NIC

— Nova Investment Club —

Newsletter

June 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, Jan Bich, our Head of IBD, elaborates on carbon pricing in Germany and the EU. Moreover, in our Regional View, Emily Rushforth examines the hack which created a massive fuel shortage along the entire US East Coast.

Our Investment Banking Division will guide you through May's M&A overall activity. Read about Vonovia to acquire Deutsche Wohnen, AT&T's Warner Media to merge with Discovery, and Pembina Pipeline Corp to acquire Inter Pipeline Ltd. Additionally, get a detailed overview on what happened to Beyond Meat and ExxonMobil, as well as consider our opinion on commercial space ventures.

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 May was positive, with a cumulative return of 0.94%. A return that can be mainly attributed to Equities.

On the Hot Topics of this month, Sebastian Hartmann examines the Shell case potentially becoming a precedent for pre-emptive climate litigations, while Timor Domin elaborates on the M&A activity in the alternative protein market. Lastly, on our ESG review in collaboration with Nordea, Antonio Lima writes about ESG in emerging market debt.

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 The reports may contain inaccurate or outdated information and should not be used as an exclusive mean for investment decisions.

Macro Overview

Monthly

June 9th, 2021

Deeper Dive
Implications on Carbon Pricing in Germany and the EU

Regional view
Russian Hackers Cause Massive Fuel Shortages along the East Coast

Market Moves

Market Moves
% change

	Last Close	-1W	-3M	YTD
S&P 500	4,204	0.17%	10.31%	11.93%
DJIA	34,529	0.39%	11.63%	12.82%
Nasdaq	13,749	0.64%	4.22%	6.68%
MSCI World	3,719	0.56%	8.53%	11.21%
MSCI EM	4,920	3.21%	6.32%	7.77%
Russell 2000	2,269	1.87%	3.09%	14.89%
Euro Stoxx 50	4,039	0.10%	11.08%	13.70%
FTSE 100	7,023	-0.41%	8.32%	8.70%
Nikkei 225	28,860	1.75%	-0.37%	5.16%
Hang Seng	29,152	2.60%	0.59%	7.05%
Dollar Index	89.83	-0.02%	-1.16%	-0.12%
EUR/USD	1.223	0.09%	1.26%	0.09%
GBP/EUR	1.162	0.31%	0.73%	3.92%
GBP/USD	1.421	0.39%	2.00%	3.96%
USD/JPY	109.580	0.76%	2.82%	6.13%
USD/CHF	0.90	0.19%	-1.06%	1.55%
Brent Crude	69.320	1.26%	4.82%	33.82%
Gold	1,902.5	0.96%	10.05%	0.39%

Generic Bond Yields
change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	1.594%	-0.7	18.9	68.1
GER 10Y Yield	-0.187%	-4.7	7.3	38.2
JPY 10Y Yield	0.087%	0.7	-7.5	6.6
UK 10Y Yield	0.795%	-1.6	-2.5	59.8
PT 10Y Yield	0.460%	-8.5	14.3	43.0

**Source: Bloomberg, as of 2021-05-31*

In Focus
May

German inflation overshoots ECB inflation target. Germany's annual consumer price inflation accelerated in May to 2.4%, up from 2.1% in April. This is the highest rate since 2018 and well above the 2% inflation target of the ECB. As the demand for travel and leisure activities accelerates with lockdown easing measures, the scope for price increases widens. Nevertheless, it is unlikely that the ECB will be disturbed by the short-term increase in inflation and will only slowly return its policy to pre-pandemic levels.

Euro zone manufacturing activity expanded. According to a survey, Euro zone manufacturing activity expanded at a record pace in May. The survey also suggested that growth would have been even faster without supply bottlenecks that have led to an unprecedented rise in input costs. The euro zone's economy has been hit hard by the pandemic, forcing much of the region's dominant service industry to close. However, factories largely remained open and various restrictions in countries are being eased.

OPEC and allies expected to increase oil output. In April, the group opted to supply 2.1 m barrels per day to the market over the May to July period. This shows a rather optimistic outlook for improved mobility. OPEC Secretary-General Mohammed Barkindo stated that higher Iranian supply would not be a cause of concern.

Iran bans bitcoin mining as the country suffers power shortages. The Iranian capital of Tehran and several other large cities have faced daily power outages. Officials are blaming it in part on bitcoin mining. 4.5% of all bitcoin mining globally between January and April of this year stemmed from Iran. Hence, Iran's government decided to announce a ban on the mining of bitcoin and other cryptocurrencies.

Commodities markets show signs of new supercycle. Rallys in key raw materials such as copper, lumber, and iron fuel expectations that a new commodities supercycle, described as a period where prices rise above their long-term trend, has arrived. This can be attributed to the pandemic-induced growth in commodities, driven by a greater emphasis on job creation and environmental sustainability.

US inflation beats expectations. The Consumer Price Index for All Urban Consumers (CPI-U) showed a 12-month increase of 4.2%, which is the largest increase since the period ending September 2008. The main drivers for this development are a large amount of fiscal support, supply bottlenecks and increased spending as economic activity picks up after the rollout of vaccinations.

European GDP growth forecasts are raised. Growth expectations for the euro area were updated to 4.3% this year and 4.4% in 2022. Previous forecasts suggested a growth of 3.8% for both years. The stronger outlook can be attributed to the strong vaccination program, the prospect of eased lockdowns, and improving export demand, driven in part by the US fiscal stimulus packages and improved growth in China. After Europe slid into a double-dip recession early this year, the lockdown easings combined with the early payouts from the recovery fund are expected to accelerate the third quarter growth.

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Fitore Zeciri
Financial Markets Division

Deeper Dive

Implications on Carbon Pricing in Germany and the EU

Jan Bich
Investment Banking Division

"Achieving net zero in a 30-year timeline is a historic transition and politicians need to stop pretending that it can be done for free. Governments can try and exempt the poorest from the whole costs, but the middle classes will have to pay for it."

– Michael Pollitt, Professor of Business Economics at Cambridge University

At the beginning of the year, Germany entered into the National Emissions Trading System, in order to take the first step towards less environmental damage and to fight climate change in general. In an effort to achieve greenhouse gas neutrality until 2050, in compliance with the Paris climate convention, a charge on fuels like petrol, diesel, heating oil, and natural gas will be imposed. As a result, CO2 emissions will be priced and saving energy as well as using more environmentally friendly alternatives will be incentivized by increasing fuel prices. There are also plans to roll out the system in the whole EU to become the first net-zero emission economy until 2050. For that purpose, the EU wants to use the German carbon pricing model as a role model for other states in the EU.

Specifically, the National Emissions Trading System being effective since January 1st involves a fixed EUR 25 charge per tonne of CO2 corresponding to 7 cents per liter of petrol, 8 cents per liter of diesel and heating oil as well as 0.6 cents per kilowatt-hour of energy generated from natural gas. The system also includes a gradual rise of the charge to EUR 55 until 2025. From 2026 onwards, the charge will be determined in auctions with a pre-set corridor of EUR 55 to 65.

There were a lot of discussions about whether this measure is a favourable development for the reduction of emissions and a step towards the right direction or just a kind of greenwashing. On the one hand, climate scientists and economists are convinced that pricing emissions by imposing a carbon tax or introducing a market-driven system will promote more environmentally friendly behaviour of consumers and companies. Conversely, environmental activists are in doubt, if this measure is meaningful enough to meet the agreed goals decided within the Paris climate convention. It is expected, that the effect on climate will be very small due to many exceptions allowed for entire branches of industries as well as charges being too low to have a considerable impact on changing the behaviour of consumers and producers.

Nevertheless, one of the biggest issues of the European expansion is that low-income consumers – particularly in Eastern Europe – will be hit the hardest and are subject to an economic shock pushing them into energy poverty. Penalizing poor households who cannot afford higher heating prices in their rental buildings or a change to an electrical vehicle can cause a societal and political backlash as can be seen by the Gillet Jaunes demonstrations. This raises the question of who should pay for the transition?

At the moment, companies in the EU can buy credits to make up for their pollution. Forcing companies to pay a charge such as the one in Germany could result in companies handing over those additional costs to end consumers where low-income households are most vulnerable as they are trapped in fuel-related activities. One solution to that problem would be to redistribute proceeds generated from the chargeback to those low-income households to compensate them for additional costs they cannot afford.

All in all, it is difficult to say if the measure will be successful and accepted. Pricing emissions directly can help to increase the credibility of the Paris climate convention by achieving net-zero emissions. In contrast, it can be seen as one step to success only working with other tools in combination such as removing the exception for transport companies like aviation or shipping, binding standards on car emissions to challenge car manufacturers, higher renewable energy goals and schemes to encourage private sector investment in green technology.

Jan Bich
Investment Banking Division

Regional View

Russian Hackers Cause Massive Fuel Shortages Along the Entire East Coast

Emily Rushforth
Financial Markets Division

"We've got electrical grids in this country. We have water systems. We have pipelines. We have a lot of critical infrastructure that is really open to … ransomware attacks"

- John Katko, member of the House Committee on Homeland Security

Although ransomware attacks on energy infrastructure have been occurring around the world in recent years, a group of profit-motivated cybercriminals known as DarkSide did last month what no other military or intelligence agency hackers have dared to do before. The Russian-based hackers disrupted Colonial Pipeline, a pipeline that provides nearly half of the fuel consumed on the East Coast of the United States.

On the 7th of May, Colonial Pipeline confirmed claims that hackers had infiltrated its network. The company owns a 5,500-mile pipeline that provides gasoline, diesel fuel, and natural gas from Texas to New Jersey. As a result of the attack, they decided to shut down major segments of the pipeline in hopes of containing the threat, making this one of the biggest disruptions ever of critical infrastructure in the United States by hackers. It also highlights how serious the global epidemic of cybercrimes has become. Rob Lee, CEO of the industrial cybersecurity company Dragos, claimed that "this is the largest impact on the energy system in the United States we've seen from a cyberattack, full stop."

To get their systems back from the hackers, Colonial Pipeline's CEO, Joseph Blount, decided to pay DarkSide USD 4.4 m in Bitcoin. Despite not contacting or consulting with any governmental agencies before transferring the money, Blount allowed the payment due to uncertainty about how long the disruption would last if he did not meet their ransom demands. After receiving the required Bitcoin, the company received a decryption tool to access their systems once again. Even so, Blount explained that it will take months for some of the systems to be fully functional again and that he estimates that it will cost the company tens of millions overall in the end.

This has also placed a spotlight on a major issue with cryptocurrencies such as Bitcoin. When cryptocurrencies are used as a medium of exchange, their main use is for payments related to crime and not to store value like with physical currencies. For criminals, dealing with money is one of the trickiest aspects of a crime, as physical cash can be difficult to spend without drawing unwanted attention and bank accounts are subject to oversight and can be traced using identifying personal information.

However, in the case of cryptocurrencies, criminals can move substantial amounts around the world completely electronically and anonymously. As transactions are processed on a worldwide network of computers, there is no central authority investigating any suspicious transactions. In fact, the blockchain data analysis provider Chainalysis estimates that cryptocurrency worth the equivalent USD 350.0 m was extorted from victims in 2020, a 311% increase from the year before. Admittedly, most cryptocurrency transactions are linked to speculation, and not illegal activities, but as a means of payment for crimes, cryptocurrencies remain thieves' best option.

The Colonial Pipeline incident comes in the wake of the SolarWinds and Microsoft hacks, cyberattacks that allowed criminals to gain access to communications and data across multiple federal agencies and American businesses. In response, on the 12th of May several days after the pipeline attack, President Biden signed an executive order meant to bolster US cybersecurity defenses, which would help companies like Colonial Pipeline to avoid such incidents happening again in theory. Additionally, Biden also created a new task force within the Justice Department to go after DarkSide.

Still, it is quite concerning that a critical component of the United State's transportation system was so easily brought down. While the Biden administration's reaction so far will act as a band-aid for the time being, it will be up to the federal government to update the political framework for the current cyber era and ensure that these regulations are followed across the industry.

Emily Rushforth
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

Retail Sales in the UK

Retail sales for the month of May (MoM) in the UK will be announced on the **18th** of June. These figures will be important in a country with an economy highly-dependent on services and that has been successful with its vaccine rollout.

US Existing Home Sales

On the **22nd** of June, the US existing home sales figures for May will be reported, which measure the change in the annualised number of existing residential buildings sold during the previous month. The forecasted value is 6.09 m, a stronger number than the 5.85 m reported for April, showing signs of a pick-up in US economic activity.

German PMI

On the **23rd** of June, the German Manufacturing PMI data will be released. It is expected that the numbers for June will come out stronger than the previous 64.40 reported for May, with a forecasted value of 65.90.

Central Bank Decisions

Bank of Canada Interest Rate Meeting

On the **9th** of June, the Bank of Canada will meet. The bank is expected to keep interest rates stable at 0.25% level, the same value reported last period. As the economy recovers from the pandemic, the bank forecasts growth close to 6.50% for 2021.

ECB Monetary Policy Decision

The Governing Council of the ECB holds its monetary policy meeting on the **10th** of June in Frankfurt. Additionally, the ECB will also announce the Deposit Facility Rate for June, with analysts forecasting a value of -0.50% for the latter.

Fed Interest Rate Decision

The FMOC meeting will take place on the **16th** of June. The Fed's interest rate decision and interest rate projections will be announced.

Inflation and Deflation

China' Inflation

YoY figures for consumer prices in May in China will be made public on June **8th**. Inflation is expected to increase to 1.00%, compared with the 0.90% reported for the previous month.

US Inflation Data

Inflation data for the US will be announced on the the **10th** of June. YoY Core CPI figures for the month of May are expected to fall from 3.00% to 2.30%. Overall, inflation is forecasted to decrease, after the recent surge in expectations.

Update on Eurozone Inflation

May inflation data for the euro area will be published on the **17th** of June. Inflation is expected to ease, despite the forecasted value of 0.60% for May and 1.60% YoY, both similar to the respective previous periods.

Labour Market

US Employment Readings

On the **4th** of June, US ADP payrolls for May and weekly jobless claims are announced. Despite signs of economic slowdown, the labour market is expected to remain strong. The unemployment rate is expected to decrease to 5.90% from the 6.10% reported for April.

UK Unemployment Data

The United Kingdom's unemployment rate will be announced on the **15th** of June. The overall unemployment rate is expected to increase further to 4.90% during the month of April. The reported figures for March were lower, at 4.80%.

Australian Labour Market

On the **16th** of June, Australia announces its unemployment change relative to the month of May. It is expected to announce an unemployment change of around 15 k, stronger than April's negative 30.60 k change. This shows sign of a recovering job market in the country, which is beneficial to consumer spending.

Ruben Pratapsinh
Financial Markets Division

Investment Banking

M&A

Overall Activity

Global

The month of May 2021 keeps setting the sharp trend M&A deals have been experiencing throughout the last months. Once again, such rise both in volume and value of deals is highly connected with the positive covid pandemic vaccine administration, which triggers cross-border activity, both of products and services, but also people. The most affected industries are increasingly returning to their operations, enhancing as well possible consolidation deals given the struggling scenario many companies are facing. Turning to numbers, May recorded 5,872 deals and an overall value of USD 590.3 bn (201% YoY), with an average premium of 23.14%. Comparing with April, there were 578 more deals and in terms of value, it was just slightly higher. The premium, however, rose considerably and made the 2021 Q2 average premium so far greater than the one from 2021 Q1 (19.30%). The Communications and Financial industries represented 42% of the deal flow in May, with 198% and 206% increases YoY. Finally, a special note to the largest deal of May and year-to-date, Discovery´s USD 43 bn acquisition of Warner Media.

Selected Regions

North America

The North American M&A market was once again the strongest in terms of value. It accounts for 45% of the deal flow in May and records a 387% YoY increase. For such robust figures, the United States contributed with USD 250 bn in deal value (given that most of the major deals occurred over the territory) while Canada saw almost USD 20 bn deal value.

EMEA

In the month of May, within Europe, the western part comprises 96% of the deal flow in the old continent. In Africa and the Middle East, South Africa has a 50% share of the total value in May, with a 491% YoY increase. Moreover, only Israel, Saudi Arabia, UAE, and Kuwait had a deal flow in May.

Asia

In the Asian region, the Asia Developed countries are the “driver” of the region’s M&A in May, with a 124 YoY rise. Going deeper, Australia accounts for more than 50% of the deal flow, followed by Japan. In the Asian Emerging markets, China is the main player with USD 33 bn recorded in May.

M&A

Deals of the Month

Announnced Date	Target	Buyer	Target Region	Target Business	Value (USD m)	Premium (%)
17 May 21	Warner Media LLC	Discovery Inc	US	Media	43,000.00	-
24 May 21	Deutsche Wohnen SE	Vonovia SE	DE	Real Estate	36,793.20	17.56%
21 May 21	PPD Inc	Canadian National Railway Co	US	Transport Rail	33,124.78	8.46%
14 May 21	Suez SA	Veolia Environment SA	US	Water / Waste treatment	23,049.16	3.07%
01 June 21	Inter Pipeline Ltd	Pembina Pipeline Corp	CAN	Energy Transportation	12,676.07	8.52%
24 May 21	Cimarex Energy Co	Cabot Oil & Gas Corp	US	Oil & Gas	8,814.81	0.94%
26 May 21	Metro-Goldwin-Mayer Inc	Amazon Inc	US	Media	8,450.00	-
26 May 21	Spire Healthcare Group PLC	Ramsay Healthcare Ltd	UK	Health Care	2,861.96	-
27 May 21	China Guangfa Bank Co Ltd	China Life Insurance Co Ltd	CHI	Banking	2,741.55	-
02 June 21	Indigo Natural Resources LLC	Southwestern Energy Co	US	Natural Gas	2,700.00	-

Francisco Costa Guimarães
Investment Banking Division

M&A: Top Deals

Vonovia to Acquire Deutsche Wohnen

On the 24th of May 2021, the real estate company Vonovia has announced the acquisition of the property management company Deutsche Wohnen (DW) in a EUR 28.9 bn all-cash transaction. The merger represents the biggest deal in Germany this year and will create a European real estate giant with more than 550,000 apartments.

Buyer vs Seller

Vonovia is Europe's leading residential real estate company that manages, leases and sells apartments. Based in Germany its portfolio consists of around 485,000 residential units within Germany, Sweden, and Austria. Deutsche Wohnen is a German-based real estate company that develops and manages residential and commercial properties. It has a portfolio of approximately 90,000 units located in Germany. DW has been valued at EUR 52 per share, implying a net debt of approximately EUR 11 bn.

Industry Overview

In the last few years, the cost of housing in Germany surged, particularly in Berlin. It was even proposed a rent cap for the capital then declared void by the German constitutional court. In the lack of housing supply context, the merger between the two real estate giants is of outstanding significance for tenants in Berlin. Indeed, the two companies said they would build another 13,000 in the German capital.

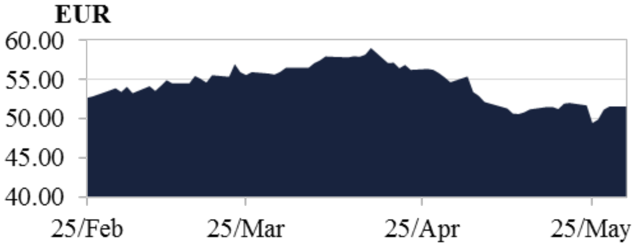
Peers	Currency	Market Cap (CUR m)
LEG Immobilien SE	EUR	8,691.17
Vonovia SE	EUR	29,867.36
Grand City Properties SA	EUR	4,038.81
Capital & Counties Properties	GBp	1,470.73
Castellum AB	SEK	60,193.78

Deal Rationale

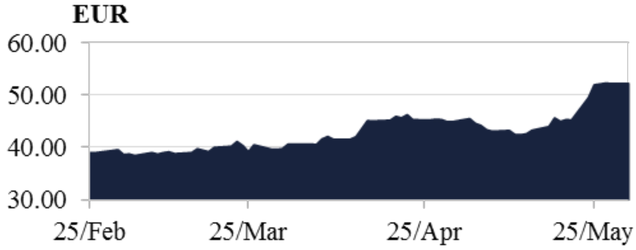
The deal is expected to generate significant EBITDA synergies of EUR 105 m per annum to be achieved by the end of 2024. The transaction is also accretive to Rental EBITDA share in the first year of full consolidation. Another key motive for the merger is the disparity between the share-price performance of DW and its real asset: the company traded at about an 18% discount to their first-quarter net tangible assets per share as of the 21st of May. On top of this, Vonovia's management is convinced that the benefits of joining forces with DW go far beyond the quantified cost savings and include "entrepreneurial" advantages.

Market Reaction

Vonovia
The share price dropped by 6.12% on the trading day after the deal announcement. However, in the next week, the price recovered, reaching close to the pre-announcement value.



Deutsche Wohnen
Investors' reaction to the deal announcement was extraordinarily positive for DW, whose share price surged by 15.71% on the day after the announcement.



Future Challenges

The main challenge for the companies is to get the approval of the antitrust regulator. The merger has already won the backing of Berlin's mayor, one of the most vocal supporters of rent curbs. This was achieved thanks to the agreement to sell 20,000 apartments to Berlin at book value, and to the commitment to limited rent rises until 2026.

Daniele Notarnicola
Investment Banking Division

M&A: Top Deals

AT&T's Warner Media to merge with Discovery

On the 17th of May, the American multinational AT&T announced a deal that would intend to combine its content unit WarnerMedia with Discovery for, approximately, USD 43 bn. This deal is set to pave the way for one of Hollywood's biggest studios, competing with media giants Netflix and Disney.

Buyer vs Seller

Discovery is a global provider of non-fiction entertainment, operating in a wide range of educational television channels. Warner Media produces and distributes a wide portfolio of products, namely, films, games, and entertainment contents. The financial advisors to Discovery are Allen & Co, JP Morgan, Perella Weinberg, and RBC. Goldman Sachs and LionTree are serving as financial advisors to Warner Media, while Sullivan & Cromwell is serving as legal counsel.

Industry Overview

According to Bloomberg, the industry is forecasted to generate revenues of USD 1.06 tn. The increase in this industry has been driven, predominantly, by the growth in the streaming service business. In regards to this market, both companies have around 25 m subscribers together. This value is expected to grow in order to pressure the market leaders – Netflix and Disney – that have gathered 208 m and 104 m, respectively.

Peers	Currency	Market Cap (CUR m)
Fox Corp	USD	21,134.61
Walt Disney Co/The	USD	321,542.47
ViacomCBS Inc	USD	26,975.17
Netflix Inc	USD	217,901.67

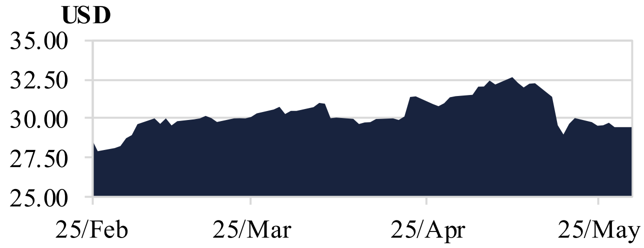
Deal Rationale

The deal will merge one of Hollywood's most valuable catalogues, which comprises the whole span of Warner Bros film and television studios, the large cable channels portfolio that includes CNN and also the HBO network with Discovery that has a very successful path in the streaming services, which is aimed at the unscripted cooking and renovation shows. This would result in the second-largest media company in the world by revenue after Disney and highlights the ground-breaking pace and efforts in which the traditional US media groups are attempting to reinvent themselves, especially concerning streaming services.

Market Reaction

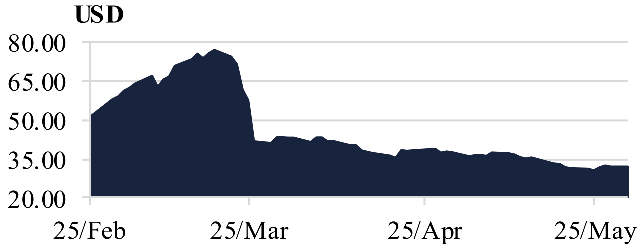
AT&T

Since the announcement, 17th of May, the stock price has plummeted from 31.37 to 29.04 which represents a decrease of 7.4%.



Discovery

After the decrease of almost 45% in March, the company has kept a relatively stable stock price. As the price did not react vigorously to the deal announcement.



Future Challenges

Even though both companies demonstrate a high level of content and geographical complementarity, this deal will certainly require a very thoughtful integration process, which will potentially waste efforts in the strategy of marketing two separate streaming services. Showing to be a challenging step as the companies are vying with much larger rivals in this market.

Gonçalo Pina Santos
Investment Banking Division

M&A: Top Deals

Pembina Piepline Corp to Acquire Inter Pipeline Ltd

Canada's Pembina Pipeline Corp announced on the first of June to acquire the rival Inter Pipeline Ltd in an all-stock deal valued at USD 6.9 bn. The deal is a friendly takeover and expectations for the competition of the deal are set for the end of the year 2021.

Buyer vs Seller

The buyer, Pembina Pipeline Corp is a Midstream Oil & Gas company that transports, stores, and markets petroleum products. The company has been serving North America's energy industry for the past 65 years. Inter Pipeline Ltd is one of Canada's energy leading infrastructure companies and handles energy commodities through its operators in Western Canada and Europe. Scotia Capital is acting as financial advisor of Pembina and TD Securities advising Inter Pipeline.

Industry Overview

North America's oil and gas pipelines are expected to overcome FSU's (Former Soviet Union) by the double until 2024. The new pipeline length would reach a maximum historical level representing around 43% of operations worldwide. Despite the sector having faced severe headwinds last year, the gradual price recoveries in the sector make investors optimistic for a fortunate rebound in the future economic outlook.

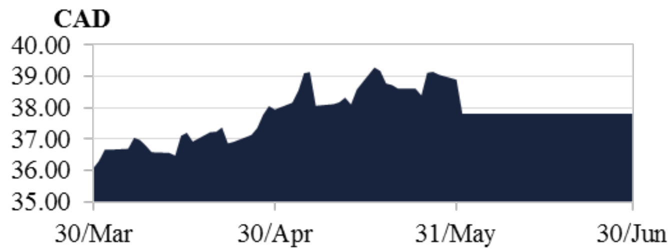
Peers	Currency	Market Cap (CUR m)
Global Partners LP/MA	USD	873.35
MPLX LP	USD	29,938.65
Gibson Energy Inc	CAD	3,544.69
Shell Midstream Partners LP	USD	5,863.95
Energy Transfer LP	USD	27,737.87

Deal Rationale

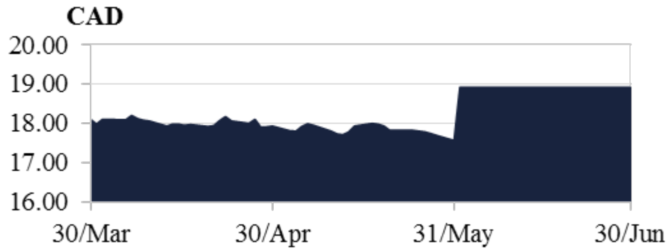
The proposal of Pembina comes after the hostile takeover made by Brookfield Infrastructure Partners to also acquire Inter Pipeline Ltd. Upon completion of the deal, the combined company will become the largest Canadian energy transaction in four years. The rationale for Pembina will be to add pipeline infrastructures to its Western Canadian portfolio and make a bridge between the region's natural gas and oil sands producers with domestic and foreign customers. The takeover will lead to annual cost savings of almost CAD 200 m and create a major transportation operator in the region of Calgary.

Market Reaction

Pembina Pipeline Corp
In the Toronto market, the pipeline company saw its share price drop to CAD 37.81. This represented a fall of nearly 2.77% on its price.



Inter Pipeline Ltd
Upon the announcement, Inter shares increased 7.75%, bouncing to CAD 19.50. The YTD all-time high had been CAD 13.56 on the 14th of January 2021.



Future Challenges

Although the deal will significantly improve the size and scale of Pembina, including doubling the company's pipeline capacity, the credit rating agency still highlights the threat of "potential exposure to commodity price risk" and warns against the possibility to assign a negative rating to the future combined company.

Madalena Azevedo
Investment Banking Division

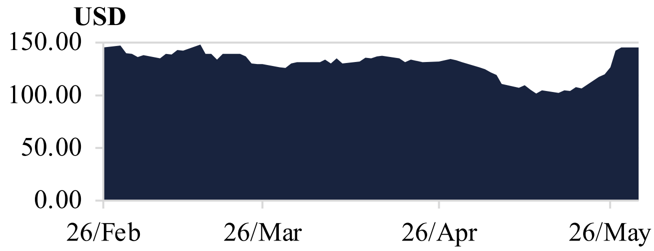
What Happened To
Beyond Meat

Beyond Meat is a US-based food company, manufacturing and distributing plant-based meat products worldwide. In 2019, Beyond Meat's revenue stood at USD 408.8 m. The company has 472 employees and serves retail clients through grocery stores as well as restaurants and food services.

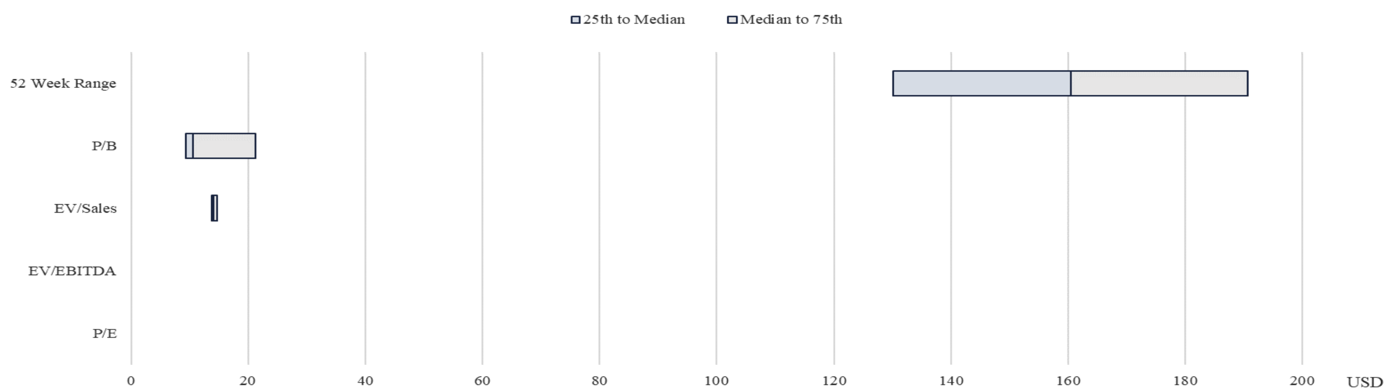
Corporate News

Beyond Meat went public on the 2nd of June 2019, when shares opened up 84%. Since then, its shares skyrocketed 859% to all-time highs a few months. However, after a period of significant growth, Beyond Meat's shares had tumbled back to USD 119.76, presenting an upside of 440.76% since its IPO in June 2019. In terms of strategic direction, the company is well-positioned as it is the main player in the plant-based meat industry. Since January 2021, Beyond Meat is in close partnership with Taco Bell, as the fast-food chain is looking to bring in vegetarian customers and says it will be testing a new menu item later this year with a Beyond Meat product. Following the press release, shares of Beyond Meat were up more than 15%. On 27th May 2021, Beyond Meat stock jumped more than 11% as it looks to break its downtrend. Beyond Meat's move appears to be fuelled by the Reddit meme stocks trend.

Price (31 May 21, USD)	**135.19**
Target Price (USD)	120.00
3M Performance	-7.07%
Market Cap (USD m)	8,525.55
Enterprise Value (USD m)	8,542.18
**Target Price is for 12 months*	



Valuation Analysis



Beyond Meat was, on the day this piece was written, trading at USD 135.19. Illustrated in the football field above, we can immediately see that Beyond Meat is significantly overvalued as the company's P/B and EV/Sales are trading at a much lower level. This is overvaluation was accelerated by the current market euphoric and increasing boom of plant-based meat products that increased the company's share price. As the company has negative operations, EV/EBITDA and P/E are not measurable.

Driven by the increasing importance of climate change, the awareness of living a sustainable life has increased substantially. A milestone for the plant-based meat industry was set when Beyond Meat went public in June 2021, providing the industry with significant headwinds. Since then, the plant-based meat industry has seen a period of significant growth. Despite remaining challenges, the industry is set to grow to USD 23.2 bn in 2024.

Peers	**Currency**	**Market Cap** (Cur m)
TreeHouse Foods Inc	USD	2,748.63
Campbell Soup Co	USD	14,808.07
Conagra Brands Inc	USD	18,324.37
Post Holdings Inc	USD	7,360.70
Lamb Weston Holdings Inc	USD	12,281.87

Hannes Stingel
Investment Banking Division

What Happened To
ExxonMobil

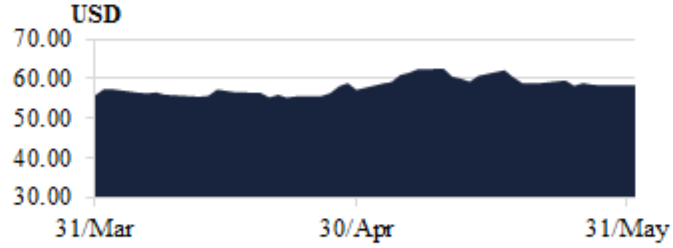
ExxonMobil is, and has been, historically one of the largest publicly traded oil & gas companies globally, which explores, produces and sells crude oil, natural gas and petroleum products, holding one of the largest inventories of oil & gas resources. Headquartered in Irving, Texas, they have generated USD 178.6 bn in operating revenue and employ around 72,000 employees worldwide.

Corporate News

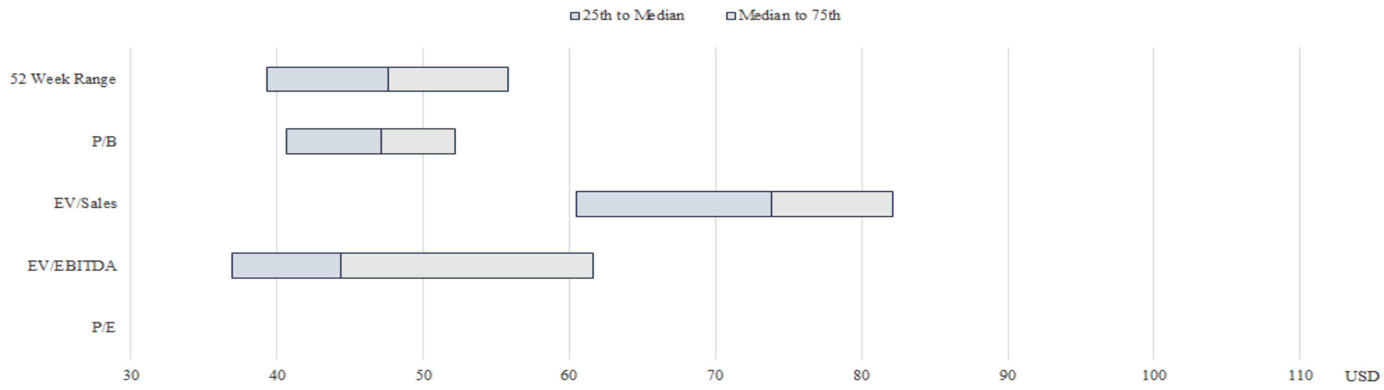
Unlike other oil majors which have vowed and committed to reduce greenhouse gas emissions and to invest in the energy transition to cleaner sources of energy, ExxonMobil has relatively maintained its oil & gas investments, being responsible for 4% of total global production. It has invested, as well, in major long-term projects for the exploration of crude oil in the US and Guyana. Some of its shareholders are buying proxy fights to force Exxon to shift its strategy and cut its long-term plans for oil & gas production. The hedge fund Engine No 1 is one of them, and its activist investors have launched this effort by nominating four directors to Exxon's board and continuously warning on management's behaviour of outdated mentality. This is surprising, given that the climate activists hold a mere 0.02% stake, or USD 54 m out of a market capitalization of USD 250 bn.

Price (30 Jun 21, USD)	58.37
Target Price (USD)	65.00
3M Performance	4.55%
Market Cap (USD m)	247,111.67
Enterprise Value (USD m)	314,045.67

**Target Price is for 12 months*



Valuation Analysis



ExxonMobil was, as of this day, trading at USD 58.37. By analysing the football field valuation, and especially to the EV/Sales multiple, we can see the firm has an upside potential to increase the share price, assuming a fair valuation. We observe a relative dispersion in the chosen methods, being EV/EBITDA and EV/Sales the ones that most approximate ExxonMobil to its current market value, with a target price higher than the current one, due to the positive sales forecasts for the near future.

The energy industry is transitioning to the potential for increasing renewable energy demand and the electrification of the economy. The world population is growing and so are energy needs, therefore firms transitioning too quickly may underestimate the medium to long-term demand for oil & gas products. Still, the goals of the Paris Agreement are clear and major energy firms such as ExxonMobil have to play a major role.

Peers	Currency	Market Cap (Cur m)
Imperial Oil Ltd	CAD	29,810.86
Chevron Corp	USD	200,601.08
Suncor Energy Inc	CAD	42,249.40
Cenovus Energy Inc	CAD	20,355.58

Pedro Santos Vitor
Investment Banking Division

NIC's View On

The Momentum of Commercial Space Ventures

Gonçalo Marques
Investment Banking Division

"We see a space industry that is changing quickly, and we are trying to make sure our regulations change with it. A byzantine licensing and regulatory approval system could be a bottleneck that hurts consumers and innovators alike […] under my leadership, the FCC has been committed to matching the tempo of the industry we regulate. Our space agenda involves cutting red tape and giving green lights."

Ajit Pai, FCC Chairman

Private investment in commercial space ventures reached an annual record in 2020 and a new record is expected for 2021. Despite the fear that Covid-19 would stop the industry's momentum, space infrastructure companies were able to gather USD 8.9 bn last year alone. The significant increase relative to the previous year was mainly driven by the combined USD 4.2 bn raised by SpaceX and OneWeb, who both aim at constructing the so-called "mega-constellation" of low-earth orbit satellites.

A mega-constellation is a network with hundreds or even thousands of satellites all orbiting and working together as a complete system. Two main factors help explaining why these mega-constellations have become increasingly popular among space companies. First, there is an increasing demand for data all around the world, making it particularly valuable to provide high-speed data to any point on earth. Secondly, the cost of hardware for these satellites has decreased significantly. According to Nasa, launch costs which were kept relatively constant for 30 years (between 1970 and 2000), have decreased by a factor of seven in 2018 due to SpaceX's reusable rockets (namely Falcon 9). The major companies pursuing mega-constellations are SpaceX, Amazon, TeleSat and OneWeb. SpaceX is currently taking the lead with 120 satellites launched just in 2021.

A substantial issue of common satellite networks is their latency (delay of the network's responsiveness). Traditional satellites are considerably far away from earth in what is called geostationary orbits (approximately 36,000 km above the surface) which increases the overall latency of their network. The main value added by these low-earth orbit constellations for the end-user is the overall better responsiveness of the network they can provide. The satellite systems that SpaceX and OneWeb are proposing operate at approximately 180 to 2,000 km above the surface, reducing the latency issues and enabling the new networks to be 20 times faster than current geo satellites.

The addressable market for these networks is certainly huge, especially within low-density areas where they are more likely to compete effectively. SpaceX estimates that once ready, its satellite constellation (named Starlink) could generate revenues of USD 30 bn a year. Nonetheless, the industry faces several considerable regulatory risks that need to be accounted for. Given their proximity to the surface, there is a need to have many low-earth-orbit satellites to obtain a similar coverage to that of a geo satellite. In the case of SpaceX, the company only expects Starlink to become operational once at least 800 satellites are deployed. However, it is still unclear that an individual company will be able to scale safely to the number of satellites that are being envisioned. Just in the US, there are three main authorities responsible for regulating these satellites: the Federal Communications Commission (FCC), the Air Force and the Federal Aviation Administration (FAA). Future regulatory policies might prevent the scalability anticipated by companies like SpaceX or OneWeb, which in turn will question the economic viability of their networks.

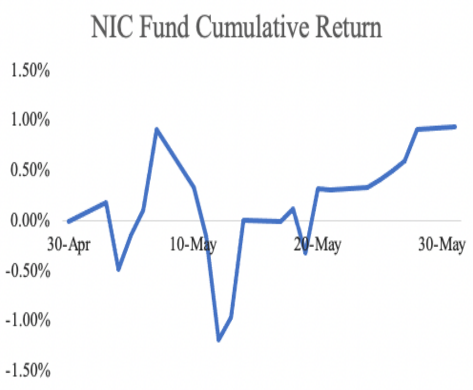
Date	Recent News
Nov 20	OneWeb avoids bankruptcy thanks to a USD 1 bn investment led by the UK government. ***Source:*** *Financial Times*
Dec 20	Investment in space companies reaches an annual record of USD 8.9 bn in 2020. ***Source:*** *CNBC*
Feb 21	Telesat receives a USD 400 mn investment from the Government of Québec. ***Source:*** *yahoo finance*
Feb 21	SpaceX completed raising an additional USD 3.5 bn in equity financing for Starlink. ***Source:*** *SpaceX*

Gonçalo Marques
Investment Banking Division

NIC
Nova Investment Club

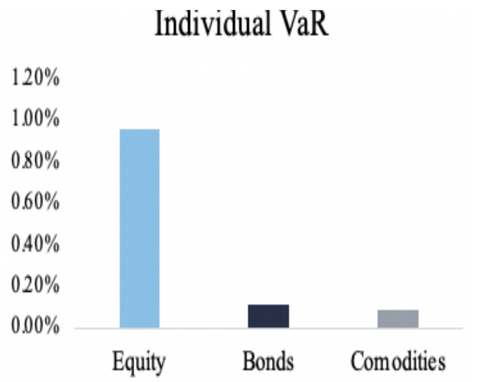
NIC Fund

NIC Fund
Portfolio Overview



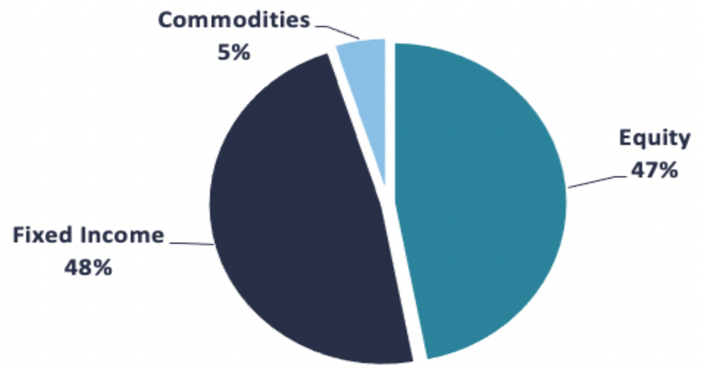
Portfolio Statistics	
Cumulative Return	0.94%
Annualized Return	11.25%
Daily St. Dev	0.49%
Period St. Dev	2.24%
Annualized St. Dev	7.76%
Info Sharpe	1.45
Skew (Daily)	-0.24
Kurtosis (Daily)	-0.24

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

During the last month, the NIC Fund remained invested in Equities, Fixed Income and Commodities with very similar allocations to our benchmark fund. Overall, 47% of our fund remained devoted to Equities, 48% to Fixed Income, and 5% to Commodities.



Return Metrics

Our portfolio returned 0.94% this month with all asset classes positively contributing to this figure with the following split: Equities: +0.56%, Fixed Income: +0.07%, and Commodities: +0.33%.

Focusing on Equities, a few stock picks really outperformed MTD such as Kering (+14.92%), CVS Health (+13.14%), and Trupanion Inc (+11.18%). On the flip side, we experienced some pullbacks in MercadoLibre Inc (-13.51%), Chipotle (-8.05%) and a major drop in Solutions 30 SE (-52.30%) linked to some auditing issues.

In Fixed Income, performance was mainly driven by our positions in the iShares TIPS Bond ETF (+1.02%) and the iShares JP Morgan USD Emerging Market Bond ETF (+0.96%).

On the Commodities side of things, it was a very positive month overall with both our Goldman Sachs Physical Gold ETF and Invesco DB Commodity Index respectively up 7.64% and 3.85%.

Risk Metrics

In terms of risk, our portfolio registered a daily VaR of 1.00% in May, which is slightly lower than the value registered in April (1.03%) and remains far off the 2.5% established limit.

Equities were the asset class with the highest individual VaR, at a value of 0.94%, followed by Bonds at 0.11%, and Commodities at 0.09%

Vincent Sardinha Marques
Financial Markets Division

NIC Fund

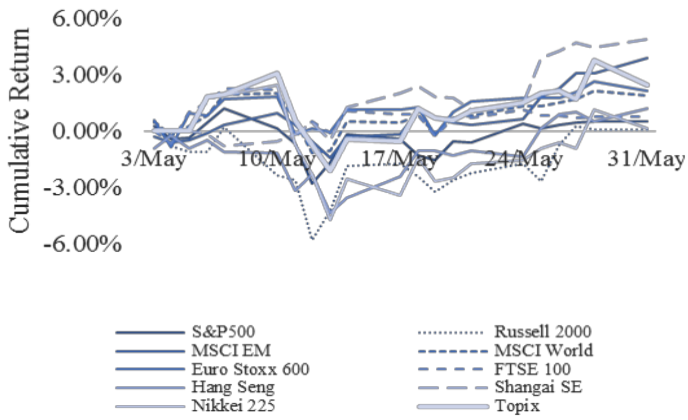
Assets in Brief

Asset Class	Symbol	Comments
US Equity	**CVS**	CVS Health has been a bright spot this month posting a 13.14% hike MTD, in line with the positive momentum the company has been on since the start of the year as it shows a 25.15% increase YTD. Indeed, the firm posted really positive Q1 figures with income and revenues beating expectations, which contrasted quite drastically with the 2020 concerns, when back in November, questions were raised as Amazon launched their online pharmacy service. Since then, CVS has become a major Covid-19 vaccine provider, a wave that the company should continue to ride throughout 2021.
US Equity	**MELI**	After a magnificent year in 2020, the Argentinian e-commerce giant has been running in all kinds of problems in 2021 posting losses on their Q1 report. There are multiple reasons behind this situation. First, the company was hit with a major hike in taxes which ballooned up their income tax expense from USD 4.4 m a year ago to USD 43.5m in Q1/2021 while their gross profit margin shrunk 5%. This created a net loss up 61% (USD 34 m). Second reason was a major foreign currency loss due to new restrictions from the Argentinian government on buying US Dollars. This regulation tightening induced a USD 15.1 m FX loss for the company. Last but not least, the firm felt the effects of a Covid-19 wave which hammered a country that represented 56% of its revenues: Brazil.
GR Equity	**VOW**	Following a complicated year in 2020, Volkswagen has bounced back significantly and is experiencing a great 2021 year so far (+49.73% YTD). Why this sudden hike though? Two main reasons arise: a flourishing business reflected by strong Q1 figures, and a potential bright future, driven by their EV goals. First of all, the German automotive manufacturer posted strong Q1 numbers with net profits at USD 4.1 bn (up from USD 5.14 m last year), with a 13.3% growth in sales reaching USD 62.4 bn and significantly beating estimates. Second major point of emphasis here is the company's EV dream. Indeed, the firm unveiled new ambitious targets in this area, with the plan to build six new battery factories by 2030, predicting that 70% of their sales will be electrified vehicles by then.
FP Equity	**S30**	European Tech company Solutions 30 SE just plummeted 52.30% MTD. What could have precipitated that massive fall? The answer is relatively simple, as the company found itself publishing their own unaudited accounts after Ernst & Young LLP announced they had not been given the necessary information to perform the audit themselves. This is another piece which adds to the alleged ties to criminal organizations and money laundering the company faced previously. The French market regulator AMF has urged the company to publish its audited accounts or at least to provide a timetable to do so.
US Treasury Bond	**TIPS**	Our iShares TIPS Bond ETF was up 1.02% MTD. As inflationary questions keep arising, we decided previously to enlarge our position in this ETF as it allows us to track inflation protected notes which pay a premium on inflation and interest rates.
Commodity	**AAAU**	Our Goldman Sachs Physical Gold ETF yielded a 7.64% return in May as Gold returns in fashion after a difficult start to the new year. It therefore remains a trusted asset in our portfolio which brings added diversification and an interesting hedge in uncertain times.

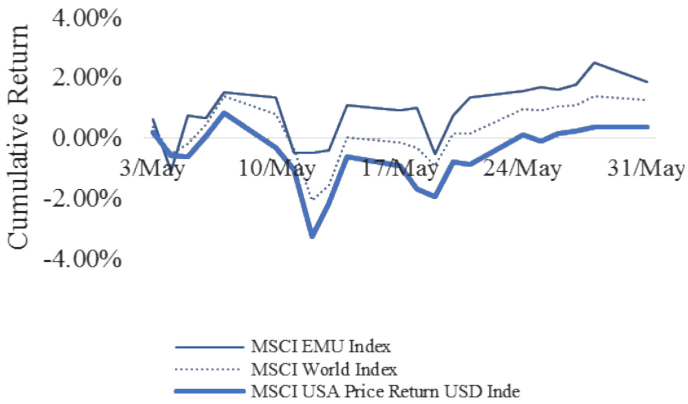
Vincent Sardinha Marques
Financial Markets Division

NIC Fund
Equities

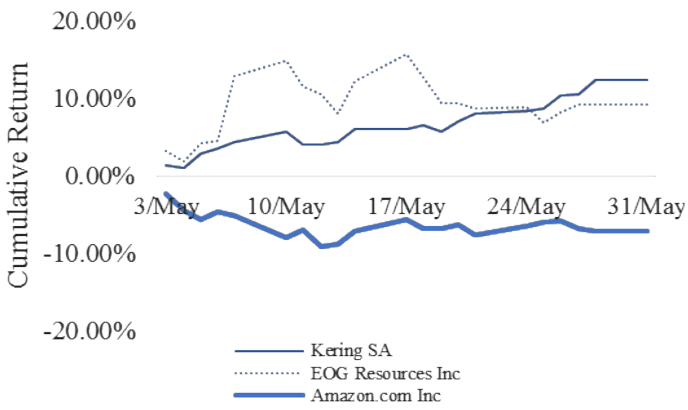
World Equities
After strong returns in the month of April, global equities experienced a turbulent start to May but recovered over the second half of the month to provide positive returns for investors, with the MSCI World Index rising by 1.92%. It was spearheaded by developments in the European and the Emerging Markets. The Euro Stoxx 600 and the MSCI EM Index closed the month 2.14% and 3.88% higher, respectively. The southern European markets, those more heavily affected by the economic effects of the pandemic, rebounded strongly, with the Spanish and Italian MCSI Indexes rising by around 4% each in May. The Shanghai Stock Exchange ended the month plus 4.89%, while the Japanese Topix Index increased by 2.47%. The US based Indexes underperformed the international peers, giving way to inflationary pressure and concerns about the validity of the claim that the high levels of inflation will be transitory in nature. The Fed's reassurance led to the S&P500 and Russell 2000 increasing by 0.55% and 0.11% respectively. The FTSE 100 closed off the month up 0.76%.



In Depth: European Stocks' Outperformance
Eurozone stocks are known for persistent underperformance when compared to major peers. However, over the past month, the MSCI EMU Index, which captures large and mid cap representation of the European Economic and Monetary Union, rose 1.86% to the highest level since June 2008. It outperformed both the MSCI World Index (1.26%), and the MXUS Index (0.34%). European stocks have recorded their fourth consecutive month of gains, and analysts are expecting the trend to continue. The EU's post-pandemic recovery fund, the first of its kind, will formally launch in the coming months as economies around Europe reopen. This ground-breaking development for the European Monetary Union comes at a time when investors may see cyclical and structural improvements. Paired with the fact European stocks are traded at discount when compared to US valuations with depressed investor positioning, it could finally mean European stocks emerge from the shadows of the debt crisis and catch up with more attractive indexes of the past decade.



Our Performance
In May, equities' contribution to the overall portfolio performance amounted to +0.56%. Kering SA posted the highest returns for our portfolio this month, jumping 14.92%, effectively catching up to the YTD performance of fellow competitor LVMH. Kering SA and LVMH respectively return 27.40% and 28.36% YTD. EOG Resources continued its long-lasting bull run, the stock price increasing by 9.10% MTD, eliminating last year's negative pandemic shock. Our portfolio's Financials sector picks also had a strong month of gains, increasing by 8.95% MTD. Tech stocks on the other hand had a difficult month – Amazon's share price dropped −7.05%. No changes have been made to our current positions.



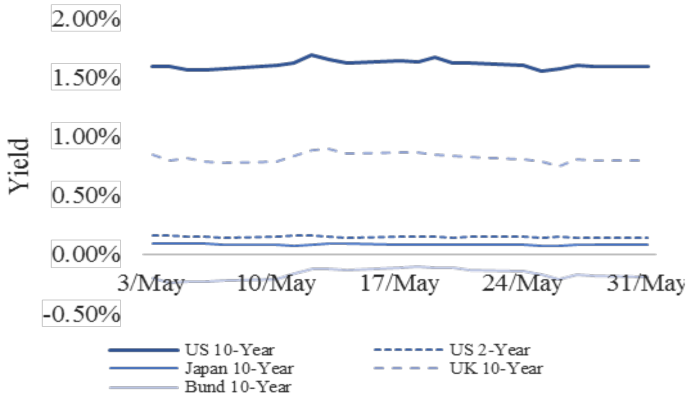
Sebastian Hartmann
Financial Markets Division

NIC Fund

Fixed Income

World Yields

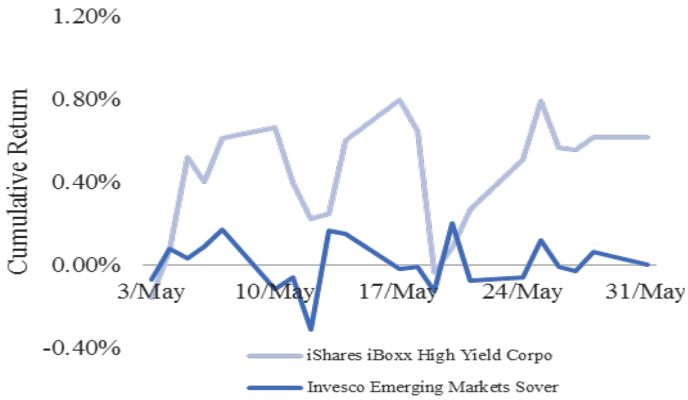
In May, investors observed an increasing sentiment of economic acceleration across global markets. Following strong Q1 figures and ongoing expansive fiscal policy, growth expectations strengthened further. Consequently, also inflation expectations increased, which is reflected in a steepening yield curve. The 10-Year US Treasury Bond yield was higher than 1.60% for the majority of the month, supported by a lower number of weekly jobless claims of 406,000 vs an estimate of 425,000 in the third week of May. Moreover, the core personal consumption expenditures price index for April, published on the 28th of May supported this view as it increased by 3.1%, exceeding the forecast of 2.9% as well. So far, investors' expectations about rising yields seem to hold. Moreover, according to Charles Schwab, 10-Year bond yields have peaked 6 to 12 months before the Fed started lifting rates in the last 3 rising rate cycles. Compared to the US, recovery expectations and thus, the blow to European government bonds was much weaker at first. However, in the last weeks economic data from Europe has improved with many European countries accelerating their vaccine programs.

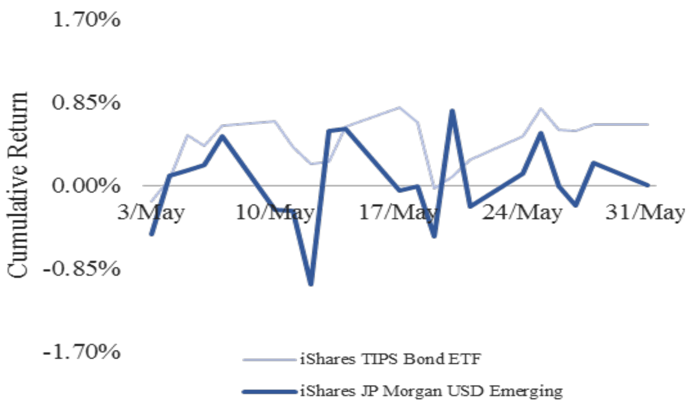


In Depth: Fixed Income Opportunities in 2021

The positive economic outlook which results in rising inflation concerns brings not only negative news for the bond market but also new opportunities for fixed income investors given a changing economic environment. As yields are rising based on economic growth and cash flows returning to markets this brings variation to the fixed-income market following a year of higher fixed income prices due to safe-haven demand. This economic upgrade supports the corporate bond market with especially high yield credit being a potentially attractive opportunity. High-yield upgrades from Standard & Poor's have outpaced downgrades in the last 5 months. Additionally, following the shock of the pandemic year 2020, high-yield defaults are expected to decline further and very likely reached their peak in the last months.

Further opportunities may be found in Emerging Market (EM) debt. As the Fed continues to keep up the monetary stimulus while keeping interest rates unchanged at record lows, this is expected to put significant pressure on the US Dollar which appreciated strongly in the last year but might fall against other major currencies now. This weakening US Dollar in combination with rising commodity prices might boost EM debt. Additionally, this could be a favourable environment for carry trades, i.e., borrowing in a low-yield currency such as the US Dollar and investing in higher-yield currencies via EM debt.





Our Performance

In May, the NIC fund was invested 47.9% in fixed income assets. The contribution of the asset class to the fund's overall performance was +0.07%. The iShares J.P. Morgan USD Emerging Markets Bond ETF and the iShares TIPS Bond ETF yielded the highest performance contribution of 1.65% and 1.02% respectively.

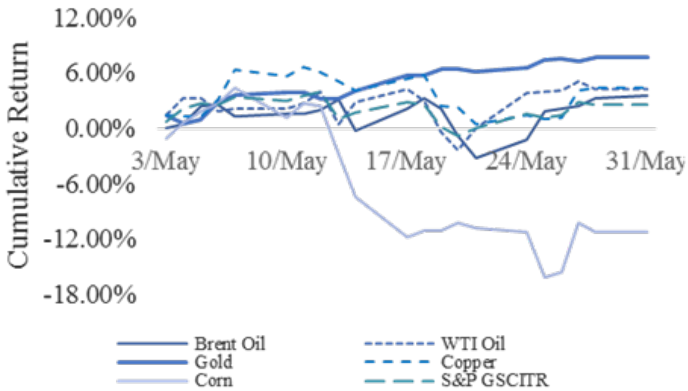
Julia Weber
Financial Markets Division

NIC Fund

Commodities

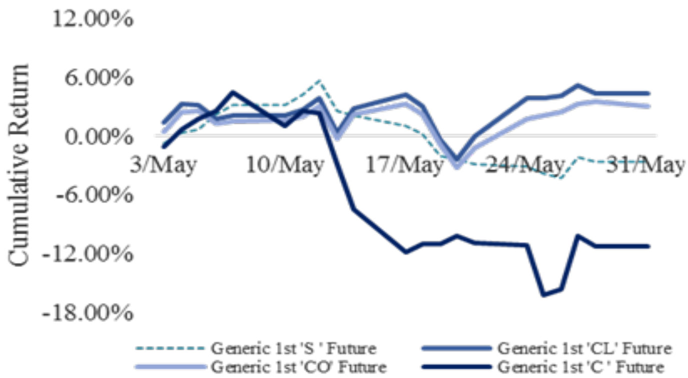
May Round-Up

For the month of May, the S&P GSCI Total return index, which tracks 24 commodities, registered a positive performance, increasing by 2.52%. Top gainers this month were broadly renowned commodities such as gold and crude oil, while agricultural soybean and corn contributed the most to index losses. In general, markets had many reasons to be cheerful about oil last month. Already in the beginning of May, the prices of WTI and Brent rose more than 1% as Chinese economic figures and US vaccination rates pointed to a strong rebound in demand in the world's two largest economies. During the second week of May, a further progressive increase in demand contributed to an additional rise in prices as pointed out by Louise Dickson, oil markets analyst at Rystad Energy: "Oil prices today are experiencing a lift on positive demand outlooks released by OPEC and IEA, which both came out with a similar consensus that oil demand will average 96.4 million bpd in 2021". Apart from that, Gold prices posted gains over the first three weeks of May and settled at its highest for the month in the last week. Prices are well-supported by the US Dollar’s weakness, which is usually beneficial for all the dollar-denominated commodities.



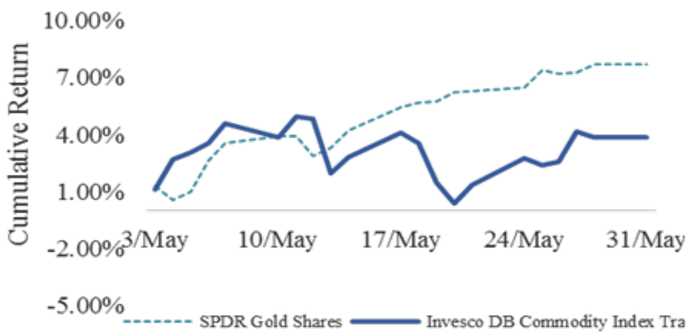
Outlook for June: Agricultural Products

Corn was one of the worst commodities performers in May, closing the month with a negative 11.27%. Volatility has been the only unswerving factor in grain markets over the past weeks. Risk advisors remind farmers that there are still opportunities to be had as long as financial plans allow the flexibility to capture these profits. “As we are all aware, the market moves, and things change,” Huck explains in the latest Ag Marketing IQ column, pointing out that options are an intelligent move to hedge against volatility, despite the cost of the instruments. “Opting to not option-ise your marketing decisions may very well end up ‘more expensive’ if we get too directional.” However, concerns about Brazil’s safrinha (a peculiar type of corn) shortfall loomed in the background after expectations for the crop size were cut again - less expected offer drives prices up - in the beginning of June, providing a cap to further future losses. A trading strategy that speculates on volatility like a long straddle might be interesting in such scenarios. Indeed, the mentioned neutral option strategy implies a profit only whenever the stock either rises or falls from the strike by more than the premium paid to secure the product. On the other side, tightening global supply concerns due to dry growing conditions in Canada as well as output concerns in South America sent soybean futures rally over USD 1/lb higher in the beginning of June. Nevertheless, further gains will likely be capped by weak demand from India, mostly due to its latest surge in Covid-19 cases.



Our Performance

During the month of May, the Powershares DB Commodity Index returned 3.85% and the SPDR Gold Shares Index returned 7.64% for an overall return of 0.33%.



Alessandro Astore
Financial Markets Division

NIC Fund

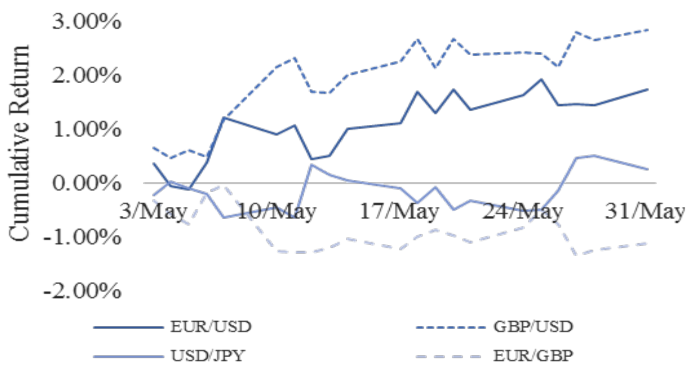
Currencies

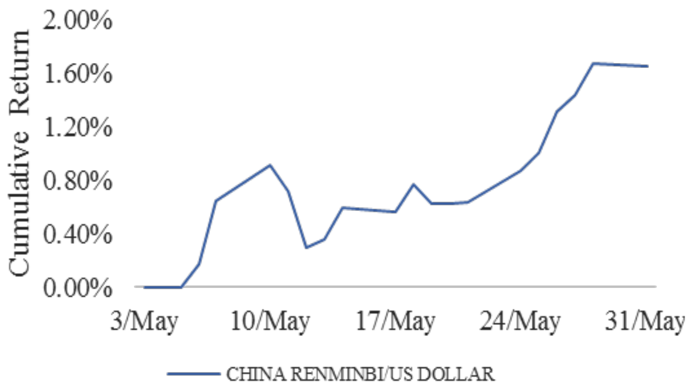
World Currencies

In May, some of the most traded currencies reached new monthly highs whilst others plunged to new lows. In the middle of the month, the Euro showed signals of weakness by reaching the level of EUR/USD 1.22 amid higher demand for the US Dollar driven by a US CPI figure that surpassed its forecast. However, supported by positive prospects regarding the economic recovery, in the end of May, the Euro hit the level of EUR/USD 1.23 for the first time since the beginning of the year.

Overall, the past month was a very turbulent one for the US dollar. The US Dollar Index (USDX) reached a two-week high figure of 91.44 in the beginning of May, which can be mainly attributed to the possible scenario of the Fed raising rates to prevent the US economy from overheating, according to Janet Yellen. Despite the referred climb, the USDX reached a five-month low of USD 89.6 later in the month amid a global risk desire and diminished hopes of an attenuation by the Fed. In the end of May, the US currency experienced momentum after a stronger than expected labour data announcement. Nevertheless, a surging PCE Index slowed down the US Dollar's momentum as it surpassed the forecast of 2.9%, reaching a figure of 3.1%.

Another currency that faced turmoil during the past month was the Japanese Yen. The safe-haven currency surged amid accelerating local infection rates. Adversely, as the month passed by, the currency hit a seven-week low of USD/JPY 109.90, mainly driven by the Japanese government extending the Covid-19 emergency state until the 20th of June as the Prime Minister, Yoshihide Suga, stated that the situation remains highly unpredictable.





In Depth: China's Renminbi's Positive Momentum

As stated before, May was marked by ups and downs for several currencies. The best player was the Chinese Yuan that reached its highest level against the US Dollar (USD/CNY 6.48) over a three-year time span. Its good performance can be attributed to the country's fast recovery from the Covid-19 pandemic as well as to a rush of international investments into China's high-yielding markets. An important factor that also enhanced the strengthening of this currency was the US Dollar's weakness - Carry trades between the high yield Chinese renminbi and US dollar - so going long in yuan and short in US dollar to finance the trade, may be an attractive trading opportunity to profit from the yield difference.

However, this positive performance brings along some drawbacks as Beijing is now facing the challenge of balancing the demand for the country's exports with the rising commodity prices. This balance is highly needed because the price of some key commodities, such as steel and copper, surged more than 30% since the beginning of the year. This rise will diminish corporate profits by impacting their supply chain, especially for small and medium-sized companies. Additionally, another raising concern about this momentum are the inflationary pressures and, consequently, their impact on monetary policy.

Our Performance

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

António de Castilho Lima
Financial Markets Division

Extras

Hot Topic

Shell: A Precedent for Pre-Emptive Climate Litigation

Sebastian Hartmann
Financial Markets Division

"Legally, economically and societally the ruling is significant. All companies in the energy industry and all heavy emitters will be put on notice and will have to accelerate their decarbonisation plans."

– Thom Wetzer, Founding Director Oxford Sustainable Law Programme.

In a landmark legal case that could set a precedent for global heavy carbon emitters, Royal Dutch Shell was ordered by a Dutch court in May to cut its net emission levels so that by 2030, these would be 45% lower than levels seen in 2019. The ruling demonstrates the shift in public as well as in political sentiment which has taken place over the past years and decades. Some argue this may be the beginning of a rise in global pre-emptive climate litigation cases based on human rights, which would legally impose a duty of care on the companies in question. This contrasts with comparatively common environmental litigation cases seeking damages for past behaviours.

In February 2021, Royal Dutch Shell announced new emission goals in an attempt to become a net zero company by 2050. How it would do so, however, has caused rifts in the company and amongst the public. The company non-bindingly pledged to reduce emissions to net zero by 2050. However, rather than using absolute accounting methods, the milestones on the way to 2050 would be measured using the energy intensity metric – a measurement of carbon per megajoule of energy sold. This intensity metric would fall by 20% by 2030, 45% by 2035 and 100% by 2050, which would include one of the most stringent carbon reduction plans in the sector. CEO Ben van Beurden justifies this strategy by explaining that the transition to cleaner fuels should not only be done "with purpose", but also "with profit". Lower carbon businesses do not generate the cash levels that oil and gas do, and thus more time would be needed until net zero can be achieved in 2050.

This was not enough to placate a district court in The Hague, as it sided with environmental activists in their effort to keep Shell accountable to emission targets in line with those set by the Paris Climate Accord. The company would be legally obligated to ensure its net carbon emissions reduce by 45% to 2019 levels. While Shell invests billions into renewables and alternative fuel projects, and says action to fight climate change is necessary, it argued that the Paris Agreement obliges governments, not corporations, to act. The judge disagreed, saying that the company had "violated a duty of care obligation regarding the human rights of those affected by climate change".

This ruling may very well have set a precedent for the world's largest corporate polluters to be obliged to take action on climate change in accordance to the Paris Climate Accord. The mounting pressure is seen across the energy sector, with the French oil major Total currently fighting a legal case which would force the company to ensure its operations align with the Paris targets. US oil supermajors are also under pressure from own shareholders to substantially reduce emissions, with Exxon activist shareholders introducing two new activist board members, defying the company's own management. Markets seem to react indifferently to these news, with Shell's share price dipping only 1%, and Exxon's share price increasing by 0.7%. However, the greater challenges still lie ahead in managing and assessing the risks that arise from this transition.

Now, corporate polluters including miners, steel producers, and airlines for example, could face more scrutiny and even pre-emptive litigation cases for which Royal Dutch Shell now serves a precedent – if they do not present acceptable carbon reduction strategies. This could have far-reaching consequences for many businesses and corporate strategies around the globe.

Sebastian Hartmann
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Hot Topic

M&A Activity in the Alternative Protein Market

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"In the future you'll see big food companies acquire startup alt-protein brands once they hit reasonable levels of revenue. You'll see big food companies buying food-tech startups at a much earlier stage in their evolution."

– Tom Mastrobuoni, former CFO of Tyson Ventures

After Danone bought plant-based pioneer Follow Your Heart in February for a share purchase agreement in which the French dairy giant acquired 100% of the shares, there has been a renewed focus on the alternative protein market. Danone was not the only company to aim to greatly increase, and in some cases triple, its sales of plant-based products over the last 3 years. According to IRI data, Danone had a 41% market share in plant-based products by the third quarter of 2020. The acquisition of Follow Your Heart helps strengthen the company's plant-based portfolio, which includes the Silk and So Delicious brands.

A similar example is the IPO of Oatley in May, which created a lot of excitement and catapulted the company into the club of super companies and Unilever's acquisition of The Vegetarian Butcher.

Admittedly, all in all, the market for alternative proteins is still small, accounting for about 2% of the global protein market for human consumption. Nevertheless, it has already reached a size of more than USD 25 bn in 2020 and is expected to grow at a CAGR of about 10 to 25%. This market is accelerated mainly due to consumer health awareness, environmental concerns, climate change and the improving taste of products. The Covid-19 pandemic has further fuelled these factors.

Similarly, the valuations and investment activity of large alternative protein players are increasing, as can be seen in the example of Beyond Meat. Deal value increased almost threefold in 2020 compared to 2019, achieving 130 deals. These high valuations lead to the current high prices paid in acquisitions and the corresponding risks on the buy-side. However, it is important to note that multiples are difficult to apply due to the small number of approximately 50 deals in the alternative protein space over the last 5 years and the fact that most deal sizes are not publicly disclosed.

On the other hand, the boom in the plant-based food industry is creating pressure on the established players. These players see alternative protein as an opportunity to add more products to their range and generate more sales, but at the same time, they are concerned about losing touch with young consumers. They are also concerned about brand risk related to environmental damage, pollution, unhealthy food or poor animal ethics. Finally, the food industry has always been innovative, so these incumbents are looking for technologies to improve/optimise their existing business processes and want to stay abreast of pandemic-related risks.

Consequently, companies such as Danone and Unilever want to actively participate in the rise of alternative proteins. Of the top 100 food and beverage companies, around 49% are looking to expand their capabilities in alternative proteins and/or launch their brands. In addition, around 55% are working with accelerators and around 50% are investing in or acquiring start-ups that are more technology-focused to stay on the cutting edge of technology.

Several traditional food companies have used M&A to capitalise on the alternative protein opportunity and expand their product lines and consumer offerings through acquisitions. These traditional food companies benefit from well-established downstream distribution channels and decades-long relationships with grocery shops while financial investors mostly pursue growth strategies with IPO exit or buy-and-build strategies, with most targets being early-stage and high-growth companies.

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ESG Review

ESG in Emerging Market Debt

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"Given the increasing economic importance of emerging markets, EM Debt is likely to continue delivering attractive risk-adjusted returns in the medium to long term."

– Thede Rüst, Head of Nordea's EM Debt Team

With the rising momentum of Environmental, Social and Governance (ESG) investing we have been witnessing in recent years, the search for new related financial products has also increased. Recently, one of the main targeted asset classes has been fixed income.

When we talk about investing in equities, the main focus of ESG investing is to maximize the capture of upside potential. However, for fixed income investments, a different approach is required as, in this type of investment, the centre of attention is on how the ESG metrics can help identify risk factors and, consequently, to mitigate downside risks.

In recent months, a debate has arisen on how ESG risk should be identified for each type of bond and how investors should manage that risk. We are specifically looking at corporate bonds and quasi-sovereigns. The first type of bond, as the name indicates, corresponds to a type of debt security issued by a private firm. The latter one is issued by state-owned companies.

Quasi-sovereigns account for a significant part of the emerging market (EM) fixed income market, taking into consideration that the largest issuers have tens of billions of US Dollars of debt – three of the five EM's largest debt issuers are fully state-owned. Additionally, this specific type of fixed income security offers high yield – like corporate bonds – but higher levels of safety than corporate bonds. However, they can represent an ESG risk in EM debt. Hence, driven by the referred drawback, the corporate bond can be a better investment proposal in terms of environmental, social and governance responsibility than quasi-sovereigns.

In general, key goals of ESG investing are high ESG standards, transparency and compatibility with the United Nations' Sustainable Development Goals (SDGs) through the investments made. From that perspective, when debt is issued by state-owned companies in EM, these goals may not be fulfilled. There are a number of factors that could be attributed with the unfulfillment of those goals: there are often political objectives involved in the debt issuance, the key management workforce usually gets nominated by current government representatives, the incentives for long-term business goals tend to be low and there is more space for corruption than in private firms.

In response to those problems, corporate bonds could be a better solution. Some EM corporate issuers offer strong ESG practices compatible with the SDGs. Moreover, those practices can be good indicators of better management which may remove additional risks that could otherwise put the business in doubt. Additionally, governments tend to encourage companies with a good ESG rating.

As in every investment, investors should be aware of possible misuses of the ESG concept, e.g. through such practices as "greenwashing" or "social washing", situations in which specific bonds seem to be sustainable but are not.

Nevertheless, in the future, it is very likely that more companies will use ESG-related bonds in order to switch their position from being part of the global warming problem into an active position and becoming part of the solution.

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Thank you!

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