telecommunications, government and retail. The company further offers cloud-based ambient clinical intelligence services to healthcare providers.

Industry Overview

Cloud computing has seen a period of significant growth due to tailwinds coming from Covid-19 and its increasing trend of working from home. The market volumes approx. USD 321 bn in 2019 and is expected to reach USD 1,026 bn by 2026, representing a remarkable CAGR of 21.37%. Main players are dominating the industry as over 50% of the total market share is covered by Amazon Web Service (32%) and Microsoft Azure (20%).

Peers	Currency	Market Cap (CUR m)
Cerner Corp	USD	22,659.46
Dassault Systemes SE	EUR	51,790.83
Constellation Software Inc/Can	CAD	39,081.21
SAP SE	EUR	145,725.17
PTC Inc	USD	17,203.84

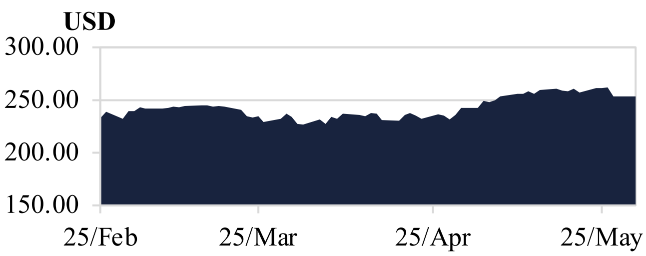
Deal Rationale

In 2019, Nuance and Microsoft decided to enter into a partnership to strengthen their strategic position. The acquisition enables further integration of both companies and enlarges its partnership position. Furthermore, the deal reinforces Microsoft's strategic plan to provide industry-specific cloud services to support customers. Furthermore, Nuance's expertise and relationships with EHR systems providers will help Microsoft providing its cloud services to healthcare professionals.

Market Reaction

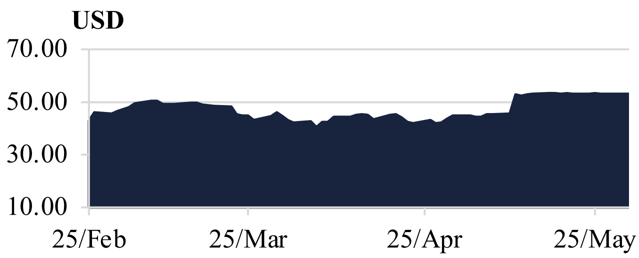
Microsoft

Reportedly, after the announcement on the 12th of April 2021, Microsoft's stocks remained stable, showing steady reactions from market players.



Nuance

Nuance's share price rose 15.86% to USD 52.85 after the announcement, on the 12th of April 2021. Afterwards, the value kept stable.



Future Challenges

Especially from a user perspective, Cloud computing is facing several challenges due to increased user consumption and data protection. As the industry is heavily dependent on collecting user data, it will be challenging to ensure user privacy and while increasing data collection.

Hannes Stingel
Investment Banking Division

M&A: Top Deals

Veolia to Acquire Suez

On the 12th of April, Veolia announced that it has reached an agreement to acquire the waste and water services company Suez, for a total consideration of approximately EUR 13 bn. The French company acquired roughly 70% of Suez, of which it does not currently hold, paying EUR 20.50 a share, against the EUR 15.5 it paid last year for the initial stake.

Buyer vs Seller

Veolia Environnement is a French multinational firm, founded in 1853, which operates in three main areas – water management, waste management and energy services. Suez SA provides equipment and services for potable water supply, in addition to also providing and operating in waste management. JP Morgan, PJT Partners and Société Générale are the advisors of Suez, while BNP Paribas, Bank of America, Credit Agricole, HSBC ad Morgan Stanley are advising Veolia.

Industry Overview

The global water treatment and supply market is expected to grow at a CAGR of 7% and anticipated to reach a total value of USD 44.01 bn, by 2025. Suez currently occupies the leading stand in private water management worldwide, followed by Veolia. In an industry known for having a very strong public position, this deal assumes to put the firm in the leading position of the global market, making the firm far ahead of the competition.

Peers	Currency	Market Cap (CUR m)
Veolia Environnement SA	EUR	15,327.41
United Utilities Group PLC	GBp	6,602.04
Severn Trent PLC	GBp	5,917.15
Pennon Group PLC	GBp	4,364.66
Fluxys Belgium SA	EUR	2,388.96

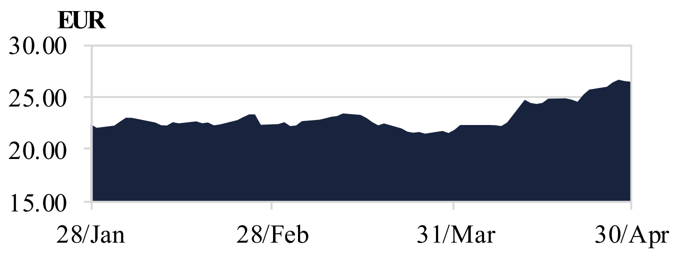
Deal Rationale

This transaction will create a new global giant player in the water supply and water services business, under Veolia's umbrella with over EUR 37 bn of annual revenues. The deal will expand the market share of both companies, besides allowing for a deeper global presence to the conglomerate. A new "Suez" with EUR 7 bn in revenues will be carved out, forming a sustainable group that will take the operations not only in France but also to its international assets, including Italy, Africa and India. This new smaller Suez will be most likely sold to a consortium of private equities groups Ardian, GIP and Meridiam, and the French Caisse des Dépôts.

Market Reaction

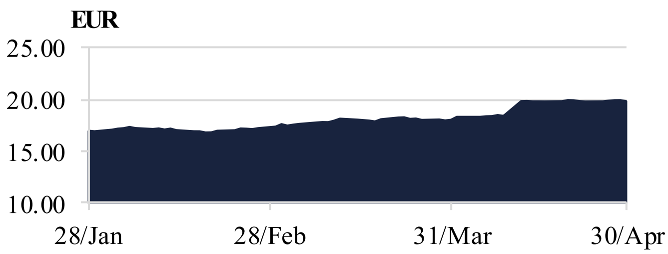
Veolia Environnement SA

In a reaction to the announcement, the firm's stock rose 5%, trading at EUR 24.35. The firm's stock kept rising in the following days, reaching EUR 26.68.



Suez SA

Suez share price reacted very positively to the deal announcement, climbing 8%. This increase made the stock trade at its all-time high of EUR 19.86.



Future Challenges

The transaction is still pending approval from regulatory entities and competition authorities. In the upcoming times, the agreement is expected to deactivate the poison pill put in place by Suez of selling assets deemed strategic by Veolia to put pressure on the latter. It remains Veolia's capability to leverage this acquisition to become a global key player in ecological transformation.

Gonçalo Pina Santos
Investment Banking Division

M&A: Top Deals

Thermo Fisher Scientific to Acquire PPD Inc.

On the 15th of April 2021, the medical equipment and device manufacturer Thermo Fisher Scientific has announced the acquisition of PPD Inc. in a USD 21 bn all-cash deal. The acquisition will establish Thermo Fisher as a global leader in the attractive and high-growth clinical research services industry.

Buyer vs Seller

Thermo Fisher is a US-based manufacturer of analytical instruments that monitors, collects, and analyses information for a broad range of life science, laboratory and industrial customers. PPD Inc. is a global contract research organization providing drug discovery, development services, and post-approval expertise. The research organization is currently controlled by the American Private Equity firm Hellman & Friedman. PPD has been valued at USD 47.50 per share.

Industry Overview

Covid-19 is placing enormous strain on the global health care sector's workforce, infrastructure, and supply chain. The pandemic has also exacerbated some structural changes that were in place as the adoption of virtual health and other digital innovations. Industry leaders are using the momentum ignited by organizational and ecosystem responses to Covid-19 to expand. In this context, Thermo Fisher is acquiring PPD to foster its future growth.

Peers	Currency	Market Cap (CUR m)
Catalent Inc	USD	19,145.38
PRA Health Sciences Inc	USD	10,813.70
Syneos Health Inc	USD	8,849.22
Medpace Holdings Inc	USD	6,103.76
Personalis Inc	USD	1,078.49

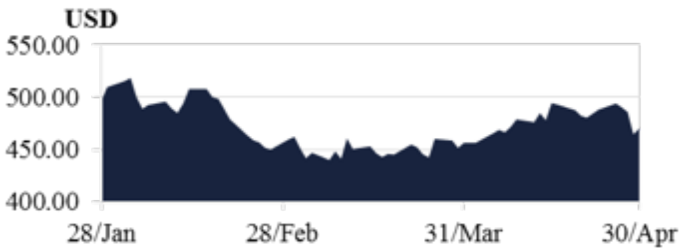
Deal Rationale

The deal is expected to add USD 1.40 to Thermo Fisher's adjusted earnings per share in the first 12 months after its close, expected by the end of 2021. After the deal close, PPD will operate under Thermo Fisher's Laboratory Products and Services Segment and this should help PPD win more work as the Covid-19 pandemic has heightened the need for key suppliers for drugmakers and Thermo Fisher already supplies drug ingredients to many in the pharma and biotech industry. All in all, the deal further expands the service offering to pharma and biotech customers and will create meaningful cost and revenue synergies.

Market Reaction

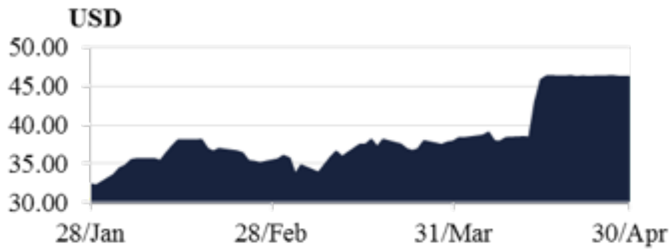
Thermo Fisher Scientific

The share price surged by 3.42% on the trading day after the announcement. However, in the next two weeks, the price drop to a level lower than the pre-announcement.



PPD Inc.

Investors' reaction to the announcement was extraordinarily positive for PPD whose share price surged by 12.10% the day after the announcement.



Future Challenges

In the last year, clinical trials were disrupted due to the pandemic, and contract research organizations like PPD have been hit hard. Hence, the recovery of research organizations, and so the realization of the expected synergies created by delas, highly depends on the duration and severity of the Covid-19 pandemic.

Daniele Notarnicola
Investment Banking Division

What Happened To

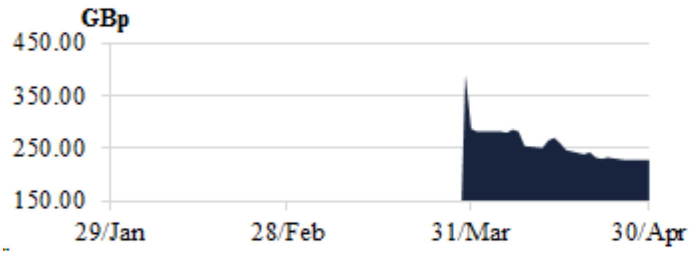
Deliveroo

Deliveroo is an online food delivery which allows users to order both using web or mobile platforms. It was founded by Will Shu, a former investment banker, in 2012 and it is headquartered in the United Kingdom, with operations comprising 12 countries, in nearly 800 cities. It has around 2,000 employees and has generated GBP 4 bn in revenues in 2020, climbing 54% from 2019.

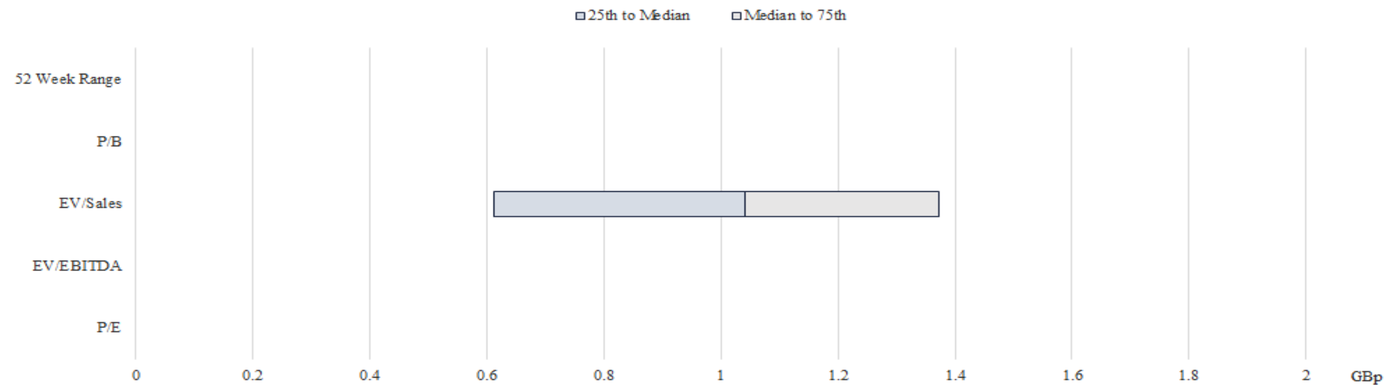
Corporate News

Deliveroo's IPO on the 31st of March became one of the worst in the history of London as the stock tumbled 26% on its debut, erasing around GBP 2 bn of the firm's value. The UK had big expectations on attracting more tech companies to list in London instead of the traditional Nasdaq or NYSE. This IPO had given Deliveroo an opening valuation of GBP 8 bn, one of the highest in London since 2011. However, as soon as it started trading, a quarter of its value had been wiped out. Once compared to its peer Door Dash's IPO in December 2020, which share price increased 86% in its debut, it is a deep disappointment. However, DoorDash has since lost more than 30% of its value, the bad timing of the tech stocks' high valuation has been one of the main reasons for Deliveroo's IPO disaster. Even as Deliveroo had a record high revenues growth of 54% in 2020, it is still an unprofitable business model with a loss of GBP 225 m.

Price (30 Apr 21, GBp)	**228.00**
Target Price (GBp)	310.00
3M Performance	
Market Cap (GBp m)	3,908.67
Enterprise Value (GBp m)	3,565.57
**Target Price is for 12 months*	



Valuation Analysis



Deliveroo was valued at GBP 2.28 with an enterprise value of GBP 3.56 bn, as of the 26th of April. By looking at the current EV/Sales valuation method, we can clearly see that both the current price and the target price are overvalued concerning the peer valuation analysis. To note that 1 GBX is equivalent to 0.01 GBP. This overvaluation is driven by the fact that Deliveroo was, until now, one of the fastest-growing tech companies in the sector, which revenues were boosted recently but losses maintained.

The Covid-19 pandemic has accelerated the growth of online-food delivery platforms, which were struggling on how to revamp their business model to a profitable one. Still, with a record high year in revenues and a lasting post-tax loss, Deliveroo and others in the industry struggle to consolidate in this market. In addition, the escalating rollout of vaccines and people restoring their normal lives will prove to be difficult for Deliveroo.

Peers	**Currency**	**Market Cap** (Cur m)
SSP Group Plc	GBp	2,675.27
Compass Group PLC	GBp	28,507.16
Marley Spoon AG	AUD	650.30
Sligro Food Group NV	EUR	1,113.01
Elior Group SA	EUR	1,234.71

Pedro Santos Vitor
Investment Banking Division

What Happened To

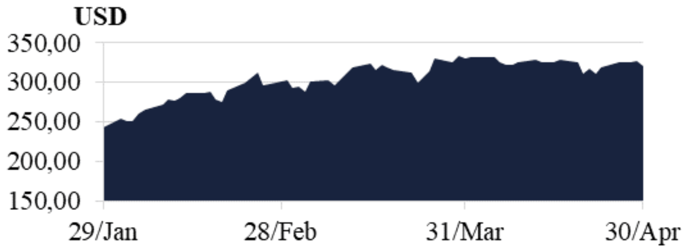
United Rentals

United Rentals is the largest commercial and construction equipment rental company operating in the United States and Canada. Its two main business segments are General Rental (accounting for 73% of sales) and Specialty (Trench, Power, and Fluid Solutions). The US-based group employs more than 18,000 people, and approximately 90% of its total sales are generated domestically.

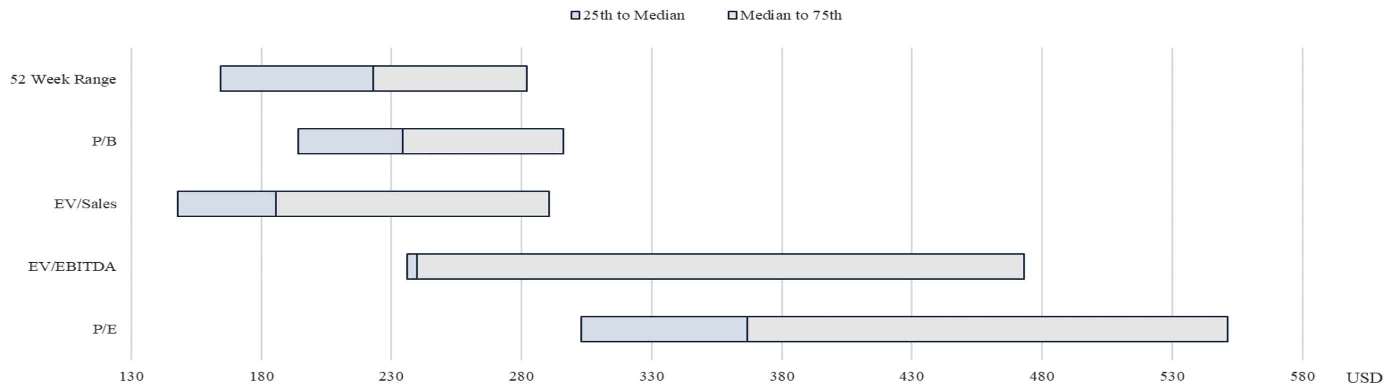
Corporate News

United Rental's stock price grew nearly 150% YoY. Although there is a considerable discrepancy between the firm's revenue and stock growth, other reasons can help to explain the evolution of its stock price. One of them being its success in growing inorganically through notable acquisitions like BakerCorp or BlueLine. Moreover, United Rentals has delivered a superior ROE over the past years, demonstrating its growth potential and efficiency in managing its investor's funds. The robust end-market demand, especially in North America, has also been in favour of United Rentals. Finally, the company has been expanding its mix of Specialty, which includes trench, power and fluid solutions, in the portfolio, as these solutions present considerably larger margins when compared to the General Rental segment. Over the past five years, Specialty's contribution towards total sales has increased from 7% to 27%

Price (30 Apr 21, USD)	319,95
Target Price (USD)	339,50
3M Performance	31,66%
Market Cap (USD m)	23 157,39
Enterprise Value (USD m)	32 731,39
**Target Price is for 12 months*	



Valuation Analysis



On the 30th of April, United Rentals was trading at USD 319.95, considerably over all the relative valuation methods used in the football field above except for the P/E multiple. By taking a closer look at the comparable analysis we can observe that the EV/Sales presents a lower valuation, which would be somehow expected given the poor top-line evolution of URI. Conversely, P/E gives the highest valuation given the company's superior ROE.

United Rentals revenues in 2020 amounted to USD 8.53 bn, a 9% decline relative to 2019. This was primarily driven by a 10% decrease in equipment rentals as the demand from clients in the construction, manufacturing and other industries contracted due to Covid-19 pandemic. Nevertheless, US vaccination targets have been achieved and as the economic condition of the country improves and traditional industries recover, URI's top-line is also expected to expand.

Peers	Currency	Market Cap (Cur m)
WillScot Mobile Mini Holdings	USD	6 633,96
Custom Truck One Source Inc	USD	2 522,49
Herc Holdings Inc	USD	3 126,64
H&E Equipment Services Inc	USD	1 405,26
AMERCO	USD	11 698,59

Gonçalo Marques
Investment Banking Division

NIC's View On

The Successful Coinbase IPO

Timor Domin
Investment Banking Division

"Coinbase is a foundational piece of the crypto ecosystem and is a barometer for the growing mainstream adoption of bitcoin and crypto for the coming years in our opinion."

Dan Ives – Wedbush

Coinbase Inc. is a fully regulated and licensed cryptocurrency exchange operating a trading platform for cryptocurrencies. Through Coinbase, cryptocurrencies such as Bitcoin, Ethereum, Ethereum Classic, Bitcoin Cash, XRP, Litecoin and many more can be traded and exchanged for official currencies such as US Dollars and Euros. Founded in 2012, Coinbase initially only allowed trading Bitcoin, but quickly began adding cryptocurrencies that met its decentralised criteria.

Building on the ever-growing popularity of cryptocurrencies, Coinbase has become a mainstream on-ramp for new crypto investors. Coinbase offers a variety of products, including cryptocurrency investments, an advanced trading platform, institutional custody accounts, a wallet for retail investors and its own US Dollar stable-coin. Now, almost 10 years after its foundation, Coinbase's IPO via a direct listing instead of a more traditional IPO, on the 14th of April, marked a turning point but also a new high for cryptocurrencies for many experts, investors and observers. In fact, Leeor Shimron, an analyst at FundStrat Global Advisors, has described Coinbase's direct listing as a "watershed moment for the crypto industry". Since the direct listing, however, the price of one share declined from USD 328.28 to USD 295.63 (29th of April).

Nonetheless, strong revenue growth suggests that Coinbase will be another candidate for soaring share prices like many other tech stocks in the Nasdaq and S&P 500 in late 2020 and the first quarter of 2021. In the first quarter, Coinbase has already posted USD 1.8 bn in revenue, higher than the entire 2020 figure of USD 1.3 bn. Driven by relentless trading activity, the cryptocurrency sector has hit record after record, with the sector's total market capitalisation rising to USD 2 tn for the first time, after taking a decade to reach USD 1 tn in January 2021.

On the other hand, many voices point to the overvaluation of Coinbase, which can be extremely squeezed by possible inflation expectations. The future and especially the market sentiment towards technology stocks will reveal the truth. Until then, loyal and new cryptocurrency followers alike are looking forward to additional validation of the space and a great PR opportunity for the entire industry to shine as the future of finance. Coinbase has more users and more revenue than many of the biggest Wall Street players and is more profitable than any major exchange. This confirmation brings most sceptics to a crossroad, in which they will have to re-evaluate their denial in the face of the disruption that is coming at them from all sides. Venture capital firm Andreessen Horowitz, Coinbase's largest shareholder, which holds about 25% of Class A shares and 14% of Class B shares, may be particularly pleased.

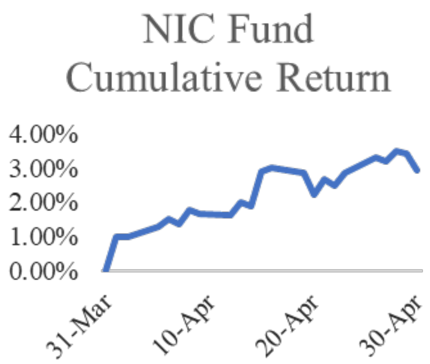
Furthermore, Coinbase's IPO should send an important signal to similar cryptocurrency players in the market, such as BlockFi and Blockchain.com, giving them courage and market validation for their public listings while BlockFi is already looking at a SPAC within the next year.

Date	Recent News
14 Apr 21	Direct listing of Coinbase's shares on Nasdaq. ***Source:*** *marketwatch.com*
08 Apr 21	Coinbase reports revenues of USD 1.8 bn for Q1 2021. ***Source:*** *businessinsider.com*
12 Dec 13	Coinbase raises USD 25 m in a Series B round led by Andreessen Horowitz ***Source:*** *techcrunch.com*
01 Jun 12	Foundation by Brian Armstrong (CEO), 38, and Fred Ehrsam, a Coinbase director ***Source:*** *marketwatch.com*

Timor Domin
Investment Banking Division

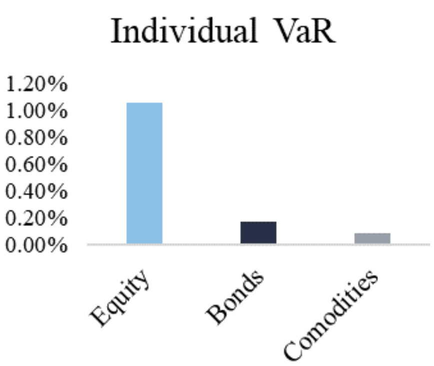
NIC Fund

NIC Fund
Portfolio Overview



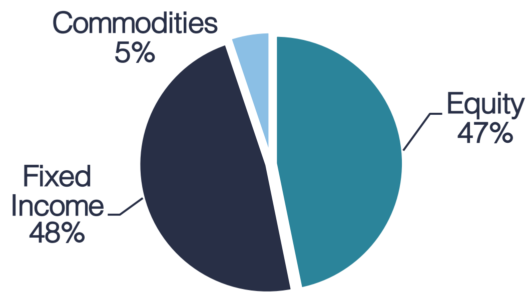
Portfolio Statistics	
Cumulative Return	3.41%
Annualized Return	40.91%
Daily St. Dev	0.40%
Period St. Dev	1.85%
Annualized St. Dev	6.42%
Info Sharpe	6.37
Skew (Daily)	0.42
Kurtosis (Daily)	-0.11

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 April, the NIC Fund remained invested in Equities (47%), Fixed Income (48%) and Commodities (5%). This is in line with our benchmark, albeit slightly overweight on equities and underweight on commodities. Our benchmark dictates a 40% exposure to equities, 50% exposure to fixed income, and a 10% exposure to commodities. The fund pursues a long-term investment strategy and allows us to take active weights across all investments. Depending on expectations on specific asset classes, the portfolio weights may differ slightly from our benchmark.



Return Metrics

The overall performance of the NIC portfolio was positive, with a cumulative return of 3.41%. This performance was driven by strong results from Equities, which contributed 2.12% to the overall performance. Multiple sectors returned strong results, with our stock selections in the Information Technology and Materials sectors yielding returns of 9.07% and 14.50% respectively. The weakest sector was Industrials, returning −3.56% MTD. Fixed Income contributed 0.52% to overall fund performance, with iShares JP Morgan USD Emerging Markets Bond ETF (EMB US) yielding an above asset class average of 2.40% MTD. Commodities also had a strong month, contributing 0.27% to overall fund performance despite the low weight associated to the asset class. The strongest performing commodity asset within our portfolio was Invesco DB Commodity Index Tracking Fund (DBC US), which yielded 7.83% MTD.

Risk Metrics

In terms of risk, our portfolio registered a daily VaR of 1.03% for the month of April, which is significantly below the established limit of 2.5%. Equities had the highest individual VaR with a value of 1.06%, which is slightly lower than the VaR recorded for the month of March (1.08%). Bonds and Commodities recorded respective individual VaR values of 0.17% and 0.09%, which remained unchanged from last month.

Sebastian Hartmann
Financial Markets Division

NIC Fund

Assets in Brief

Asset Class	Symbol	Comments
FP Equity	**KER**	Luxury group Kering SA recorded strong first-quarter results, with sales reaching levels that are higher than those before the Covid-19 pandemic hit. Shares are up 15.99% MTD, and 10.86% YTD. This rebound has been strongly fueled by shoppers in China and increasingly the United States, as customers are eager to spend their accumulated savings. However, Kering roughly trades at a 20% discount when compared to rivals, as investors are worried the company may be losing market share as a consequence of the pandemic.
FP Equity	**MC**	As an additional sign that the luxury sector is rebounding to levels stronger than before the pandemic, LVMH, a European luxury goods conglomerate with ownership of about 75 brands, recorded a strong MTD return of 13.66%, and a YTD return of 21.43%. In contrast to Kering SA, the company has been gaining market share during the pandemic as a result of a more diversified array of brands within its fold. The company has a strong presence in multiple market segments, including Fashion & Leather Goods, Perfumes & Cosmetics, Wines & Spirits, Watches & Jewelry and more.
US Equity	**AMZN**	Stellar performance from reported earnings are not limited to luxury products. The Information Technology sector benefitted tremendously from pandemic conditions, which encouraged working from home as well as leisurely online activities. The stock is up 12.07% MTD after reporting a 220% increase in net income for Q1, YoY. Almost half of Amazon's operating revenue came from its growing cloud division, AWS. The company is expecting the boost in sales to continue even after the pandemic.
BB Equity	**UMI**	Umicore SA, a materials technology company, indicated that the company is expecting to achieve a substantial growth in earnings in 2021, driven by the strong demand and increase in prices for precious metals, in particular those associated to battery production. The company is strongly positioned for the rise of the EV market, offering services for clean vehicles as well as benefitting from precious metals recycling. As a result, the stock yielded 14.50% MTD and 26.65% YTD.
FP Equity	**MCPHY**	To further position ourselves in increasingly popular and rising industries, we added McPhy Energy SA to our portfolio in the last week of April with a long-term investment perspective. The company manufactures components for hydrogen production and storage units, as well as refueling stations. The European Union decided that Hydrogen will make up an integral part of the European Energy landscape in the future and has pledged billions of Euros in aid to companies which contribute to achieving net zero targets. The company is excellently positioned to make use of its first-mover advantage and establish itself as a key player in the industry.
EM Bonds	**EMB**	The iShares J.P. Morgan USD Emerging Markets Bond ETF outperformed both 1-3 as well as the 3-7 Year US Treasury Bonds in our portfolio, yielding 2.40% MTD. It recovered from an initial sell-off earlier this year as uncertainties regarding US inflation prevailed. However, these uncertainties have made way in recent weeks to accommodate for steady returns. Nonetheless, this recent addition to our portfolio still yields −0.22% YTD.
Commodity	**DBC**	The Invesco DB Commodity Index Tracking Fund provides our portfolio exposure to 14 different commodity futures through its underlying asset. Benefitting from the rise in commodity prices, especially those of precious metals, the fund yields 7.83% MTD, and a strong 21.84% YTD.

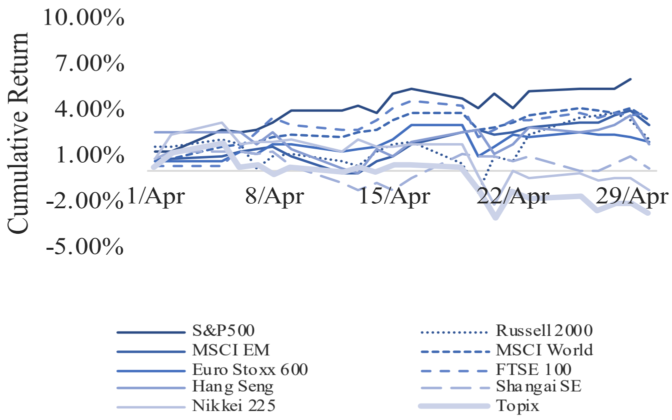
Sebastian Hartmann
Financial Markets Division

NIC Fund

Equities

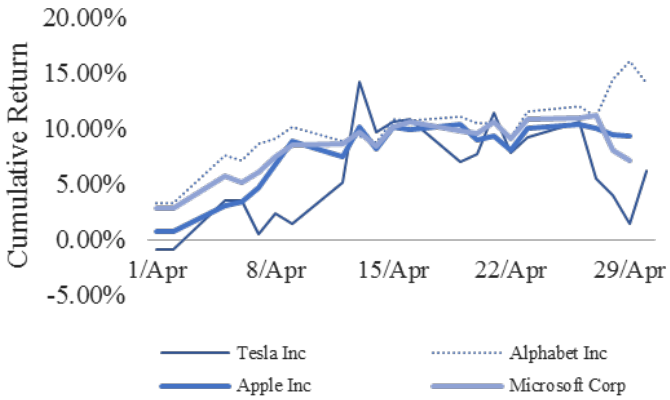
World Equities

With improving economic conditions and strong corporate Q1 earnings announcements, global equities saw a successful month of April. Moreover, the VIX index, a measurement tool of the S&P 500's volatility, dropped and remained below its long-term average of 20 for the whole month, indicating an easing market sentiment. In the US, the S&P 500 rose by 6.01%, while the tech-heavy Nasdaq increased by 5.40% with high-growth technology stocks' performance suffering from rising treasury yields. However, in the second half of the month, Joe Biden's proposal of higher capital gain taxes for the rich dragged down US stocks' performance temporarily. In Europe, the FTSE 100 gained 3.82% while its more diversified sibling, the FTSE 250, even rose by 4.55%, reaching its all-time high as the UK is considered far ahead of other European nations regarding the management of the pandemic. German DAX however, also reached its all-time high on Friday, the 16th of April where it closed at 15,459.



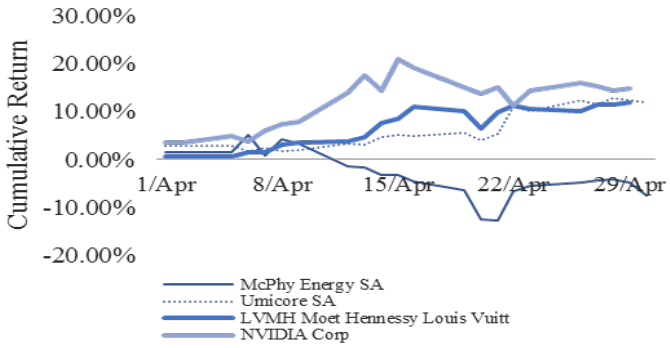
In Depth: Tougher Times for Tech Stocks ahead?

Expectations about rising inflation bring along concerns of increasing interest rates. Although both the ECB and the Fed remain observative, and both neither announced reductions of Covid-19 asset purchase programs, nor any changes in short-term interest rates in their April meetings, long-term bond yields have risen strongly in the past weeks with the 10Y treasury bond yield staying above 1.60% over the majority of April. This is a logical consequence as yields go up to compensate for the loss of the purchasing power of future cash flows following higher inflation. Higher yields usually drag down high-growth tech stocks' valuations as investors worry about the future values of their profits. Does that mean tech stocks, which have rallied for months and are largely considered overvalued, will be a less attractive investment target in the near future? So far, we only saw a short-term correction of tech stocks in the beginning of March driven by fears of rising interest rates. However, if bond yields continue to increase, they will become more and more attractive to investors which could not only lead to a turnaround for tech stocks but overall stock markets.



Our Performance

Equities' contribution to the NIC fund's performance amounted to 2.12%. Among the top performers were LVMH Moët Hennessy with a MTD return of 13.66% (YTD 21.43%), Umicore SA with a positive monthly performance of 14.50% (YTD 26.65%), and NVIDIA Corporation, which yielded 12.45% in April to our portfolio (YTD 15.01%). We are closely observing Volkswagen AG and HDFC Bank Limited, which posted losses of -6.97%% and -6.67% respectively. In the last week of the month, we added McPhy Energy S.A. (MCPHY) to our fund. McPhy is a French developer and supplier of hydrogen production, storage, and distribution equipment. We see great potential in the climate megatrend hydrogen which will play a significant role in the decarbonization of industries.



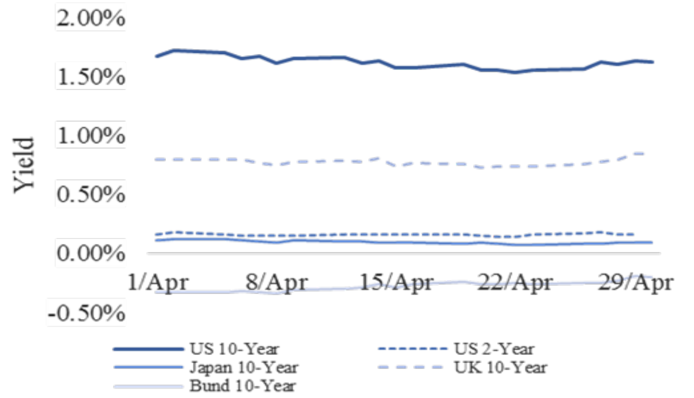
Julia Weber
Financial Markets Division

NIC Fund

Fixed Income

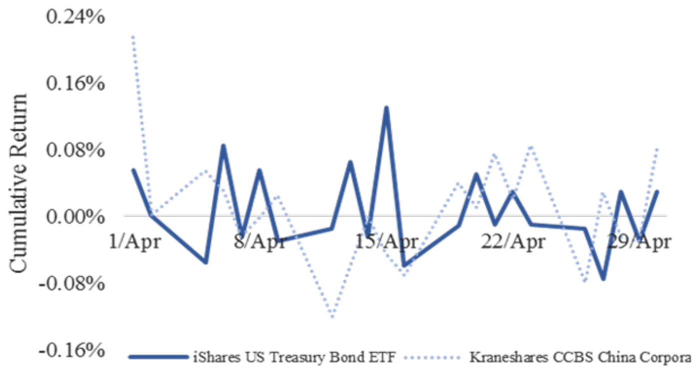
World Yields

As the recovery from pandemic is accelerating, interest rates around the world generally increased in April. However, the first theme to consider is that investors are looking for higher returns in several different asset classes, particularly in Equities. In the US, President Joe Biden is proactively stimulating the economic rebound after the pandemic through a mix of monetary and fiscal stimuli. This is one of the reasons why inflation is expected to further increase before the end of the current year. In such an environment, investors prefer to substitute a low yields offered by government bonds of developed countries with dividend yields of value stocks or emerging market corporate coupons, as discussed below. However, increasing vaccinations and the sustained declarations of support from central banks contribute to rising long-term rates, and thus, a steepening yield curve. The US 2-Year yields increased 3.7 bps to 0.16% during April, while the US 10-Year yields fell 4 bps to 1.63%. In Europe, the 10-Year Bund ended 9 bps higher at -0.20%, while rates in Asia remained steady, with the Japanese 10-Year yield closing at roughly 0.09%.



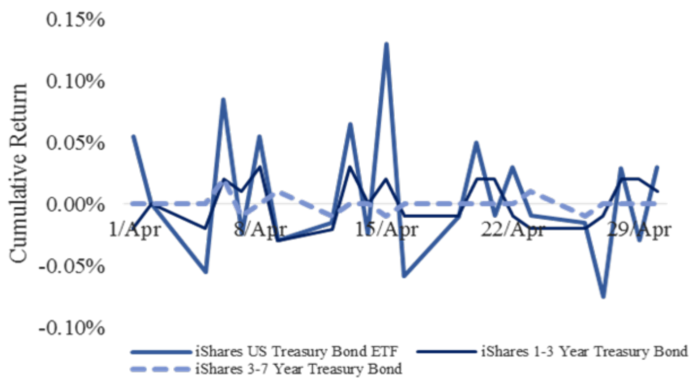
In Depth: EM ESG Bonds and Corporate Credit

Investing in EM credit is an appealing way to enhance diversification and earn a premium by exploring assets that are not correctly priced by the market. Focusing on Asia, China has recently announced its commitment to be carbon-neutral by 2060. This will certainly provide strong momentum to green projects among Chinese corporates and consequently more ESG related bonds will likely be issued by the country. In terms of sectors to monitor, ESG bonds are mainly issued to finance green transportation and to build more functional edifices. Some examples include electric cars, railway lines, and photovoltaic panels. In summary, interesting sectors are transportation and real estate development as they represent two early adopters of the ESG driven program. In credit, it is recommendable to adopt a pro-cyclical approach to try to maximize returns in a post-pandemic economic rebound scenario. Improving credit quality in emerging markets corporates results in capital appreciation, while the coupons provide better source of income when compared to their government counterpart. Moreover, the lower sensitivity of Corporate credit to the change in interest rates is a further benefit in an environment characterized by rising rates. Risk control can be realized by investing in companies with solid balance sheets, good current earnings and fully transparent future ones. To be more accurate, regulated businesses such as insurance companies and utilities are reasonable options.



Our Performance

The SHY ETF that tracks 1-3 year US Treasury bonds had a total return of 0.06%, while our benchmark ETF fund for fixed income, the IEI, that tracks 3-7 year US Treasury bonds returned 0.48%. Given the current situation, it is wise to look beyond the US to increase returns and diversification within fixed income.



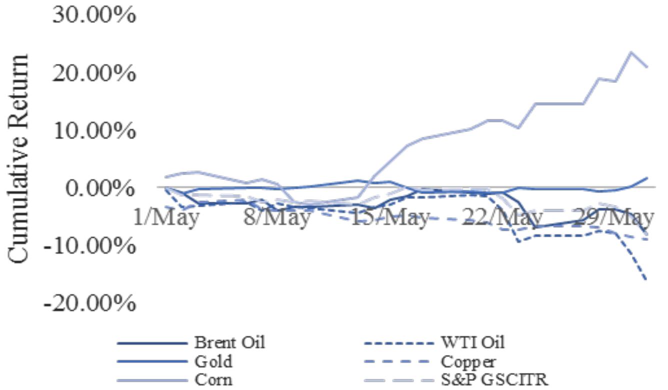
Alessandro Astore
Financial Markets Division

NIC Fund

Commodities

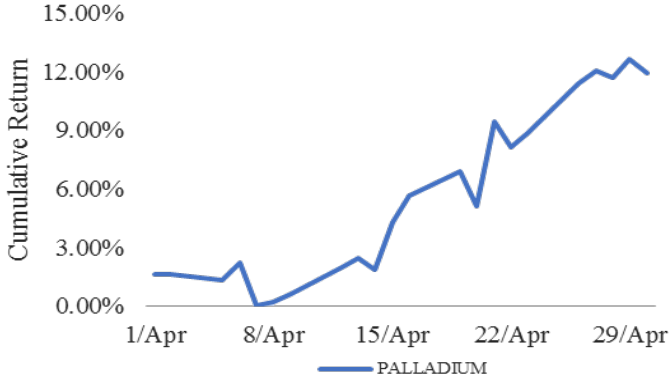
April Round-Up

For the month of April, Gold showed a limited increase, reaching a two-month high of around USD 1,800 per ounce. This was mainly driven by safe-haven demand fueled by rising Covid-19 infections in some countries, such as India and Japan. Additionally, in China, Beijing allowed banks to import large amounts of the precious metal into the country. However, in the end of the past month the gains began to get saturated as Treasury yields edged up, remaining below recent highs. The low interest rates continued to support Gold gains as the Fed confirmed that it will not interest rates soon. Despite the impact of rising Covid-19 cases in Brazil, India and Japan, in the end of April WTI oil reached its highest level since March, supported by forecasts on demand recovery for the second half of the year. Moreover, the latest economic data showed evidence that US economy expanded more than expected in the first quarter, with Fed affirming that employment rates have strengthened due to the progress in vaccinations. Finally, in the US, Copper reached its highest level within a 10-year time span with the economic stimulus also lifting the hopes of an economic recovery as well as a higher demand for metals. Moreover, in the long-term, some banks raised their bets on Copper consumption this year, supported by its role in the future of a carbon-free world.



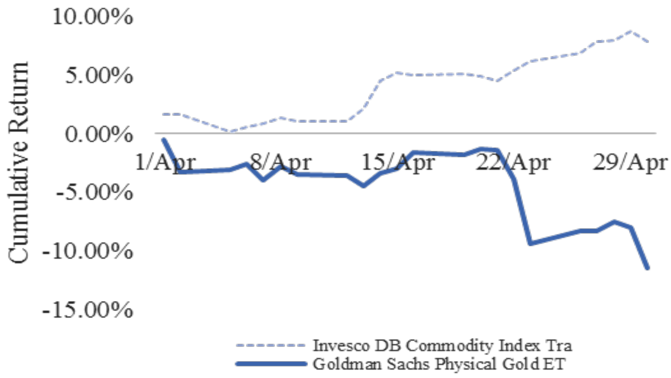
Palladium: The next rising star?

Palladium is well recognized for being used in several types of applications for electronics and industrial products. Its importance is mainly attributed to the fact that it can not be easily replaced by alternative materials. The metal is showing one of its strongest streak ever by reaching USD 3,008 per ounce, which is its highest level ever. Tighter car pollution regulations in Europe and China pushed up the demand since it is used in catalytic converters to clean (non-electric) car exhaust fumes. Additionally, rising concerns regarding the metal's supply contributed to the hike of this commodity since the world's largest producer, the Russian mining company Norilsk Nickel, said in March that its production could be 15% lower than the previously estimated level because of forced mines closures resulting from to water problems. Moreover, Palladium plays important roles regarding hydrogen technology, such as hydrogen purification, storage, detection and fuel cells. Consequently, in a long-term perspective its popularity can become even more evident as a hydrogen economy can turn into a reality given all its advantages, such as high energy density and pollution reduction, amid global warming concerns.



Our Performance

In April, the NIC Fund was invested 5% in commodities. The overall return of this class was 0.27%, with the Invesco DB Commodity Index Tracking Fund being the best performer, returning 7.83% MTD.



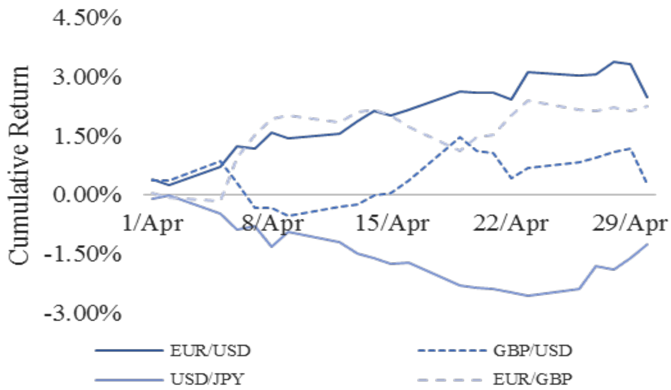
António de Castilho Lima
Financial Markets Division

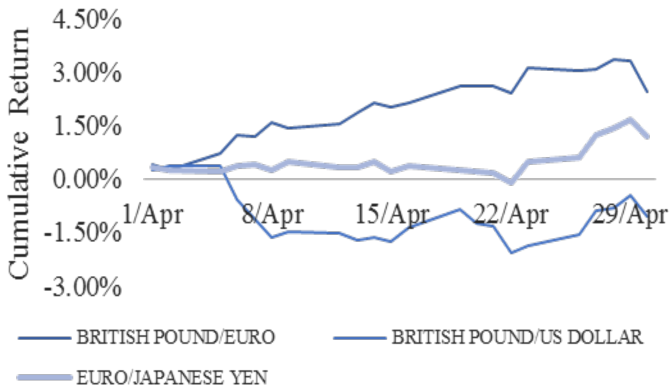
NIC Fund

Currencies

World Currencies

The USD index, which tracks its value against six other major currencies, has declined for the fourth week in a row, bringing its losses for April to almost 2%. This decline in value can in part be attributed to the gains of commodity currencies, amid rising prices for both industrial and agricultural products. Additionally, it can be attributed to the decision of the Fed to leave its loose monetary policy in place as Chairman Powell notes that there is not enough evidence of "substantial further progress" to recovery yet to justify a change. The GBP/USD showed a monthly gain of 0.28%, which has been supported by the UK's easing of lockdown restrictions, bolstering the economies' recovery. Nevertheless, GBP gains have been modest as investors cautiously await Scottish elections in the first week of May. The EUR strengthened substantially against the GBP with a gain of 2.24%. This development can be attributed to a more optimistic outlook of investors regarding the Eurozone's economic recovery. Eurozone composite PMI data for April rose to 53.7 up from 53.2 in March, widely exceeding forecasts (52.8). In addition, the Eurozone vaccination rollout is expected to accelerate considerably this quarter. Concerns surrounding the impact of Brexit on Northern Ireland and rising tensions between Britain and the EU add further pressure on the GBP. The USD/JPY had a monthly loss of -1.27%. This strengthening of the Japanese yen could be also observed against other currencies such as AUD, EUR, or GBP. This outperformance is rather technical as investors remain optimistic about the global outlook. The compression of spreads between US and Japanese bond yields contributed to the outperformance. Additionally, markets were nervous in late April, triggering inflows to safe haven assets.





May Outlook

A currency to watch out for in May is the GBP as Scottish elections will take place on the 6th of May. Pressure for an independence referendum will intensify if the Scottish Nationalist Party wins an overall majority. Polls are suggesting a win of independence-supporting parties, achieving a supermajority in Scotland's parliament. This would lead to an underperformance of the GBP across all other currencies. In contrast, May could be a solid month for the EUR as several major European economies start easing restrictions. A surge in consumption after several months of restrictions could vastly improve the Eurozone's Q2 outlook. This could also be driven by new developments in the EU vaccination rollout against key markets like the US and the UK. The ease of restrictions in Europe and the subsequent boom in consumption, however, would likely see the JPY underperform against the EUR. Nevertheless, a substantial sell-off in highly valued stock exchanges in May would automatically see an interest in the Japanese yen and its hedging feature.

Our Performance

We currently hold no currency related assets in our portfolio.

Fitore Zeciri
Financial Markets Division

Extras

Hot Topic

Derivatives Trading Leads to Billion-Dollar Implosion

Emily Rushforth
Financial Markets Division

"What we try to do is make sure that the banks understand the risks that they're running and have systems in place to manage them. This would appear to be a significant shortfall – a failure on that front."

– Jerome Powell, Federal Reserve Chair

Run by Bill Hwang, Archegos Capital Management purchased derivatives from multiple investment banks to build massive positions in several stocks, such as ViacomCBS, Discovery, and Baidu, Inc. By using total return swaps, which allowed Hwang to bet on the share price without owning the underlying stock, Archegos used leverage to amass outsized positions.

As a private firm, Archegos did not have to disclose its derivatives positions, and Hwang eventually hit a level of leverage that would be uncommon even for a hedge fund. Almost undetected, he invested USD 10.0 bn in Viacom and held gigantic positions in a few other blue-chip stocks.

Due to the run-up in its share price in large part due to Hwang, ViacomCBS announced that it would raise USD 3.0 bn from stock offerings in late March. This caused the stock to fall sharply, triggering margin calls for Hwang. Because he was unable to pay them, the world's largest investment banks were forced to liquidate colossal positions across several stocks, leaving them with heavy losses and regulators with many questions to answer.

The gaps in risk management across multiple investment banks left them quite vulnerable. During April, banks slowly revealed just how much of a hit they took, exceeding USD 10.0 bn in total. The most-impacted banks were Credit Suisse with USD 5.4 bn in losses, Nomura with USD 2.9 bn in losses, and Morgan Stanley with USD 0.9 bn in losses. Details published in April paint a clear picture: the investment banks that played a crucial role in Archegos' inflated bets are not subject to the oversight necessary to manage the risk the banks themselves create.

In the aftermath of the financial crisis in 2008, Capitol Hill introduced the Dodd-Frank Act, targeted at minimizing excessive risk-taking in the derivatives market that caused the Great Recession.

However, the actual implementation of these changes was continually delayed. Rules that would have required Hwang to disclose his trades were never enacted, nor was the demand for funds like Archegos to post initial margin. Without anyone comprehending the full extent of his positions, Hwang's portfolio grew to an estimated USD 100.0 bn. And once share prices went against him, he could not compensate his counterparties.

Equity total return swaps are governed by the Securities and Exchange Commission, which did not plan to implement these rules until the 1st of November. Had they done so sooner, the governing body would have had access to the data needed to understand Archegos' position, including the size of each trade and the counterparty in each transaction.

The swaps market is responsible for the global financial crisis, yet the SEC has failed to regulate it in the thirteen years since the crash. The fact that investment banks did not have a clear grasp of Archegos' positions remains at the center of this fiasco, given that they did not realize that the fund took similar positions at many banks across Wall Street.

Only the SEC is to blame for the lack of transparency. It should not have taken Hwang bringing together Archegos' many counterparties himself for the banks to realize the full extent of what exactly they were dealing with.

Emily Rushforth
Financial Markets Division

Extras

Hot Topic

The US Capital Gains Tax

Jan Bich
Investment Banking Division

"This isn't about feeling sorry for millionaires, doubling the top capital gains rate would have deleterious effects on job creation and wage growth for middle-class workers."

– Anthony Scaramucci, Founder of Hedge Fund SkyBridge Capital

One of the biggest issues present worldwide, but particularly in the United States of America, is the growth of the widening gap between the rich and the poor. In order to tackle this problem, President Joe Biden announced tax changes during his presidential election campaign. After being elected, Biden is now about to announce an economic package, worth roughly around USD 1.5 tn. The main measure here is the increase of the Capital Gains Tax from currently 20% to almost 40% for wealthy Americans earning more than USD 1 m on their investments.

The same followed regarding the increase of the top income tax rate from 37% to, once again, almost 40%. The higher Capital Gains Tax would offset the tax cuts previously introduced by former President Donald Trump in 2017. Acknowledging the Obamacare Surtax on investment income of 4%, the total burden could rise to a number slightly higher than 43% or even over 50% in some states, taking state taxes into account. As a result, pressure on the wealthy would rise.

The rationale behind this package is to use the additional proceeds to fund the so-called "American Families Plan". The third big economic package after the Stimulus Plan and Infrastructure Bill intends to benefit childcare and education until 2025 by funding universal pre-kindergarten schooling and community colleges. The central motivation for that is to strengthen the American middle class and to benefit from work instead of wealth.

As a consequence of the proposal to secure low tax rates on potential gains, the stock market reacted with a 1% drop in the S&P500 resulting from a sell-off. It was then agreed, by several investors, that the suggested change could also lead to a reduction of tax revenues over time in contrast to the desired doubling. Additionally, it could prevent people from engaging in long-term investments. If investing is not as profitable and favourable as now, especially for wealthy people, the discouragement from investing becomes a threat, and consumption can be stimulated, which might negatively influence the economy. Finally, the reform proposed to target wealthy individuals could also affect job creation and wage development for the middle class.

However, the discussed change would only target a small number of investors. 75% of the US investors are not subject to the Capital Gains Tax as their savings are stored in retirement accounts. Out of the remaining 25%, only 0.03% achieve capital gains over USD 1 m to be attributable to the new tax.

Aside from individuals, corporates are also affected by the tax reform. Examples of parties that could be highly impacted are Private Equity, Hedge Funds and Venture Capital industries. In terms of Private Equity and Hedge Funds, the carried interest generated after exiting an investment is currently taxed with the lower Capital Gains Tax rather than the tax on ordinary income, but their treatment will be equalized in the future. In turn, the income by Private Equity companies and Hedge Funds will no longer be subsidised. Moreover, it also impacts entrepreneurs who want to exit their start-ups by doing so early. Further consequences for Venture Capital due to the tax reform will include risk capital being more expensive in the future. As a result, America could lose some of its good standings as a location for Private Equity and Hedge Funds.

Jan Bich
Investment Banking Division

Extras

ESG Review

Plastic Pollution: Reducing Environmental Impact through ESG Assessment

Hannes Stingel
Investment Banking Division

"Plastic pollution is a global problem and affects the entire value chain, from manufacturer to waste manager"

– Hilde Jenssen,
Fundamental Equities
Product Manager at Nordea

The world population continues to grow and overall consumption has reached levels never previously witnessed. It goes without saying that dealing with waste management and plastic pollution has never been more challenging than today. Contradictory, especially in times of increasing importance of climate change and sustainability, we have seen negative records of environmental pollution.

8 m tons of plastics end up in the oceans every year driven by a huge increase in plastic production over many decades. Between 1950 and 2019, global plastic production skyrocketed from 1.5m tonnes to 368m metric tonnes per annum, representing an 8.43% CAGR. However, there still seems to be no light at the end of the tunnel as analysts expect plastic production to be doubled from here by 2034.

Ranked by countries, the US, UK, and South Korea are the top 3 nations with the highest total plastic waste production per capita, followed by Germany. Besides that, China has been the world's waste receptacle for many years. In 1992, 85% of Europe's waste was shipped to China and since then, 45% of the world's plastic waste has been absorbed by China.

To sustainably decrease plastic pollution, recycling has proven itself as a promising megatrend. As of now, only 9% of the total plastic waste is being recycled – although this is already 30% in the US. However, only 75% of the American waste stream is actually recyclable. This clearly indicates that there is still room for improvement while regulations will be further tightened. Therefore, it is needless to say that companies with sustainable business models will benefit from regulatory changes.

In terms of active investing, investors want to make an environmental impact by investing either in companies with clear recycling targets or in companies that provide plastic alternatives. As a result, businesses with sustainable initiatives will be in focus. This trend is mainly supported by advanced recycling technologies, bringing a higher number of attractive investment opportunities. Furthermore, products and technologies are getting more diversified which hereinafter increases the utility of recycled plastics in the future and further ensures new angles to invest.

On 19th March 2021, WWF published a guidance for integrating plastic impacts into company ESG assessments that helps them to strengthen their reporting and transparency around plastic usage and impact. By publishing important plastic performance indicators, companies can be assessed according to their position in the value chain, performance on current plastic action, and preparedness for transitioning. In the long run, guidance regarding plastic pollution and recycling should translate into mandatory standardized reporting in order to fully guarantee transparency and increase sustainability.

Plastic pollution and recycling will significantly influence trends in active investing as ESG standards are adjusted. There will be winners and losers as businesses work to reduce plastic pollution. However, the use of innovative technologies offer attractive investment opportunities and a further move into more sustainable investment. Nevertheless, the way has been opened to further move into a more sustainable investment environment.

Hannes Stingel
Investment Banking Division

Thank you!

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

Our team:

Investment Banking Division

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

Financial Markets Division

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

Corporate Partners:

Academic Partners:

Nova SBE
Career Services

Email us at:
nic@novainvestmentclub.com

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Design by: Carmo Cunha e Sá