NIC

— Nova Investment Club —

Newsletter

October 2021

NIC

—Nova Investment Club —

Table of Contents

Foreword

This Month:

In our Macro Overview section, analysts from both divisions will cover broad macro themes while reviewing major economic news from the past month. In our Deeper Dive section, Irina Pereira elaborates on the Evergrande situation. Moreover, in our Regional View, Felix Mitterer examines the German political shifts.

Our Investment Banking Division will guide you through September's M&A overall activity. Read about Authentic Brand Groups LLC to acquire Reebok International Ltd, Merck to acquire Acceleron Pharma Inc, and Bain Capital to acquire Rolls Royce Spanish subsidiary ITP Aero. Additionally, get a detailed overview on what happened to LVMH and WM Morrisons, as well as consider our opinion on the USD 20 bn IPO of Polestar.

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 negative, with a cumulative return of -2.63%. A loss that can be mainly attributed to Equities.

On the Hot Topics of this month, Lisa-Marie Perchtold, examines the power shortages in China, while Rodrigo Baltazar elaborates on recent SPAC leakage rates. Lastly, on our ESG review in collaboration with Nordea, Margaux Richard de Foucaud, writes about the Sustainable Debt Market.

NIC

—Nova Investment Club —

Macro Overview

Monthly

October 8th, 2021

Deeper Dive

Political Shifts in Europe's Economic Powerhouse Germany

— p.2

Regional view

Falling Giant: Evergrande's Debt Crisis

— p.3

Market Moves

Market Moves

% change

	Last Close	-1W	-3M	YTD
S&P 500	4,308	-3.18%	0.23%	14.68%
DJIA	33,844	-2.65%	-1.91%	10.58%
Nasdaq	14,449	-4.01%	-0.38%	12.11%
MSCI World	3,695	-2.40%	-0.49%	10.49%
MSCI EM	4,666	-2.50%	-4.38%	2.19%
Russell 2000	2,204	-2.42%	-4.60%	11.62%
Euro Stoxx 50	4,048	-3.50%	-0.40%	13.95%
FTSE 100	7,086	0.11%	0.70%	9.69%
Nikkei 225	29,453	-0.63%	2.30%	7.32%
Hang Seng	24,576	0.26%	-14.75%	-9.75%
Dollar Index	94.24	1.25%	1.96%	4.79%
EUR/USD	1.158	-1.37%	-2.36%	-5.22%
GBP/EUR	1.164	-0.44%	-0.26%	4.04%
GBP/USD	1.347	-1.79%	-2.58%	-1.43%
USD/JPY	111.250	0.83%	0.13%	7.75%
USD/CHF	0.93	0.84%	0.75%	5.28%
Brent Crude	78.520	1.64%	4.51%	51.58%
Gold	1,755.2	0.43%	-0.93%	-7.38%

Generic Bond Yields

change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	1.494%	6.4	2.6	58.1
GER 10Y Yield	-0.199%	5.9	0.8	37.0
JPY 10Y Yield	0.072%	3.3	1.4	5.1
UK 10Y Yield	1.022%	11.5	30.6	82.5
PT 10Y Yield	0.355%	7.8	-3.5	32.5

**Source: Bloomberg, as of 2021-09-30*

In Focus

September

German Election outcome undecided. Elections were held in Germany on the 26th of September 2021. The Social Democrats won 26% of the votes and inched ahead of the Christian Democrats who received 24.5%. Both, Olaf Scholz (SPD) and Armin Laschet (CDU) aim to lead the country's next government. The Greens and the Free Democrats may play a key role in coalition talks. After 16 years under Angela Merkel's leadership, the outcome of the elections will have wide-ranging implications for Europe.

Chinese property giant Evergrande in a liquidity crisis. The company missed the deadline for an USD 83.5 m interest payment on a dollar-denominated bond on 24th of September 2021. Moreover, Evergrande has to raise cash and pay back USD 7.4 bn of bonds coming due next year. The indebtedness of the property developer may cause a slowdown in economic growth in the Chinese property sector. Significant risk aversion in the property sector may also affect overall economic growth in China. However, direct exposure to Evergrande in Europe is considered to be limited.

California Governor Newsom beats recall effort. About 67% of the voters responded with a "no" to the question if Newsom should be removed from his position as Governor of California. The confirmation of Newsom is a major win for the Democrats in California reaffirming as there has not been a Republican elected to state-wide office since 2002. Public support for Newsom was given by President Joe Biden before the voting day. Democratic leaders characterized the recall attempt as a power grab supported by former President Donald Trump. The recall election was only the second for a governor in California's history.

Energy shortages in China hit Asia's largest economy. Shortages of coal and natural gas combined with strict emission targets from Beijing to fight climate change caused power outages. President Xi Jinping aims to de-carbonize the economy with respect to international attention during the Winter Olympics. A number of factories, including suppliers of Apple and Tesla, have stopped production. The country's economic growth rate may be lowered by 0.1 to 0.15 pp in the third and fourth quarter due to the shortages.

Australia has to repair its macro levers. Post-pandemic levels of federal and state government gross debt are between 60 and 70% of GDP. Shortcomings in monetary policy with record-low interest rates and electronic money printing failed to reach the Reserve Bank's inflation target of 2-3%. According to the OECD, Australia has to take actions to offset the rise in public spending costs caused by longer lives and more expensive age care. A possible solution would be reforming the tax system to reduce dependence on income tax.

China bans crypto transactions to stop illegal crypto mining. On 24th September 2021, Chinese authorities declared that crypto-related transactions will be considered an illegal financial activity. In addition, cryptocurrencies, including Bitcoin and Tether, are not allowed to circulate as they are not fiat currency. Bitcoin fell 6% on the day of the announcement. Overall, cryptocurrency activity has already shifted out of the country over the previous years.

US to relax EU travel restrictions for vaccinated travellers. For the first time since the travel ban was put in place in March 2020, the Biden administration will allow vaccinated passengers from the EU and the UK to travel to the US from November onwards. In order to enter the country, most adult foreigners are required to be fully vaccinated. Currently, 75% of U.S. adults have received at least one dose of a Covid- 19 vaccine.

Frauke Lührs
Financial Markets Division

Deeper Dive

Falling Giant: Evergrande's Debt Crisis

Irina Pereira
Investment Banking Division

"There is a recognition that the old build, build, build playbook does not work any more and that it is actually getting dangerous. The leadership now appears to be thinking that it can't wait any longer to change the growth model."

– Leland Miller, Chief Executive of China Beige Book

Evergrande Group sparked fears of "China's Lehman Moment" when it first announced that it was on the brink of default. The company is the second-largest Chinese real estate company and the world's most indebted with liabilities amounting to over USD 300 bn, of which ~80% are short-term.

In 2018, the central bank had already highlighted that Evergrande was one of the companies that could pose a high systemic risk to the nation's financial system. Surprisingly enough, the company never reported a loss in their financial statements, and their current assets always exceeded their current liabilities. In the last two months, the stock price has decreased by more than 80% YTD, and it is estimated that the company's financial commitments involve more than 128 banks and 121 non-banking institutions.

In August last year, China's policymakers had established hard caps on some financial metrics for the country's real estate sector (debt-assets ratio, debt-equity ratio, and cash ratio), in an attempt to deleverage the industry. To align with such measures, Evergrande was forced to sell properties at a discount of up to 25%. These constraints ultimately backfired. The real estate giant still accumulated excessive levels of debt, but the remaining disposable inventory either served as collateral to the debt, or it was considered unsellable, as, for instance, it had half a million parking spaces in ghost cities.

With payment deadlines approaching, investors worldwide raised the concern of the fallout at a domestic and international level. Consensus lies in the perception that the Chinese banking sector could digest an Evergrande default with no significant disruption, but close attention should be given to potential chain effects. Particularly, various domestic agents are directly or indirectly exposed to the risks, namely peers, creditors, suppliers, and the Chinese middle-class. The collapse can be very negative for sentiment amongst domestic property investors, and potentially spill over to the broader property sector.

At a global level, it is no surprise that commodities reacted ahead of the stock market to a dramatic slowdown in China's construction industry. It is estimated that the real estate sector in China consumes up to 20% of the global commodity supply. Additionally, the financial impact of the collapse is still unclear. Some of emerging markets' biggest investors had significant holdings in the bonds of Evergrande. Ashmore Group, specialized in emerging market debt, had more than 400 million dollars invested in Evergrande bonds, based on June fillings. Blackrock, UBS, and HSBC also had substantial bond investments in the company.

The focus of the Chinese government is to attempt to impose an orderly default while preventing the risk of contagion. It is unlikely that it engages in a bailout of the firm, but it is speculated that it will contain the liquidation crunch in the property sector.

On a governmental note, however, the situation with Evergrande is a reminder of how challenging it is to manage country-level risk. The current Chinese growth policy incentivizes malinvestments with politically determined and ambitious GDP targets. Meaning that the Chinese government is setting GDP growth targets above the country's high-quality growth rate and malinvestments continue to be used to fill the gap. In doing so, the country's debt volume is not only excessive but in some cases unproductive – as with Evergrande. The real estate sector was already highly distressed, but up until now, it was widely assumed that local governments would never allow companies like Evergrande to default on their obligations, and if necessary, they would either restructure their liabilities or recapitalize the borrower.

Irina Pereira
Investment Banking Division

Regional View

Political Shifts in Europe’s Economic Powerhouse Germany

Felix Mitterer
Financial Markets Division

"It is an encouraging message and a clear mandate to make sure that we get a good, pragmatic government for Germany."

- Olaf Scholz

As Europe's economic powerhouse, Germany accounts for approximately a quarter of the EU's gross domestic product and holds enormous political power in the Union, making the recent parliamentary elections a major topic of interest in the political and financial sphere.

On the one hand the historically dominating party in German politics, the conservative CDU/CSU, had its worst result in a Federal Election ever (24.1%), losing a substantial 8.9 percentage points compared to 2017. On the other hand, the center-left SPD emerges as the election winner with a substantial share of 25.7% of votes, adding a solid 5.2 percentage points compared to its results from the last electoral period. The electorate voted also favorable for the Green Party. With a growth of 5.8 percentage points, it achieved the best outcome of any parliamentary vote in its history (14.8%). Another minor party worth mentioning is the Free Liberals FDP, which gained votes, placing it behind the Greens with 11.5%. Both the far-left (Linke) and the far-right (AfD) lost support.

These results are the ground on which coalition talks for a future German political alliance take place. The latter has to tackle the main twin issues of climate change and digitization, both pressing topics for the future of Germany as a whole. While it is still partially unclear which parties will constitute the coalition, there seems to be a strong sense of certainty that a three-party federal government will become a reality for the first time in Germany's history. This has to do with a new 'Grand Coalition' being highly unlikely, even if mathematically possible. The unlikelihood of a new ‘Grand Coalition’, made up of the SPD and CDU/CSU, stems from the strong wish for change that voters expressed and the unwillingness of the two parties to govern together for another term. The most likely outcome (referred to as the 'traffic light' coalition) at the moment is an SPD-led coalition with the Greens and the FDP, featuring Olaf Scholz as a chancellor.

Another less likely, but still possible option, is the so-called 'Jamaica' coalition with the CDU/CSU and Armin Laschet as chancellor, partnering up with the FDP and Greens.

There was a palpable feeling of relief in the markets as the risk of a leftist coalition including the Linke, faded after the elections. Investors took comfort in the fact that the election results indicated a largely centrist government. This feeling of relief was also visible in the German bond yields, which on the day after the election rose athree-month peak at -0.19%. The DAX also increased by 0.3%, listing the German real estate company Vonovia, aircraft engine maker MTU Aereo Engines and the renewables company Siemens Energy as the top gainers of the day after the election.
For the future impacts of coalitions on the markets, the following factors should be considered. First, there is the possibility of Germany's 'Schuldenbremse‘, the country’s debt-brake limiting the government's structural spending deficit to 0.35% of GDP, to be undone. While the CDU/CSU, the SDP, and the FDP want this policy to be maintained, the Greens signal their willingness to reform this debt break for increased public spending. Secondly, there is the issue of taxation. The SPD and the Greens have proposed tax hikes, targeting higher-income households and fixing the minimum wage at EUR 12-13 per hour. Contrary to his, the CDU/CSU and the FDP propose tax cuts for higher-income households and scrapping the solidarity surcharge, which impacts the country’s big income earners positively. Due to these political policies, it can be assumed that a left-leaning coalition could result in an increase of German bond yields and weigh on equities because of the prospect of higher taxes, minimum wages, and stricter environmental regulations. A more right-leaning coalition would be regarded as more market-friendly, leading to higher asset prices. It has to be seen which coalition will be formed and which policies end up implemented in government.

Felix Mitterer
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

ECB Strategy
On the **7th** of October, the ECB will launch its strategy report and discuss it. In this event, important topics such as price stability, fiscal-monetary interaction, and implications for monetary policy of climate change and related mitigation initiatives will be discussed.

IMF Annual Meetings
From the **11th** to the **17th** of October, the IMF political meeting will take place in Washington D.C. The representatives will discuss current issues such as climate, trade, vaccines, and economic recovery.

G20 Leader's Summit
The G20 Heads of State and Government Summit will be held in Rome on the 30th and the **31st** of October. In this meeting, the G20 will, among other topics, discuss ways to reduce the likelihood and severity of a potential emerging-market debt crisis.

Central Bank Decisions

Fed Interest Rate Decision
The FOMC minutes will take place on the **13th** of October. Investors took a clear message from last meeting in September, which is that monetary policy in the US is about to become inreasingly tighter.

Bank of Canada Interest Rate Meeting
On the **27th** of October, the Bank of Canada will meet to discuss interest rate levels. The BoC is expected to announce further slowing bond purchases to CAD 1 bn per week, following its intention to end the quantitative easing program by early 2022.

ECB Monetary Policy Decision
The Governing Council of the ECB holds its monetary policy meeting on the **28th** of October in Frankfurt. Even after recent price spikes it is expected that the European Central Bank keeps monetary policy loose and thus avoids overreacting to temporary price fluctuations.

Inflation and Deflation

Update on Euro Zone Inflation
September inflation data for the Euro area will be published on the **1st** of October. The YoY consumer prices in the Euro area are expected to rise and increase to 3.3%, jumping further to a new 10-year high.

US Inflation
US inflation rates will be announced on the **13th** of October. The YoY consumer prices are expected to have remained stable at 5.3%. This high inflation could be prolonged into early next year because parts of electronic components and material shortages might be deteriorating.

UK Consumer Price Index
YoY figures on consumer prices in the UK will be made public on October **20th** Inflation is expected to fall to 2.9% after reaching its highest level since 2012 in August, a figure of 3.2%.

Labour Market

US Employment Readings
On the **8th** of October, the US announces its unemployment rate. It is expected to decrease further to 5.1%, as it returns to pre-pandemic levels. The unemployment rate of September was 5.2%.

Canadian Labour Market
Canada's unemployment rate will be announced on the **8th** of October. The overall unemployment rate is expected to increase again to 7.3%, as the country struggles to stabilize it. The previous unemployment rate was 7.1%.

UK Labour Market
On the **12th** of October, UK announces its unemployment rate. After the first hopes of recovery of employment in the UK, the unemployment rate is expected to have remained stable at 4.6%.

João Vaz
Financial Markets Division

Investment Banking

M&A
Overall Activity

Global

Global M&A activity is surpassing pre-pandemic levels buoyed by optimistic economic outlooks as more economies reopen and vaccination programs gain traction. Although Covid-19 remains an ongoing threat in particular with the rise of the Delta variant, the third quarter of 2021 witnessed a surge in deal volume spurred on by accelerated strategic agendas, as companies steer their portfolio optimization towards post-pandemic growth. According to Refinitiv, global deal values in Q3 2021 reached a record-breaking USD 1.6 tn especially driven by private equity backed M&A transactions. Cross-border M&A activity also effectively doubled from last year, led by the technology, industrial and financial sectors, which accounted for 43% of cross-border deals. September 2021 witnessed several so-called mega deals. The acquisition of the UK-based sports betting and gaming company Entain Plc by Draftkings Inc. for a consideration of USD 25.4 m and the SPAC merger of Gores Guggenheim Inc. and Swedish automotive company Polestar Performance AB are particularly noteworthy.

Selected Regions

North America
Third quarter deal volume in the United States is up 21% compared to Q3 last year. US volume comprised 45% of global M&A year-to-date, and 37% for Q3. While no sector suffered a decrease in activity, the current surge in transaction volume is particularly driven by the technology services and the commercial services sectors.

Europe
European deal volume in Q3 2021 has more than doubled compared to same period in 2020 totalling USD 473 bn. PE buyouts are fuelling the deal activity as economies are recovering and companies seeking to reposition themselves for future growth. This, coupled with low-cost financing conditions has resulted in a sharp uptick in M&A activity.

Asia
Asia-Pacific deal volume climbed 21% compared to Q3 2020. The technology sector continues to lead deal activity in the region, accounting for almost one-third of the cumulative deal value. Despite many parts of the global economy still operating under restrictions, cross-border transactions increased by almost three times year-on-year.

M&A
Deals of the Month

Announnced Date	Target	Buyer	Target region	Target business	Value (USD m)	Premium (%)
21 Sep 21	Entain Plc	DraftKings Inc.	UK	Sports-betting and gaming	25,400	46.20%
27 Sep 21	Polestar Performance AB	Gores Guggenheim Inc.	SE	Automotive	20,003	-
20 Sep 21	Ausnet Services Ltd	Brookfield Asset Management Inc.	AU	Electricity distribution	13,061	-
27 Sep 21	Saudi Arabian Oil Co (air separation unit)	Air Products and Chemicals Inc et. al	SA	Air separation	12,000	-
13 Sep 21	The Rocket Science group LLC	Intuit Inc.	US	Email marketing software	12,000	-
02 Sep 21	Hill-Rom Holdings, Inc.	Baxter International Inc	US	Medical technologies and related services	11,857	-
30 Sep 21	Acceleron Pharma, Inc	Merck & Co. Inc	US	Biotechnology	11,560	-
28 Sep 21	Kirkland Lake Gold LTD.	Agnico Eagle Mines Limited	CA	Gold production and development	10,625	-
20 Sep 21	Royal Dutch Shell Plc (Permian Basin assets)	ConcocoPhillips Company	US	Oil and gas	9,500	-
02 Sep 21	Swedish Orphan Biovitrum AB	Advent int. Corporation	SE	Biopharmaceuticals	9,403	-

Darryl Karberg
Investment Banking Division

M&A: Top Deals

Authentic Brands Group LLC to acquire Reebok International Limited

On the 12th of August 2021, Adidas, a German multinational corporation, has signed an agreement to sell Reebok, its US-based subsidary, to Massachusetts-based Authentic Brands Group (ABG) for up to EUR 2.1 bn. The acquisition aims at positioning Reebok for long-term success.

Buyer vs Seller

Adidas, a German manufacturer of sports shoes, sportswear, and sporting goods, bought Reebok in 2006 for USD 3.8 bn, a US-based sportswear brand. However, Reebok suffered from insufficient sales and losses. Hence, J.P. Morgan acted as advisor to Adidas. On the buyer side, ABG is part-owned by US asset manager BlackRock. Their goal is to acquire, build, and manage consumer brands. ABG was assisted by BofA Securities, Goldman Sachs, Latham & Watkins and KPMG International.

Industry Overview

Covid-19 related lockdowns have impacted the sportswear industry with retail stores' temporary closure and industry-wide supply chain challenges. In addition, increasing awareness about the health benefits of sports activities drives the market. In 2020, the size of the global sportswear market amounted to USD 160.1 bn. On the buyer side, the current consumer environment is benefiting lifestyle footwear, including Reebok.

Peers	Currency	Market Cap (CUR m)
Nike	USD	232,634,000
Puma SE	EUR	14,597,000
Under Armour	USD	9,004,000
Columbia Sportswear Company	USD	6,405,000

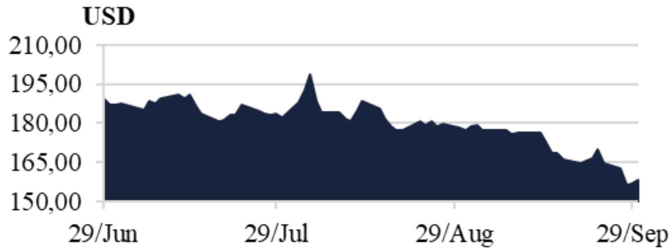
Deal Rationale

15 years ago, when Adidas acquired Reebok, the goal was to increase rivalry with Nike in its home market, the USA. While Adidas managed to restore Reebok's profitability, the brand still suffered from insufficient sales and losses. Jamie Salter, the founder and chief executive of ABG sees this acquisition as an important milestone to cement its position as a major player in the American retail industry. The deal structure entails the majority to be paid in cash at closing of the transaction and the remainder is comprised of deferred and contingent consideration. The transaction is expected to be closed in the first quarter of 2022.

Market Reaction

Adidas

At the announcement, the stock added 2.09% to close at USD 184.53. Despite reporting the share of cash proceeds with shareholders, the closing price reached USD 158.12.



Authentic Brands Group LLC

ABG is privately owned, with affiliates of BlackRock being the largest shareholders. ABG does not publicly disclose financial information.

Future Challenges

While major footwear brands are pulling out of retailers to focus on direct-to-consumer sales, ABG could use Reebok to fill the empty space in wholesale stores. ABG must maintain the brand DNA that is driving Reebok sales today. Adidas announced that the sale of Reebok has no impact on the financial outlook for the current year or the company's 2025 financial ambition.

Margaux Richard de Foucaud
Investment Banking Division

M&A: Top Deals

Merck to Acquire Acceleron Pharma Inc.

Merck has entered into a definitive agreement to acquire Acceleron through a subsidiary, for a total cash consideration of USD 10.4 bn. The acquisition represents a premium of 24% as Merck will buy Acceleron Pharma's shares for USD 180.00 compared to a closing price of USD 136.33 on the 17th of September 2021. The transaction is expected to close by the end of the year.

Buyer vs Seller

Merck is a US-based multinational pharmaceutical company that develops and produces medicines, vaccines, biologic therapies, and animal health products, having multiple blockbuster drugs or products. Acceleron Pharma is a biopharmaceutical company dedicated to discovering, developing, and commercializing of therapeutics to treat serious and rare diseases. The company focuses its research, development, and commercialization efforts on pulmonary and hematologic diseases.

Industry Overview

The biopharmaceutical industry was highly influenced by the ongoing Covid-19 pandemic globally while being driven by the growing geriatric population and rising chronic diseases. The market volumes approximately USD 325 bn in 2020, and it is expected to reach USD 496.7 bn by 2026, representing a positive CAGR of 7.32%. In terms of market share, few of the major players currently dominate this relatively fragmented market.

Peers	Currency	Market Cap (CUR m)
Novavax Inc.	USD	15,441.31
Sarepta Therapeutics Inc.	USD	7,384.03
Halozyne Therapeutics Inc.	USD	5,790.18
Insmed Inc.	USD	3,173.89
Agios Pharmaceuticals Inc.	USD	2,720.61

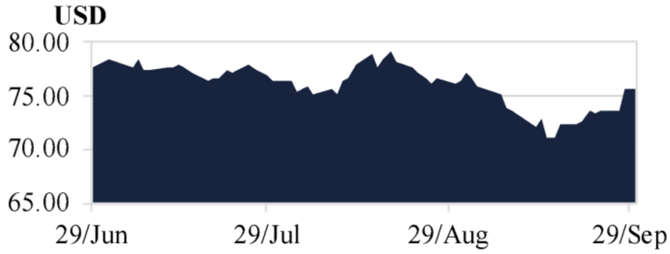
Deal Rationale

The deal would give Merck access to Acceleron's sotatercept, which has the potential to improve short and/or long-term clinical outcomes in patients with pulmonary arterial hypertension (PAH), a progressive and life-threatening blood vessel disorder. Acceleron's acquisition fits perfectly in Merck's capital allocation while complementing its cardiovascular pipeline. This deal would provide Merck with a relatively secure USD 1 – 1.5 bn in estimated revenue by 2025 through multiple revenue-generating opportunities. All in all, the deal further expands the overall pipeline and will create meaningful cost and revenue synergies.

Market Reaction

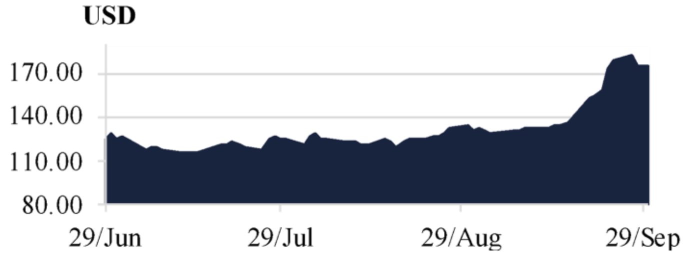
Merck

In a reaction to the proposal and announcement, the firm's stock rose 10.58% and 8.37% respectively. The trading day after the announcement, the stock reached USD 81.40.



Acceleron Pharma Inc.

In September, the company's share performance was impressive, despite the lackluster response from investors to the potential deal.



Future Challenges

The main revenue-generating opportunity, sotatercept, is in Phase 3 trials for the treatment of PAH. Hence, Acceleron Pharma heavily depends on the effectiveness of their patents and other protections for innovative products while being exposed to litigation, including patent litigation, regulatory actions, and competitor's technological advancements inherent to the industry.

David Silva
Investment Banking Division

M&A: Top Deals

Bain Capital to Acquire Rolls Royce Spanish Subsidiary ITP Aero

The British carmaker Rolls Royce has agreed to divest its famously known jet-engine business in a sale of their Spaniard subsidiary ITP Aero, an aero engine and gas turbine manufacturer for EUR 1.8 bn. The sale of the business will be made to a *consortium* led by Bain Capital after several months of negotiations and it is supposed to be concluded by mid-2022.

Buyer vs Seller

The Spanish subsidiary of Rolls-Royce is being purchased by a consortium composed by the private equity giant Bain Capital, the SENER Grupo de Ingienieria SA, a company who provided engineering, construction, and system integration solutions and JB Capital, another Spaniard co-investor. The jet-engine maker entered into exclusive talks with Bain-led group as stated in a stock exchange filling.

Industry Overview

The aerospace industry has faced constant challenges to stay afloat due to the lockdowns in 2020. As little flight-time became an issue for carriers, aviation businesses were forced to make several adjustments to their business strategies and consequently compelled to pursue overhauls that implied layoffs and decreases in the number of operating flights. Nevertheless, the industry is expected to grow at a rate of 7.7% for the next four years.

Peers	Currency	Market Cap (CUR m)
MTU Aero Engines AG	EUR	10,625.69
HEICO Corp	USD	17,224.59
Safran SA	EUR	47,491.96
Raytheon Technologies Corp	USD	131,909.18
Woodward Inc	USD	7,482.30

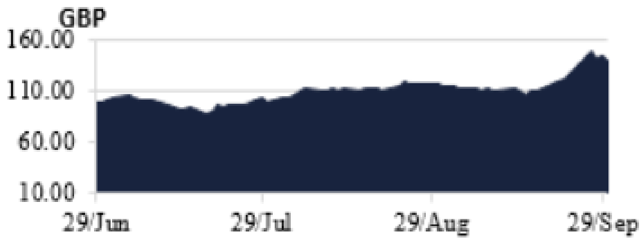
Deal Rationale

The sale of ITP Aero to Bain Capital and its co-investors was needed as Rolls-Royce faced balance sheet pressures which derived from the pandemic. One of the reasons for this was because its revenues to the jet-engine business are directly connected to the number of flights the aircrafts make with their engines. Therefore, the firm decided to move forward with a divestment programme worth more than EUR 2 bn to improve its balance sheet and also return to the highest profiles of lending as investment grade. Rolls Royce will strengthen their balance sheet through EUR 1.8 bn cash proceeds.

Market Reaction

Rolls-Royce (RR/LN Equity)

The shares of the firm were slightly higher at GBP 104.54 at the announcement of the transaction. However, this year the stock is down by almost 6%.



Bain Capital Private Equity

The firm is privately owned thus it does not disclose information on its performance. However, Bain Capital dedicates its investments towards a variety of asset classes and geographies. In specific they make investments in publicly listed and private-held equity, venture capital, fixed income markets and run they special fund investments.

During the month of September, the firm also acquired Bread Holdings Ltd and Major Tool and Machine Inc, being the former a British bakery and the latter an American firm that provides aircraft equipment solutions.

Future Challenges

ITP has several interests from the Basque Country and the Spanish Government. Also, Bain has stated that it is open to incorporate more Spanish and Basque partners in the consortium for up to 30% of equity. Thus, there might be a cultural conflict as sponsors have different values and ideas than government authorities when managing a business.

Arsénio Renato Junior
Investment Banking Division

What happened to

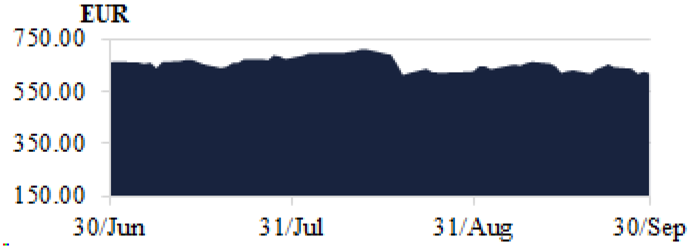
LVMH Moët Hennessy Louis Vuitton

LVMH Moët Hennessy Louis Vuitton ("LVMH") is a multinational corporation specializing in producing and distributing luxury goods. It operates in segments such as fashion and leather goods, watches and jewelry, wine and spirits, among others. As of 2020, LVMH employs 163,000 and operates more than 5,000 stores around the globe.

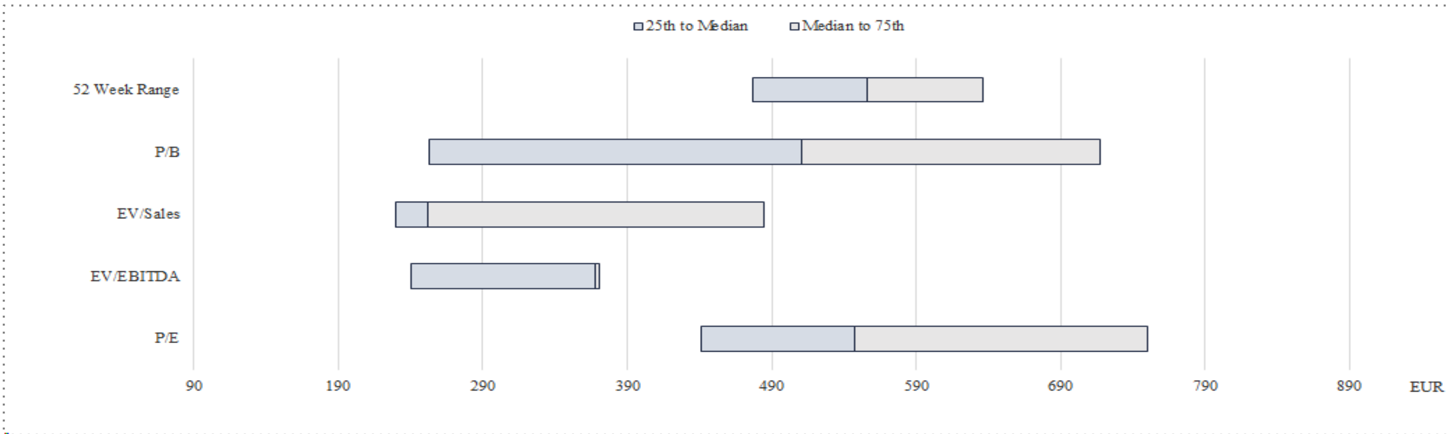
Corporate News

LVMH's stock price is up 21.37% YTD and 52.12% for the last 52 weeks, after recorded revenue of EUR 28.7 bn in the first half of 2021, up 56% compared to the same period in 2020. The surge indicates a strong growth momentum for the conglomerate. Its key distribution regions, namely the United States and Asia, are recovering sharply by opening their economies and easing travel restrictions. Furthermore, LVMH announced, on January 7th, 2021, their successful acquisition of global luxury jeweler Tiffany & Co, thus, boosting their watches & jewelry division. However, in August, reports of the meeting of the Chinese Communist Party about the need for "common prosperity" halted the rally of companies in the luxury sector. The emphasis on a plan to regulate and redistribute excessive wealth sent a shudder through luxury investors, triggering a selloff that wiped out billions in market value across companies in the luxury sector.

Price (30 Sep 21, EUR)	**630.00**
Target Price (EUR)	760.00
3M Performance	-4.73%
Market Cap (EUR m)	317,997.12
Enterprise Value (EUR m)	349,269.12
**Target Price is for 12 months*	



Valuation Analysis



LVMH was, as of September 30th 2021, trading at EUR 630. If we conduct a brief comparable analysis, we can see that the dispersion in valuations in the luxury goods industry, particularly when considering P/B, EV/Sales, and P/E, is quite significant. By observing the EV/Sales in more detail, it seems that the firm is relatively overvalued. However, considering the P/B and P/E ratio, we can conclude that the company share price is priced fairly in the upper range of its industry peers.

Looking back at the beginning of this year, we can tell that the pandemic has accelerated luxury brands. Even though luxury is often one of the first industries to take a hit in time of economic crisis, it proved itself to be one of the most resilient sectors, as consumer behaviours have permanently changed. Furthermore, Millennial and Gen Z consumers are proving to be the main growth engine in the luxury market, redefining what luxury brands need to do to appeal to them.

Peers	**Currency**	**Market Cap** (Cur m)
Christian Dior SE	EUR	113,358.72
Kering SA	EUR	78,423.74
Hermes International	EUR	126,208.23
Cie Financiere Richemont SA	CHF	56,880.25
Capri Holdings Ltd	USD	7,574.88

Roman Bauer
Investment Banking Division

What Happened To

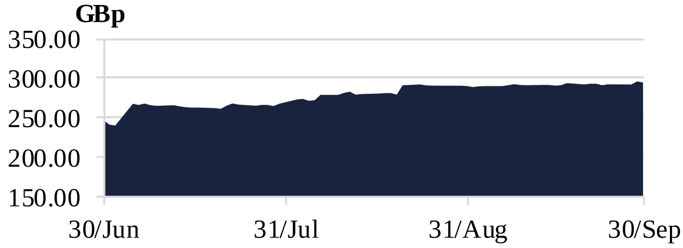
WM Morrisons

WM Morrisons is the fourth largest UK retail chain. The company employees 110,000 people and serves 11 million customers every week, representing a market share of 10% against Tesco´s 28%, Sainsbury ´s 16%, and Asda´s 15%. Morrisons ´ business model relies on high property ownership and vertically integrated operations where half the fresh food it sells is in-house produced.

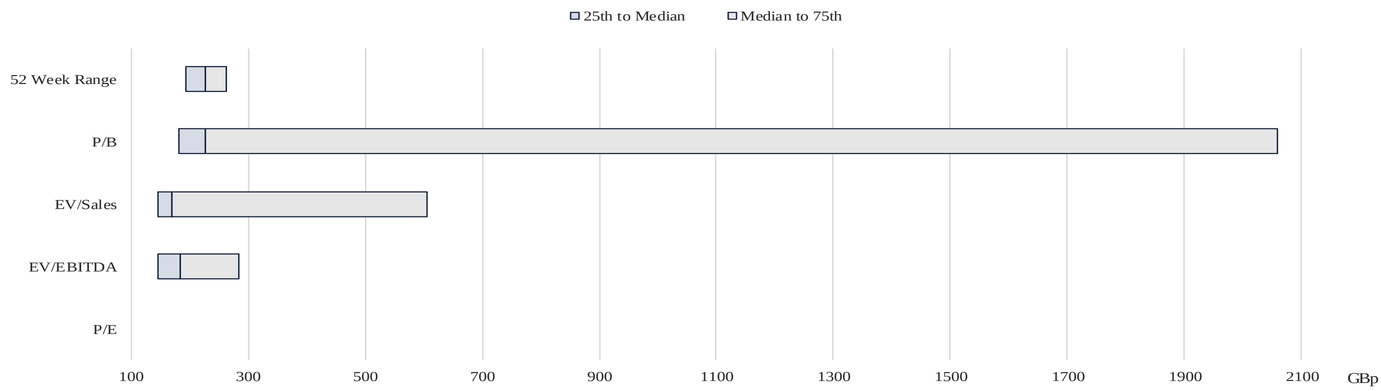
Corporate News

Over the last years, UK food retail has raised the attention of cash-rich Private Equity firms. After the acquisition of Asda by the Issa Brothers and TDR Capital in February, WM Morrisons is behind one of the most high-profile auctions in the UK takeover arena. A consortium led by Fortress Investment Group (owned by Softbank) against Clayton, Dubilier and Rice (CD&R) stands on the battlefield. After multiple bids starting in June, the winner will come up on Saturday, the 2nd of October, as decided by the UK Takeover Panel. Whoever wins the auction, the price paid will be more than GBP 9 bn EV which represents a premium of 60% over the stock price before the announcement. In fact, on 18/06/2021, just before the announcement, shares were trading at GBP 178, increasing 34% to GBP 240 the following Monday. After three months of negotiation and consequent bid increases, the share price has surged more than 20%, closing at GBP 297.

Price (30 Sep 20, GBp)	**297.00**
Target Price (GBp)	254.00
3M Performance	20.39%
Market Cap (GBp m)	7,185.97
Enterprise Value (GBp m)	10,254.97
**Target Price is for 12 months*	



Valuation Analysis



The share price surge clearly highlights a great discrepancy between the value UK public market investors ascribe to retail companies and private equity investors' willingness to pay. The recent climb in bids (and valuation) is pricing the ability of the winning side to create value by leveraging the capital structure, improve operating margins, and, more importantly, sell key capital assets. Still, many analysts doubt the transaction will yield returns for the private equity investor at such a high price point.

Based on our valuation however, there is some ground to argue that even at current prices, Morrisons may be undervalued. In the football field, P/B, EV/Sales and EV/EBITDA valuation multiples share upper bounds well above the current stock price of GBP 297 . In fact, both Dina Polska and AxFood from Poland and Sweden, respectively, trade at very high multiples biasing our estimates of Morrisons value upwards.

Peers	**Currency**	**Market Cap** (Cur m)
Lenta Plc	USD	1,442.88
J Sainsbury PLC	GBp	6,635.69
Dino Polska SA	PLN	32,647.32
Axfood AB	SEK	12,102.02
Carrefour SA	EUR	43,317.31

Rodrigo Baltazar
Investment Banking Division

NIC's View On

USD 20 bn IPO of Polestar

Mats Lützenkirchen
Investment Banking Division

"Polestar remains a Swedish-headquartered global electric performance car company and we will continue to leverage [its] Scandinavian roots to create design-led, avant-garde electric vehicles."

"With two award-winning cars on the road today in 14 active markets across three continents, we seek to expand to 30 markets by 2023. We are thrilled about the targeted addition of three new premium electric cars to our line-up by 2024, starting with our first SUV expected in 2022"

– Polestar CEO Thomas Ingenlath

Polestar is a Swedish-based automotive company focused on luxury and high-performance electric vehicles. In 2020, it delivered ~10,000 cars with an ambitious growth target of 290,000 p.a. by 2025. It is headquartered in Gothenburg, Sweden with only one production plant in Chengdu, China. Globally, it serves the European, North American and Asian markets. The company spun out of Volvo in 2017 as a high-performance sub-brand of Volvo, however, it has positioned itself rather exclusively to electric vehicles. Until today, Polestar is jointly owned by Volvo's parent company Zhejiang Geely Holding Group Co., as well as Volvo Car AB itself has two launched production cars, the USD 155,000 performance-hybrid Polestar 1 as well as the fully-electric sedan, Polestar 2. In April 2020, the company has raised USD 550 m in external funding and announced in June this year the start of the South Carolina-based production plant at the beginning of 2022 for an all-electric SUV, the Polestar 3.

On September 27th, the electric carmaker has agreed to go public via a USD 20 bn merger with Gores Guggenheim, a blank-check company. Polestar is the latest EV company to go public via SPACs, joining ranks with e.g., Faraday Future, Lordstown Motors, and Lucid Motors. The latter is yet the largest blank-check merger in the EV sector, totalling USD 24 bn in February this year. However, there also have been IPO flops in the EV sector: Lordstown, Canoo, and Nikola were among those which were hit by the increased demands of being listed as they simply made use of the SPAC boom. Nevertheless, we expect Polestar to have an easier start post-listing given its close ties with major car manufacturers like Volvo and Geely and already existing production lines. Furthermore, compared to its peers, Polestar has already sold and delivered vehicles to its customers.

The deal itself will provide Polestar with cash proceeds of over USD 1 bn, including USD 800 m from Gores Guggenheim as well as USD 250 m from institutional investors. Upon announcement of the merger, the current CEO of Polestar added in an interview, the firm does not need those proceeds to build the new factory but rather put the money into developing its technology and the markets. In addition to the proceeds from the IPO, Volvo announced to maintain about 50% of the combined company by making an additional equity injection of up to USD 600 m. Current equity holder will maintain their entire interest in the combined company totalling ~94% of the future ownership. Once the deal is closed in H1 2022, Polestar will trade under "PSNY" on the NASDAQ.

Besides being listed, Polestar also announced three additional models by 2025. As mentioned earlier, the Polestar 3 will be similar in size to a Porsche Cayenne with launch expected in 2022. The Polestar 4, comparably in size with a Porsche Macan will be introduced in 2023 and the Polestar 5, inspired by the precept concept, will launch in 2025 – a car expected to compete with Tesla's Model S or the Mercedes Benz EQS. Those additional funds will provide Polestar with sufficient liquidity for further R&D projects and the scaling of its production capacity to meet its ambitions growth target.

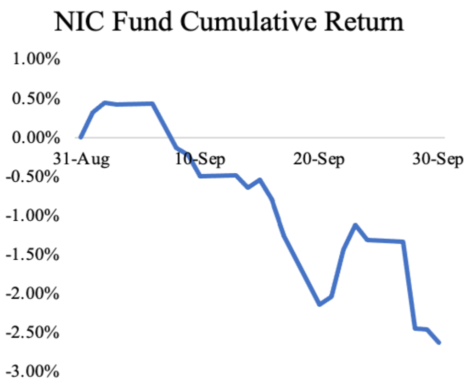
Date	Recent News
27 Sep 21	Polestar, signs agreement to be publicly listed through combination with Gores Guggenheim. ***Source:*** *polestar.com*
14 Sept 21	Polestar accelerates global engineering capabilities as it doubles its UK R&D Team. ***Source:*** *polestar.com*
16 Jun 21	Polestar 3 is produced in the USA. ***Source:*** *polestar.com*
17 Oct 17	Volvo Cars and Geely Holdings invest 5 billion RMB to develop Polestar. ***Source:*** *media.volvocars.com*

Mats Lützenkirchen
Investment Banking Division

NIC Fund

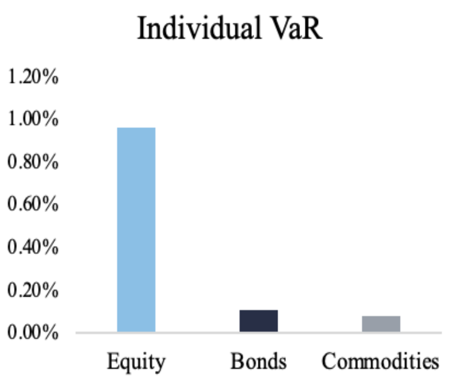
NIC Fund

Portfolio Overview



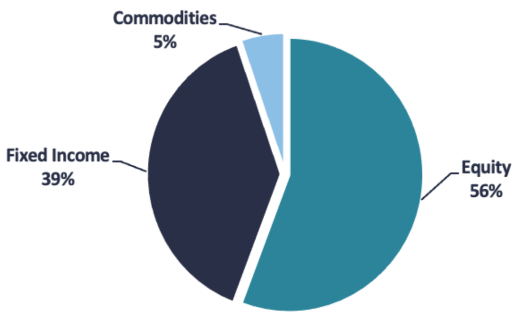
Portfolio Statistics	
Cumulative Return	-2.63%
Annualized Return	-31.54%
Daily St. Dev	0.37%
Period St. Dev	1.72%
Annualized St. Dev	5.95%
Info Sharpe	-5.30
Skew (Daily)	-0.83
Kurtosis (Daily)	1.22

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



Portfolio Snapshot

During the month of September, our portfolio remained invested across three main asset classes: Equities (56%), Fixed Income (39%), and Commodities (5%). Despite the strong overall stock performance in August, historically, the month of September remains the worst performing month of the year. Stocks continued to react negatively to the resurgence of Covid-19 Delta variant, a sudden surge in long-term bond yields, and a notice that the Federal Reserve may start to downsize its support for the economy while the S&P500 and NASDAQ suffered their first monthly drop since March 2020.



Return Metrics

Driven by high uncertainty in the market, our overall portfolio fell by 2.63% in the month of September. While Equities plummeted by 2.31%, Bonds dropped 0.26% in value. In contrast, Commodities noted a positive return of 0.01% and presented the only asset class with positive returns.

This month, our portfolio performance was significantly impacted by the general downtrend in the equities market. To put this into perspective, the S&P 500 ended its month 4.8% lower, indicating the worst month since January 2020.

As uncertainty about interest rates and inflation continued, pro-cyclical stocks suffered noticeably. Consequently, our portfolio's worst performers of this month were Zynga Inc. (-14.92%), Trupanion Inc. (-15.19%), and Novartis AG (-11.04%). In comparison, EOG Resources' stock price rose by +18.88% this month, representing our portfolio's best performing stock followed by Netflix (7.23%) and Lufthansa (+0.30%), which were also the only three equity holdings generating positive monthly returns.

Risk Metrics

In terms of risk, our portfolio registered a relatively low daily VaR of 0.84%, taking into consideration the benefits of diversification.

With a VaR of 0.96%, equities presented the asset class with the highest individual VaR in our portfolio. In comparison, Bonds and Commodities implied lower VaRs of 0.11% and 0.08%, respectively.

Raphael Northoff
Financial Markets Division

NIC Fund

Assets in Brief

Asset Class	Symbol	Comments
US Equity	**V**	In Q3 2021, Visa's global payments volume represented 121% of its pre-Covid 2019 figures as people began returning to shops and offices as a result of the improving pandemic situation. However, its high-margin cross-border revenues continued to be negatively impacted by travel restrictions during Q3.
US Equity	**NFLX**	Netflix outperformed the market this month, returning 7.23% MTD. Despite its rather mixed Q2 2021 financial results, our expectations of Netflix's future performance remains positive. While its expansion in the US and Canada turned negative in the last quarter, its increasingly international markets will be the answer for its growth in the future.
US Equity	**CMG**	The US-based company, Chipotle Mexican Grill reported massive revenue and earnings gains in its second-quarter earnings report, leading to a 31.07% YTD performance. Its revenue increased by 30% YTD while its net income rose by 272% in the same time period. As concerns about the delta variant of the coronavirus developed, Chipotle benefitted from its well-developed takeout business and its ability to offer food delivery decreasing the risk of a high impact on a potential next shutdown.
FP Equity	**KER**	Stocks in consumer discretionary sector have suffered in times of the Covid-19 pandemic. Another risk is currently arising in the the Chinese luxury market as luxury goods may face regulatory and policy headwinds. While Kering recently recorded solid financial results in the last quarter, the company stressed that it is still "in a phase of investment", potentially leading to a lower-than-expected operating margin increase in the upcoming quarter.
US Equity	**PYPL**	Paypal published strong financial performances during its last quarter of 2021. Its number of active accounts increased to 403m, at the end of June 2021. Already in 2020, Paypal would allow its customers in the US to buy, sell and hold cryptocurrencies. In August of 2021, the US-based company announced that it was expanding these services to the UK as well.
US Equity	**DIS**	Uncertainty exists as to the future of the parks of Walt Disney. However, Q3 earnings results smashed analysts' expectations. Its revenues rose 44.5% YoY. Parks, experiences, and products could recover from the pandemic and could recently open again, thanks to vaccine rollouts and the relaxation of restrictions.
GR Equity	**VOW**	After its overall downward trend since 2014, Volkswagen started picking up in 2021 again. Indicated in the most recent quarterly results, electric vehicle deliveries almost tripled in the past year, which will provide opportunities for the company to expand its customer base for electric vehicles in the passenger car market, in which VW has been a strong player in the past.
US Treasury Bonds	**TIP**	The iShares TIPS Bond ETF tracks the investment results of Bloomberg U.S. Treasury Inflation Protected Securities (TIPS) Index (Series-L), which is composed of inflation-protected U.S. Treasury bonds. As a sudden surge in long-term bonds and rising inflation is expected, market uncertainty rises, providing meaningful opportunities for inflation hedges.
Commodity	**AAAU**	Goldman Sachs Physical Gold ETF is among the most competitively priced commodity ETFs on the market. Last year, due to the Corona crisis, people had invested heavily in gold as a "Safe Haven" for investors in markets with high downside risk. As a counter-cyclical asset, we believe that it will provide a hedge for potential upcoming market volatility.

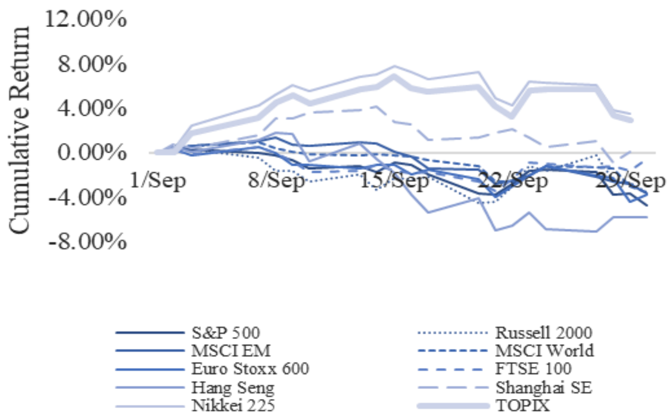
Raphael Northoff
Financial Markets Division

NIC Fund

Equities

World Equities

Global equities suffered their worst monthly decline since the onset of the pandemic, with the MSCI World down 4.01% MoM. The drawdown was largely triggered by concerns over higher-than-expected inflation and interest rates. In the US, the S&P 500 and Russell 2000 declined 3.64% and 3.62% MoM respectively. High-growth tech companies were the largest contributors to the decline, as rising interest rates increased the discount rate applied on distant cash flows. This was only partially offset by strong performance in energy, due to rising energy prices, and financials, which profit from higher interest rates on capital reserves and a steeper yield curve. In Europe and the UK, expectations of weaker economic growth added to investors' woes. The Euro Stoxx was down 3.87% MoM, whilst the FTSE 100 fell only 0.89% MoM, due to a larger energy weighting. The Nikkei 225 and TOPIX rallied in expectation of an economic reopening and a fiscal stimulus package. In China, the Shanghai SE's gains were wiped out over fears that Evergrande, one of China's largest property developers, would default on its debt. The Hong Kong stock market was down 5.82%, largely due to declines in Chinese companies.

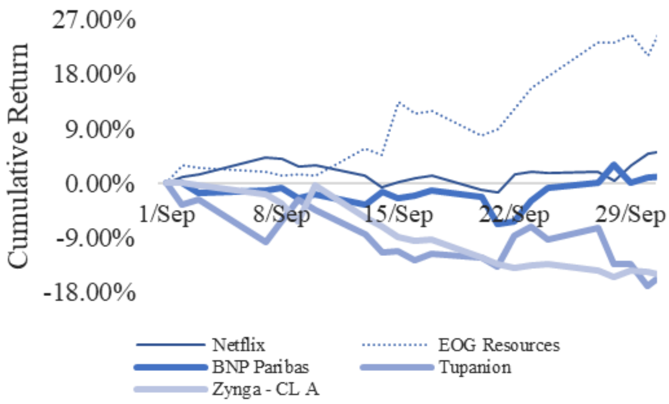


In Depth: NICE Holdings

NICE Holdings (034310 SK) is a South Korean financial services conglomerate which provides credit card processing services (37% of FY2020 revenues), batteries protection circuit manufacturing (24%), credit bureau services (18%), ATM services (12%), and others. It holds stakes of USD 1,209 m in listed, and USD 256 m in unlisted, subsidiaries and has USD 90 m in net debt at the holding company level. This translates to a Net Asset Value of USD 1,375 m which, when compared to its market cap of USD 550 m, suggests it may be trading at roughly 40 cents on the dollar. However, it may be worth more than this. It is the market leader in several great businesses with high barriers to entry. Management are well aligned, with the founding family holding c.48% of the company, and have been good capital allocators. Potential causes for its current undervaluation include the Korean stock market's long-term underperformance and the company's being small, complex, and not widely followed. Possible catalysts for the stock may include it growing into a valuation at which it will be noticed by institutional investors and management selling non-core assets or using free cashflow to buy back stock. The Korean stock market may also be back in favour, with the KOSPI index returning 35% YTD versus the MSCI World's 29%.

Our Performance

Equities contributed negatively to the performance of the portfolio in September, returning -2.31% cumulatively. We are particularly monitoring Trupanion (TRUP US) and Zynga (ZGNA US), which posted -15.19% and -14.92% MoM returns, respectively. Two strong performers for the month were EOG Resources (EOG US) and BNP Paribas (BNP FP), which rose 18.88% and 1.17% MoM, respectively. This was in line with positive performance in the energy and financials sectors. On the other hand, Netflix (NFLX US) bucked the tech drawdown, rising 4.86% MoM.



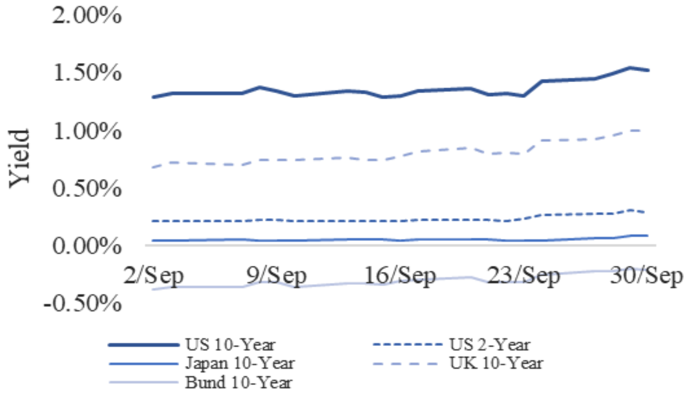
Nicolas Gomez
Financial Markets Division

NIC Fund

Fixed Income

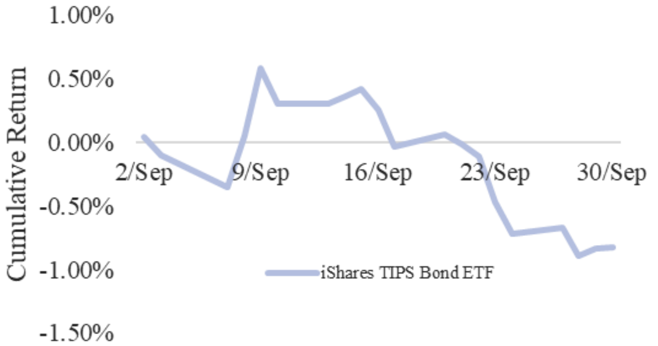
World Yields

September was a turbulent month for the Fixed Income market. The yield on the US 10-Year Treasury note increased from 1.29% to 1.49%, after it reached a peak of 1.54% on September 28th. The Federal Reserve announced that it will start tapering in November and hike interest rates in 2022. At the same time, the Fed cut growth forecasts and raised inflation projections for this year. In the UK, the 10-Year government bond slightly surpassed 1% for the first time since May of 2019. The central bank bumped its inflation forecast at the end of the year to over 4%, which is twice as large as its target rate. Due to inflationary pressures, Andrew Bailey, the Bank of England Governor, announced that interest rates could rise as early as this year, even before the expiration of the current bond-buying program. As investors break down the implications of the most recent announcements from the major central banks, the yield on the 10-Year Bund and on the Japanese 10-Year bond increased to -0.20% and 0.07%, respectively. On the other hand, Christine Lagarde, President of the European Central Bank, stated that the increase in current prices is temporary, and therefore, assured patience before tightening monetary policy.



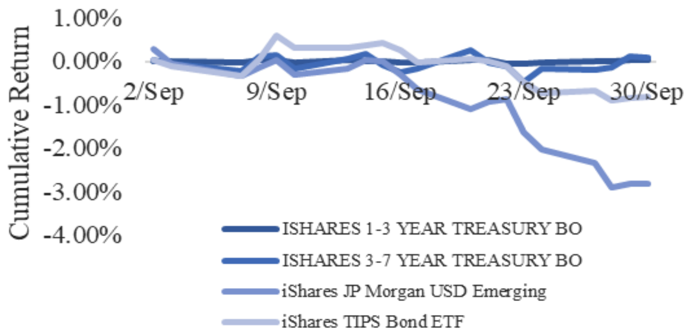
Outlook for October

In the US, Treasury Secretary Janet Yellen notified Congress that the government will not have enough cash and borrowing authority by October 18th. Therefore, Congress is likely to increase or suspend the debt limit in time. However, there is the imminent risk that a failed vote could compromise the suspension of the debt ceiling, thus causing a temporary technical default on some T-Bills. As for Treasury Inflation-Protected Securities (TIPS), yields may continue to increase from negative levels as the Fed slows down its bond purchase program. Coupon risk will likely continue to be stable during the taper as issuance is trimmed at a similar pace to Fed purchases. However, TIPS should experience a large increase in risk which will need to be captured by the market. In consequence, forecasts indicate higher real yields that will reflect into pricing of nominal Treasuries, while inflation breakeven remain somewhat stable. In Asia, China's second largest Real Estate corporation, Evergrande, is on the verge of default and has already missed some of its coupon payments. The company is the most indebted property developer in the world and is now facing debts of more than USD 300 bn. Evergrande's imminent risk of default could have far-reaching implications that spill outside of China's borders and affect markets worldwide.



Our Performance

In September, the NIC fund had a Fixed Income allocation of 38.98% of its total portfolio. The cumulative return of this asset class contributed a -0.26% return to the portfolio. The worst performers were the iShares 3-7 Year Treasury Bond and the iShares Tips Bond ETF, which yielded returns of -0.12% and -0.10%, respectively.



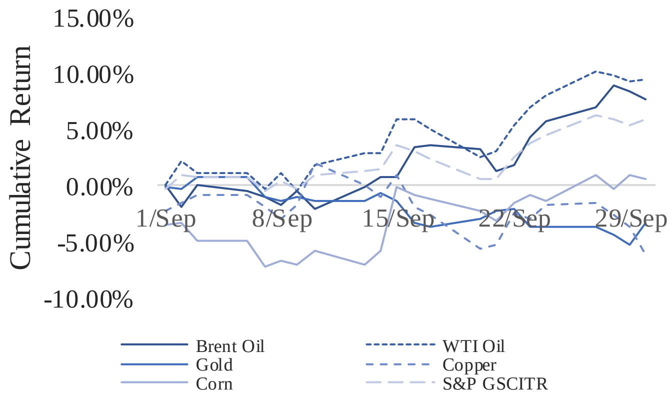
Yan Afonso Souza
Financial Markets Division

NIC Fund

Commodities

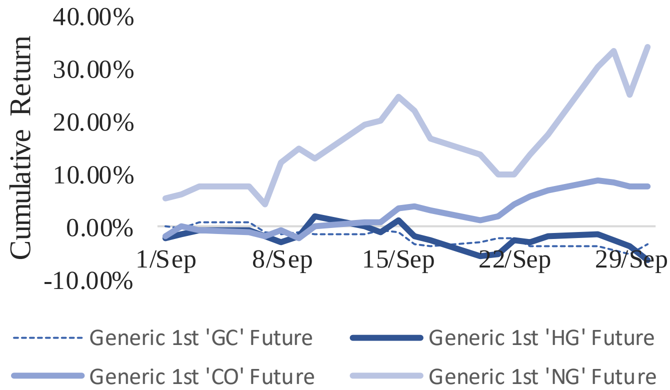
September Round-Up

For the month of September, the S&P GSCI Total return index, which tracks 24 commodities, rose by 6.03%, primarily driven by the good performance of the energy sector. Top gainers this month were natural gas and crude oil while copper and gold had a rather negative impact on the index. Gold was pressured by the appreciating US Dollar and rising US Treasury yields, as well as Fed's confirmation of tapering from November. Surging demand coupled with supply shortage has launched global oil prices to the highest level in three years, as Brent and WTI prices went up by 7.58% and 9.53%, respectively. For that reason, OPEC is considering expanding its existing deal to boost production by 400k barrels per day. In its annual World Oil Outlook, OPEC stated that oil will remain the leading energy source for decades, despite the push for renewable and alternative energy. An economic rebound from Covid-19 restrictions lifting coincided with higher-than-expected demand and led to a shortage of gas. Therefore, this energy commodity has also seen record prices, driven by competition for supply between Europe and China. The agricultural sector was rather quiet for the month of September. Corn and wheat had barely positive cumulative return, slightly outperforming the negative return of coffee and soybeans.



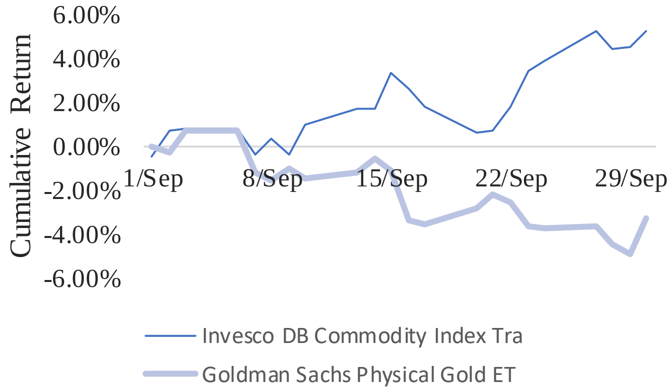
Outlook for October

The current upward trend of energy commodities is likely to continue as we approach colder weather. The October gas price at the Dutch TTF hub climbed to a record high of EUR 79.00 and Goldman Sachs has already raised its forecast for year-end Brent crude oil prices. UK energy prices are expected to be somewhat volatile as demand is highly dependent on wind generation as alternative source of energy. Chinese government held emergency meetings with domestic energy companies with an order to ensure adequate energy supplies for the upcoming winter. The stronger Chinese purchasing will potentially put further pressure on the European natural gas supplies. With the current liquidity crises of Evergrande, there is an ongoing concern about the extent to which China's real estate crunch will affect global commodity markets. Analysts estimated that China's property sector accounted for 25% to 30% of China's steel demand and 20% of all global copper and steel demand. With a lower demand from Chinese property sector, a significant decline can be expected in steel and cooper prices. Gold will continue being hurt by a steady US Dollar and an uptick in bond yields. In addition, Evergrande crisis might hinder the Chinese demand for the precious metal, pressuring its price even more.



Our Performance

During the month of September, we maintained the allocation of 5.26% in commodities which resulted in a positive 0.01% effect on our overall portfolio return. The Invesco DB Commodity Index returned 0.11% while our position in Goldman Sachs Physical Gold ETF was down by 0.10%.



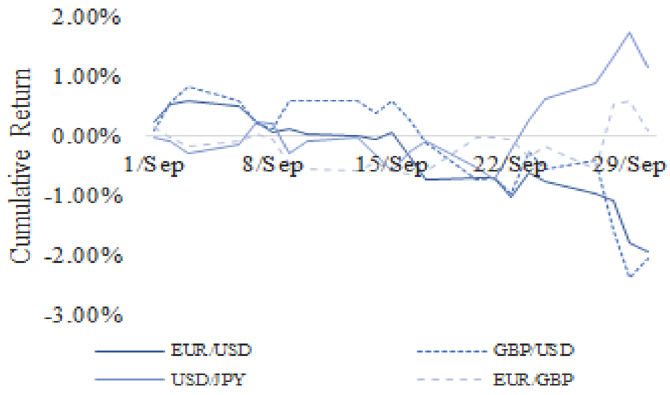
Sara Ivackovic
Financial Markets Division

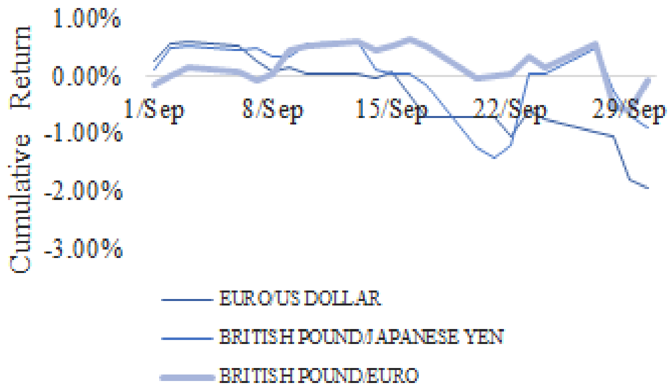
NIC Fund

Currencies

World Currencies

The USD index, which tracks its value against a basket of six other major currencies, has increased in value around 1.50%, rising to its strongest level (93.891) of the year at the end of September. The Dollar gained in value along with rising US bond yields on investor concerns that the Federal Reserve will start to withdraw their policy support as inflation remains on high levels. This overall movement can be attributed to the recent comments of Jerome Powell that tapering can start as early as this November and interest rates in the US might be raised to higher levels already in 2022 if inflation unexpectedly remains high over the upcoming months. Especially at the end of last month, the British Pound got under pressure, as the shortage of gas and scramble for fuel tied fears about a negative economic impact. British Petroleum stated that nearly a third of its UK fuel stations are almost running out of gas. This forced the UK government to suspend competition laws and allow firms to work together to ease supply shortages. This reaction stopped the drop of GBP against the USD. Nevertheless, GBP lost an overall 2.04% against the USD this month. By the end of September, the JPY lost against the US Dollar as JPY is highly sensitive to rising US bond yields as those could affect money movements from Japan to the United States of America. On the 29th of September, JPY showed almost no reaction to the election of Fumio Kishida as the leader of the ruling Liberal Democratic Party (LDP) in Japan.





October Outlook

A currency to watch out for and follow in the upcoming month is the US Dollar. There are two main reasons which could drive up this currency not only in October but also by the end of this year. Firstly, a continuous high inflation rate will force the Federal Reserve to tighten its monetary policy earlier than expected. As of the 27th of September, Fed funds futures indicate that market participants are expecting at least one interest rate hike by December 2022 with a probability of 76.1%. Secondly, the US Dollar and also Japanese Yen may rise in case the CLO (which is a type of security, backed by a pool of low-grade corporate loans) market undergoes panic. This phenome was observable already in March 2020, when credit spreads widened dramatically. In such a panic-ridden environment, the demand for well-backed currencies, such as the US Dollar or the Japanese Yen surge meaningfully. Furthermore, an established government, with Fumio Kishida as Prime Minister, could further strengthen the value of the Japanese Yen against other main currencies. As pointed out above, the British Pound lost significantly in value after fuel shortage and missing lorry drivers might impact the UK economy in the short term. With suspended competition laws and eased visa requirements for hiring lorry drivers, this constrain might be solved within the next months, potentially driving up the British Pound again.

Our Performance

We currently hold no currency related assets in our portfolio.

Simon Hoffmann
Financial Markets Division

Extras

Hot Topic

China's Power Shortages and the Global Supply Chain

Lisa-Marie Perchtold
Financial Markets Division

"We think that power crunches, together with […]production halts as winter draws and a steep jump in energy prices, are presenting a challenge to China's manufacturing activities. We think the year-on-year growth of industrial output in September could be dragged to around 4 percent to 4.5 percent."

– Bruce Pang, Head of Research at China Renaissance

During the last week of September at least 10 Chinese provinces have experienced widening power shortages. The northeast of the country, where most of China's population lives and works has been hit especially hard. The country has previously struggled with matching supply and demand for electricity, particularly during the winter and summer, in times of peak power consumption. However, this year a variety of factors have made this situation particularly serious.

Stricter emissions standards are in part responsible for the issues facing the Chinese energy grid. In 2020, China's president, Xi Jinping had pledged that China would reach peak carbon emissions by 2030 and be carbon neutral by 2060. For 2021 the goal was to cut energy consumption by 3%, a threshold only 10 out of 30 provinces were able to meet. This led to several local governments mandating power cuts.

Further intensifying this issue is the increasing cost of coal and natural gas. Rising prices were caused by a combination of heightened demand for Chinese goods, stricter emission standards, and a supply shortage, in part due to an import ban on Australian coal. These rising prices have made power generation less profitable. Coal price benchmarks have risen by 56 % since the start of the year, with thermal coal futures hitting an all-time high of USD 219.92 per tonne during the last weeks of September.

The power shortages have impacted companies as well as private citizens in several regions, both being implored to reduce their energy usage, with factories being closed a few days a week to ease the crunch. This comes at a time where the reopening of economies across the globe has increased the demand for Chinese goods. Despite this, in September 2021 activity in Chinese factories has been the lowest since the start of the pandemic in February 2020, which illustrates the effects of the power shortages on the Chinese manufacturing industry. This has put additional pressure on global supply chains which are already suffering from the consequences of Covid-19, including disruption of shipping and the ramifications of prolonged lockdowns that made travel vastly more difficult.

The continued scarcity of computer chips and the suspension of some factories manufacturing them are sparking worries about product shortage ahead of the holiday season, especially concerning electronic devices. Eson Precision Engineering, one of Apple's suppliers in China has announced a halt in production to comply with local regulations, stating that they do not expect this to have a "significant impact" on production. Other companies have claimed "huge losses" due to only being allowed to operate three days a week, making it impossible to fill orders in time.

Authorities are warning the public that the lasting power shortage will force businesses to raise prices in China. The expectation is that virtually all sectors in the Chinese economy will be affected by the issues facing the countries power grid. Aside from consumer goods, energy-intensive sectors such as aluminium, steel, and concrete manufacturing are the most affected, which in turn has negative connotations for the Chinese construction market.

In response to these developments in the Chinese market, many banks including Goldman Sachs, Morgan Stanley, and Namura Holding Ltd. have either adjusted their GDP growth predictions to reflect the expected decrease in GDP expansion or have warned of lower growth caused by the power shortages.

Lisa-Marie Perchtold
Financial Markets Division

Extras

Hot Topic

Recent SPAC Leakage Rates Underscore Its Weaknesses

Rodrigo Baltazar
Investment Banking Division

"There is an argument that says these Spacs aren't doing what they were set up to do. There's not much cash left in these vehicles at the point of acquisition (…) As a company that sells into the Spac, you may get a vastly different deal to the one you thought you signed up to.."

– Senior Equity Capital Markets executive at a large Bank

A SPAC or Special Purpose Acquisition Company is a company without operating assets that raises money in an Initial Public Offering, usually at USD 10 per share. After raising the funds, the vehicles' goal is finding a private operating company it can merge with, to then turn them public. After proposing the deal, shareholders may agree and keep their shares, or they may want to liquidate them at the price they paid plus interest.

Once praised for their reduced time to market and low fees, SPACs are gradually losing investor interest and exposing their key shortfalls. As recent events have shown, due to their embedded redemption right, SPACs may end up falling short of their agreed financing and paying greater relative fees when compared to traditional IPOs.

Locust Walk Acquisition Corp (SPAC) recent merger with cancer biotech company eFFECTOR shows the vehicles potential lack of financial reliability. As the company was expecting at least USD 100 m from the merger, 97% of the cash in the SPACs trust account was redeemed, leaving just USD 5.2 m. While the biotech company was still able to get USD 60 m financing from private investors, this shows how risky SPACs are for private companies. More broadly, as one senior Equity Capital Markets puts it: "As a company that sells into the SPAC, you may get a vastly different deal to the one you thought you signed up to."

Also, this example suggests SPAC IPOs can be costlier than conventional ones. While Investment Banks will normally charge 7% of the IPO value, listing a Blank Check company costs an average of 5%. However, while IPO investors cannot redeem their investment, SPAC investors can. In eFFECTOR case, USD 6.3 m were paid in fees, representing a 126% fee rate on the USD 5.2 m ultimately raised.

SPAC sponsors typically pitch the merger assuming a 0% redemption rate which is not problematic with 2021 Q1 redemption rates averaging 10%, as extra financing may be sourced from private investors. However, with redemption rates averaging 50% in Q3, one can expect events, like the previously described to occur more often in the future.

Behind the recent increase in leakage rates is the lack of institutional and retail investor interest. Hedge funds were behind the boom in the first quarter of 2021, as they invested into the structure early on, to then sell at a profit to eager retail investors once the deal was announced. This combination usually led the vehicles share price to rise above the USD 10 after deal announcement, which is no longer the case. Only one deal out of the 13 announced since May is trading at a premium while in March 90% of deals would have a positive delta over the issuance price.

According to the World Bank, the number of public companies in the US is down by almost half over the past 25 years. In fact, as Private Equity firms are increasingly able to supply firms' capital needs, listing publicly remains very expensive. Public markets are important, however, because corporate equity is the asset class that creates the most wealth over time. Thus, all investors should have facilitated access to it. Nonetheless, current market dynamics dictate only Private Equity clients, namely Endowment funds, Pension plans and the very wealthy are exposed to non-public firms' cash flows.
While SPACS positioned themselves as a solid alternative to traditional IPOs, thus addressing the lack of corporate interest to go public, recent events show them not exactly delivering on their promises.

Rodrigo Baltazar
Investment Banking Division

Extras

ESG Review

When Virtue Creates Value: The Sustainable Debt Market

Margaux Richard de Foucaud
Investment Banking Division

"We are in the early process of the deployment of ESG capital which will fundamentally change our economy. In this world, the analysis of companies will be fundamental as it should build the list of emergent companies and those existing that will adapt well and flourish under the new paradigm of climate change which is a secular force in the coming decades."

– Nordea Asset Management

The first half of 2021 has demonstrated the impacts of climate change, between the global wildfires, floods in Northern Europe, and droughts amplified with record-breaking heat waves in the United States. But there are reasons to be hopeful.

ESG considerations are increasing as companies - under pressure from investors, governments, society, and employees - acknowledge the urgent need for change. In response, most companies have developed corporate social responsibility initiatives. From governments, too, effective policies - such as carbon pricing and border taxes - are needed to achieve carbon neutrality by 2050. Consequently, fights around carbon taxes are expected to re-shape the global supply chains, making them more inefficient and expensive. All of this is likely to translate into a higher level of inflation.

Even though the global economy experienced a fast recovery, overshooting prices, disruptions in the supply chain, and excessive demand for some commodities, such as natural gas, led to elevated inflation. Nonetheless, Nordea expects central banks to funnel their funding requirements towards ESG in fixed income. Indeed, this year, the sustainable debt market went beyond expectations, with issuance in the first half already being 15% above last year overall. In general, Nordea expects this trend in the sustainable debt market to continue. Over the categories, green bonds are leading the number of total issuances, followed by social bonds. Besides a slight but steady increase of sustainability bonds issuance, there is a newcomer category: Sustainability-linked bonds. They represent the perfect fit for issuers that cannot be funded under a green bond label.

To ensure transparency and tackle greenwashing, the European Commission adopted a new package of measures on sustainable finance in July, focusing on the European Green Bond Standard (Eu GBS). The Eu GBS provides extensive information to issuers on how to apply the regulation, requiring issuers to allocate proceeds to economic activities meeting the EU taxonomy criteria at the time of issuance. Initially considering a mandatory approach, the voluntariness of the standard is still subject to change, although seen as unlikely by Nordea. Under the Eu GBS, allocation and impact reporting are mandatory. Moreover, an external reviewer must do a post-issuance review of the final allocation report.

According to Bob Mann, President and COO of Sustainalytics, a leading provider of ESG research, ratings, and data, corporations have strong business reasons to engage with ESG ratings. As a matter of fact, the deployment of ESG capital will fundamentally change our economy. Therefore, in this new sustainable world, the analysis of companies is essential as it provides the list of emergent companies and those existing that will flourish and adapt well under the new paradigm shift.

In sum, the sustainable debt market is not the most significant driver to the ESG move, but it is pushing market participants in the right direction. The benefits for issuers of sustainable bonds include investor diversification, raising awareness, and helping to build a market that mobilizes private sector financing for ESG friendly activities.

Companies can no longer choose to see the ESG agenda as a matter of compliance or a risk to be managed. Instead, it must be seen as an opportunity to create significant financial value from ESG while creating value for society as a whole.

Margaux Richard de Foucaud
Investment Banking Division

Thank you!

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

Our team:

Investment Banking Division
Irina Pereira
Darryl Karberg
Margaux Richard de Foucaud
David Silva
Arsenio Renato Junior
Roman Bauer
Rodrigo Baltazar
Mats Lützenkirchen

Financial Markets Division
Frauke Lührs
Felix Mitterer
Joao Vaz
Raphael Northoff
Nicolas Gomez
Yan Alfonso Souza
Sara Ivackovic
Simon Hoffman
Lisa-Marie Perchtold

Corporate Partners:

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

Academic Partners:

Nova SBE Career Services

NOVA Finance Knowledge Center
NOVA School of Business & Economics

Email us at:
nic@novainvestmentclub.com

—
Design by: Carmo Cunha e Sá