NIC

— Nova Investment Club —

Newsletter

November 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, Mats Lützenkirchen, Head of our Investment Banking Division, elaborates on the post-pandemic cruise ship industry. Moreover, in our Regional View, Frauke Lührs examines the shifting political landscape in Germany.

Our Investment Banking Division will guide you through October's M&A overall activity. Read about Aristocrat Leisure Limited acquiring Playtech plc, Blackstone Inc acquiring Spanx Inc, and Emerson Electric Co. acquiring Aspen Technology Inc. Additionally, get a detailed overview on what happened to Daimler AG and Tesla Inc, and read our opinion on WeWork going public.

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 October was positive, with a cumulative return of 2.47%. A profit that can be mainly attributed to Equities.

On the Hot Topics of this month, Simon Hoffmann discusses Meta – the next evolution of the internet, while David Silva elaborates on what to expect from Climate Finance. Lastly, on our ESG review in collaboration with Nordea, Irina Pereira, Vice President, spotlights the "S".

Macro Overview

Monthly

November 8th, 2021

Deeper Dive

Market Moves

Market Moves

% change

	Last Close	-1W	-3M	YTD
S&P 500	4,605	1.33%	4.78%	22.61%
DJIA	35,820	0.40%	2.53%	17.03%
Nasdaq	15,498	2.71%	5.63%	20.25%
MSCI World	3,793	-0.55%	1.47%	13.41%
MSCI EM	4,677	-1.77%	0.53%	2.44%
Russell 2000	2,297	0.26%	3.19%	16.32%
Euro Stoxx 50	4,251	1.47%	3.94%	19.65%
FTSE 100	7,238	0.46%	2.92%	12.03%
Nikkei 225	28,893	0.30%	5.90%	5.28%
Hang Seng	25,377	-2.87%	-2.25%	-6.81%
Dollar Index	94.12	0.51%	2.11%	4.65%
EUR/USD	1.156	-0.73%	-2.63%	-5.39%
GBP/EUR	1.184	0.25%	1.08%	5.86%
GBP/USD	1.368	-0.53%	-1.60%	0.09%
USD/JPY	113.950	0.40%	3.86%	10.36%
USD/CHF	0.92	0.03%	1.13%	3.49%
Brent Crude	84.380	-1.34%	10.55%	62.90%
Gold	1,783.9	-0.65%	-1.58%	-5.87%

Generic Bond Yields

change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	1.552%	-8.0	33.0	63.9
GER 10Y Yield	-0.106%	-0.1	35.5	46.3
JPY 10Y Yield	0.099%	0.2	7.7	7.8
UK 10Y Yield	1.034%	-11.1	46.9	83.7
PT 10Y Yield	0.520%	11.0	34.7	49.0

**Source: Bloomberg, as of 2021-10-29*

In Focus

October

IMF cuts growth forecasts and warns of inflation risks. As a reason for this, the International Monetary Fund cites supply chain risks as well as the continuing global health concerns caused by the ongoing spread of the Covid-19 Delta variant. Furthermore, the IMF urges policymakers to combat the inflation risks that come with recovery strengthening more quickly than expected, resulting in increased prices for food and medicine, amongst others.

Initial coalition deal reached in Germany, making Scholz chancellor. His SDP, the Greens, and the FDP agreed on the basic principles of their alliance in an unusually quick manner. While disputes may yet arise, this is an important first step, confirming the parties see enough common ground to work together in this unprecedented three-way coalition. If negotiations proceed at this pace the new government should be able to take over before the end of 2021.

China continues to deal with power shortages, the economy shows signs of further weakness. The official manufacturing purchasing managers’ index fell below 50 for the second month in a row, signaling contractions in production. Meanwhile on the consumers’ side spending remains weak, in part caused by China’s zero-Covid approach which means tightening restrictions once again. Additionally, data indicate increased inflationary pressure in October.

Japanese Prime Minister Fumio Kishida keeps the majority in the election. The Liberal Democratic Party was able to hold onto power and avoid the worst-case scenario suggested by opinion polls beforehand.

Facebook Inc. changes its name to Meta Platforms Inc. The company will start trading under the new ticker 1st of December 2021. With this move, Facebook aims to redefine its corporate identity as an emerging computing platform with a focus on virtual reality. This announcement comes in a month that saw Facebook dealing with crippling outages across all apps.

Money Markets price 20 basis points of hikes in October 2022. This is despite the efforts of Christine Lagarde to push back against interest rate hike bets. As a consequence, investors are fleeing riskier debts such as Italian and Greek bonds. If the ECB raises its deposit facility rate by 20 basis points as expected by traders, this would be the bank’s first increase in more than 10 years.

Countries continue to reopen worldwide as Delta variant spreads. The Australian Prime Minister has pressured states to reopen in time for Christmas, while Myanmar and Indonesia are lifting border restrictions. Taiwan has reported zero local or imported cases of Covid-19 for the first time since April. In Delhi, the Delta variant has infected previously exposed people during a 2nd wave. Meanwhile, the US president's chief medical advisor urges the US to consider whether people who got the Johnson & Johnson vaccine should get one of the mRNA vaccines as a booster.

CDC extends Covid-19 regulations for the cruise ship industry until the 15th of January 2022. The rules were supposed to expire on the 1st of November 2021, however, the CDC has decided to extend the so-called “conditional sailing order” with slight variations because of the spread of the Delta variant. The current rules require cruise ships to ensure 95% of guests are vaccinated or run voyages without paying customers to prove their safety. The protocols were designed with the goal of easing the industry back into business after it was effectively banned from US waters following the outbreak of Covid-19.

Lisa-Marie Perchtold
Financial Markets Division

Deeper Dive

Carnival and the post-Covid-19 Cruise Ship Industry

Mats Lützenkirchen
Investment Banking Division

"I give the cruise industry, Carnival, Royal, Norwegian — tremendous credit. They've made unbelievable improvements in surface cleaning and air filtration. They're doing an amazing job. That's really where I struggle with the stock price performance of the cruise industry relative to the likely outlook that it's going to be a very long road to get back to where we were in 2018 and 2019 before COVID-19."

– Jason Ader, CEO of SpringOwl Asset Management

In 2019, almost 30 million passengers were cruising around the globe, thereby creating 1.2 million jobs and generating approximately USD 154.0 bn toward the global GDP. The number of annualized worldwide cruise passengers has grown at a CAGR of 7% in the past 5 years which is primarily driven by the convenience of exploring the world, the family-friendliness as well as the all-in-one atmosphere of vacations.

However, in 2020, the industry was heavily disrupted by the global COVID-19 pandemic resulting in the suspension of cruise operations from mid-March 2020 onwards. This resulted in a loss of approximately 518,000 jobs globally and a total of USD 77.0 bn in global economic activity. With increased health and safety measures in the second half of 2020, Europe, Asia and the South Pacific region resumed cruising, thereby creating confidence in the new industry health protocols.

Carnival Corp (CCL) is currently the world's largest travel and leisure company based in Florida, USA, with a current fleet of 87 ships bundled in 10 cruise line brands connecting 700 ports globally. COVID-19 also had a major impact on CCL's operations as the Center for Disease Control and Prevention has implemented a ban from September to October 2020 prohibiting vessels with an excess capacity of 250 passengers to operate in US waters. Given a rather high fixed cost structure of the industry, CCL sold 18 ships in September 2020 to improve liquidity, but also to remove older, less efficient ships. Besides, it also slowed down the delivery schedule of new ships as part of the company's cost-cutting plan.

With mass-testing, the CEO Arnold Donald saw an opportunity to restart the cruising industry and hence selected lines relaunched their offering in Q3/Q4 2020. Today, CCL's guest satisfaction and on-board spend levels are at all-time highs, and occupancy is ramping up above core peer Royal Caribbean Cruises (RCL). CCL announced a 50% occupancy of berths by October and targets 65% by December 2021 and full occupancy by H2 2022 (North American brands reached 68% occupancy in Q3 whereas European sailings only reached 47%). Bookings once again took a hit in August 2021 given the spread of the delta variant. However, CCL states that the long-term delta impact is unrecognizable for sailings from Q2 2022 and beyond. Overall pricing for H2 2022's peak season is back on pre-pandemic levels, indicating the long-aspired recovery of the industry. In Q3 2021, all ships in operation were collectively cash-flow positive ahead of peers which are expected to turn positive in early 2022. In addition, CCL is expected to be positive at EBITDA and cash-flow from operation level in early 2022. For the remaining Q4 2021, the high CAPEX that is linked to the restarting of operations is likely to offset the revenue growth which is an industry-wide phenomenon.

However, CCL had significant liquidity issues in the midst of the pandemic. In the year to March 2021, CCL burnt more then USD 7.0 bn in cash while posting in USD 10.2 bn net loss in FY2020 as well as a decline in revenue by 73%. This lead to rating agencies downgrade the company's credit rating from A- to B. Thanks to strong ties to leading financial institutions and good access to capital markets, CCL was able to raise USD 23.6 bn from debt and equity investors in less than 12 months (thereby CCL became the largest issuer in the junk bond market with interest rates of 15.0% in selected cases). Continuous refinancing as well as a zero-dividend policy will help CCL to overcome the challenging coming quarters.

Overall, the sentiment in the cruise ship industry is optimistic. According to a survey by CLIA, 74% of cruisers are likely to cruise again in the next few years and two out of three are willing to do so in the next year. Hence, the industry is on path to COVID-adjusted normality from H2 2022 onwards.

Mats Lützenkirchen
Investment Banking Division

Regional View

Germany’s New Social Democratic Government Starts in December

Frauke Lührs
Financial Markets Division

“One of the most important aspects of the new government will be to decide on the expansion of energy production coming from offshore wind farms, wind from onshore plants and from solar.”

- Olaf Scholz, Vice-Chancellor of Germany

On the 26th of September 2021, elections were held in Germany. After weeks of coalition talks, the new government consisting of Social Democratic Party (SPD), Greens and Free Democratic Party (FDP) is supposed to be in effect starting 6th December 2021. Olaf Scholz, the current finance minister and vice-chancellor, will become the new chancellor. So far, the 'traffic light' coalition has agreed on a basic framework for their formal coalition which will be further elaborated in detailed negations within the next weeks.

The three parties had to find compromises among their different aims while keeping their individual election promises. While the SPD and the Greens are natural partners, it was challenging to find a consensus with the FDP. The SPD and the Greens accepted to leave constitutional debt limits intact and agreed on not imposing new taxes, which was demanded by the FDP. The Greens abandoned their objective of setting speed limits on the German highway. Moreover, the parties agreed to accelerate the coal exit, aiming now for a 2030 deadline. Further, the minimum wage will be increased from EUR 9.6 to EUR 12.0 per hour. Finally, 400,000 new homes will be constructed annually and the spending for research and development is to be increased to 3.50% of GDP.

When Angela Merkel met President Biden at the G20 meeting on the 30th October 2021, she was accompanied by Olaf Scholz, whom she introduced to the world leaders. Merkel’s main message was to stress that although the main governing party is changing, the commitment to the G20 will persevere. Merkel wants a smooth transition of power and invited Scholz to take part in private meetings with other world leaders.

However, changing the government from a central right party to a left-leaning party will affect larger European politics. Scholz aims to strengthen the European integration and therefore, it is expected that he may be more generous in helping EU states in economic crisis. More precisely, his government is expected to be less conservative in terms of foreign economic assistance within the EU context. As the French Chancellor Macron is aiming for European integration as well, both countries may work closely together toward this common goal.

With regard to environmental topics, Scholz stated that he would become a ‘climate chancellor‘. His party has supported most climate and energy legislation of the current administration while criticizing that the Christian Democrats did not initiate more ambitious climate policies. Finally, the new government has to align the environmental interest of the Greens and the SPD while maintaining the FDP’s pro-business goals.

A major issue of the new government is the question of government debt. In exploratory talks, the three parties agreed to return to strict debt limits by 2023. There are discussions to offset the debt brake rule for a third consecutive year, thus increasing the amount of debt (planned EUR 100.0 bn). The financing of the climate transition is also considered a central question. While the justification for the current increased debt has been the Covid-19 pandemic, the new government may point to the climate crisis to be able to increase public debt. Also, the government may postpone the due date of the first Covid-19 debt repayment to 2028, while extending the overall repayment period to 2058. The government had planned to borrow EUR 240.0 bn this year, but the amount may be reduced due to positive tax revenue updates.

Finally, the new social democratic government will set new focuses. The details of the government alliances should be finalized by the end of November, so that the Olaf Scholz can officially be sworn in as Chancellor in December 2021.

Frauke Lührs
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

UN Climate Summit in Glasgow

The UN COP26 climate summit will be held in Glasgow from the **31st** of October to the **12th** of November. Climate change, the ambition to limit global warming and carbon taxes are topics of discussion in Scotland.

US Retail Sales

On the **16th** of November, US retail sales growth numbers will be released. They are expected to be at -0.20% MoM, a decrease of 0.90 percentage points from the previous growth of 0.70% MoM. For the holiday season analysts predict a growth of 8.50% YoY in November and 10.50% YoY in December.

UK PMI

On the **22nd** of November the UK's composite PMI is expected to be released. The results are anticipated at 56.80 points, staying at similarly elevated levels as the previous month, which is due to strongly increasing new business volumes and high levels of job creation.

Central Bank Decisions

FMOC Meeting

The FMOC meeting will take place on the **3rd** of November. Rates are expected to stay constant at 0.25%. However as economic recovery is underway in the US, there is an expectation of the Fed announcing to start tapering and thus stopping its bond buybacks.

RBA Monetary Policy Statement

The Reserve Bank of Australia releases its monetary policy statement on the **4th** of November. The release is monitored closely as some analysts expect a normalization of Australia's monetary policy settings, entailing higher rates in the future.

Bank of England Interest Rate Decision

On the **4th** of November, the Bank of England will meet to discuss monetary policy. Analysts fear rate hikes to quell rising inflation in the UK, increasing rates above the current 0.10% for the first time since the start of the pandemic.

Inflation and Deflation

German CPI

German CPI numbers will be released on the **10th** of November, with expected figures at 4.10% YoY, down from 4.50% YoY last month. This rate can mainly be explained by high transport, housing and energy prices.

Brazil's CPI

Brazil's CPI numbers will be announced on the **10th** of November. Expectations are at 10.33% YoY, higher than the previous month (10.25% YoY), which already marked a 5-year high.

US Consumer Price Index

YoY figures on consumer prices in the US will be made public on November the **10th**. The YoY figures are expected at 5.30%, slightly down from the prior month (5.40%), which were at a one year high.

Labour Market

Euro Zone Unemployment Data

The Euro Zone unemployment rate will be announced on the **3rd** of November. The overall unemployment rate is forecasted at 7.50%, slightly lower than the previous month (7.60%), marking the lowest levels of unemployment since May 2020.

US Employment Readings

On the **5th** of November, the US unemployment rate is to be released. Forecasts are at 4.70%, setting a new low since the outbreak of Covid-19 in March 2020, pointing towards economic recovery in the US.

UK Unemployment Rate

On the **16th** of November, the UK announces its unemployment rate. A percentage of 4.50% is expected to be released, unchanged from the last month's readings, which marked the 8th consecutive month of decreasing unemployment rates.

Felix Mitterer
Financial Markets Division

Investment Banking

M&A

Overall Activity

Global

Entering the fourth quarter of 2021, global M&A remains strong. The favourable market conditions such as the low-interest rate environment and the availability of cash in the market propel the tendencies showcased in the first three quarters of the year. Additionally, these market conditions promote the outperformance of some sectors amid the pandemic, namely life sciences, healthcare, and food & beverages. In addition, speculation regarding the debate on the Biden tax plan puts pressure on deals to be concluded before 31st of December 2021, due to the possible increase in the capital gains tax rate. In October, there was USD 454.0 bn worth of deals, a decrease of 4.20% YoY, and the strongest sectors were the financial industry followed by communications. In the SPAC space, there was a clear slowdown in volumes, but some multibillion-dollar deals still occurred. Some of the deals that gained closer attention this month were the Blackstone/Spanx deal, the announcement of Emerson Electric Co to acquire Aspen Technology Inc as well as Aristocrat Leisure Limited to acquire Playtech plc.

Selected Regions

North America

Whereas in September there was a boom in Industrials deals, representing a total value of USD 55.3 bn and an increase of 1,300% YoY, the same trend is not showcased in October. Last month, deals in the communications and technology sectors were the most relevant in terms of size. It is worth mentioning that PayPal Holdings Inc. was rumoured to be interested in Pinterest Inc., valuing the latter at USD 43.0 bn. However, PayPal denied the rumours shortly after.

EMEA

In Europe, the increased value in deals within the Consumer Products space is sustained for another month. One of the most relevant deals completed in October includes Clayton Dubilier & Rice Inc. acquiring Wm Morrison Supermarkets PLC for GBP 10.0 bn, covered in our last newsletter. Also, in the Real Estate space, the EUR 13.0 bn all-cash deal of Vonovia SE/ Deutsche Wohnen SE deal was completed.

Asia

As in North America, deals within the Industrial space had a boom in September, but that trend did not follow in October. Last month, the industries with the highest deal volumes were financials, consumer products, and technology. In the energy sector, a consortium led by SoftBank Group Corp sold SB Energy Holdings Ltd to Adani Green Energy Ltd for USD 3.5 bn.

M&A

Deals of the Month

Announced Date	Target	Buyer	Target Region	Target Business	Value (USD m)	Premium (%)
11 Oct 21	Aspen Technology Inc	Emerson Electric Co	US	Technology (Software)	10,800.00	26.15%
29 Oct 21	PartnerRe Ltd	Covea SGAM	GR	Insurance Industry	9,000.00	-
14 Oct 21	Southwest Gas Holdings Inc	Icahn Entreprises LP	US	Construction Industry	7,300.00	12.19%
12 Oct 21	Entra ASA	Fastighets AB Balder	NO/SE	Real Estate	5,800.00	7.79%
7 Oct 21	Cigna Corp	Chubb Ltd	US	Insurance Industry	5,800.00	-
14 Oct 21	VillageMD	Walgreens Boots Alliance Inc	US	Retail (Medical and Testing Service)	5,200.00	-
12 Oct 21	Umpqua Holdings Corp	Columbia Banking System Inc	US	Consumer Banking	4,847.91	9.50%
29 Oct 21	Singapore Press Holdings Inc	Cuscaden Peak Pte Ltd	SG	Communications (Media)	4,147.18	5.77%
4 Oct 21	Teekay LNG Partners LP	Stonepeak Partners LP	US	Transport (Marine)	4,071.11	6.31%
28 Oct 21	Momentive Global Inc	Zendesk Inc	US	Entreprise Software	4,027.18	17.82%

Irina Pereira
Investment Banking Division

M&A: Top Deals

Aristocrat Leisure Limited to Acquire Playtech plc

Aristocrat Leisure Limited is to acquire Playtech plc for a consideration of GBP 2.2 bn based on an offer price of GBP 6.8 per share which indicates a premium of 58%. The deal value amounts to GBP 2.7 bn including net debt. According to Aristocrat the acquisition is set to be completed in the second quarter of 2022.

Buyer vs Seller

Aristocrat Leisure Ltd, the Australian listed gaming solutions company focused on offering a range of products and services, including electronic gaming machines and video lottery terminal systems, has signed an agreement to acquire Playtech plc, the listed software-gaming company engaged with the operation of an online casino. Jefferies LLC acted as lead financial advisor to Playtech while Goldman Sachs LLC advised Aristocrat on the acquisition.

Industry Overview

The Aristocrat/Playtech deal is the latest in a wave of M&A and partnership activity related to iGaming and sports betting, as suppliers move to capitalize on the surge in internet and mobile gaming activity that began with last year's pandemic shutdowns. DraftKing's recent USD 22.6 bn offer to acquire European iGaming and sports betting giant Entain is another example of a market shaping transaction in the industry.

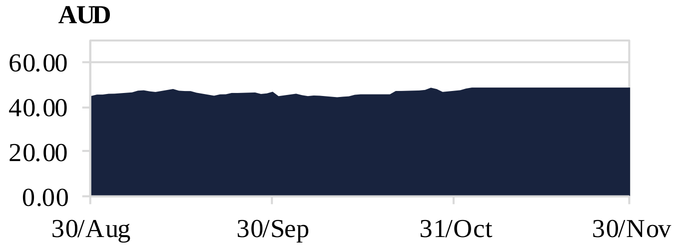
Peers	Currency	Market Cap (CUR m)
TomTom NV	EUR	992.75
Better Collective A/S	SEK	10,226.90
Kahoot! ASA	NOK	23,869.36
TeamViewer AG	EUR	2,965.80
Cint Group AB	SEK	18,020.73

Deal Rationale

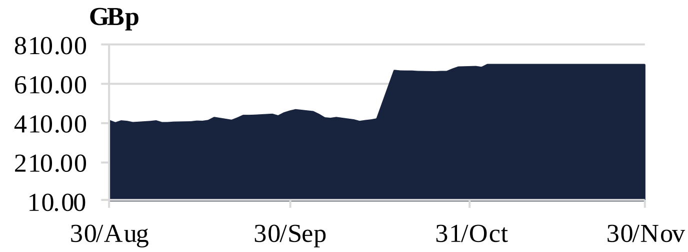
The combination of the two companies would create one of the largest B2B gaming platforms globally. The group aims to be better positioned to seize opportunities in the fast-growing online RMG (real-money gaming) segment as they continue to open up, particularly in North America. In the recent past, Playtech experienced issues entering the North American market because of previous business with grey-area markets. Regulators were concerned about Playtech ownership as well, but the deal with Aristocrat and its dozens of licenses in North America will eliminate those issues.

Market Reaction

Aristocrat Leisure Limited
After a trading halt of three days starting from the 15th October 2021, Aristocrat's share price increased by 8% reaching a record high of USD 49.4.



Playtech plc
The firm's shares soared 57% to a three-year high and were trading 6.5 pence short of the offer price of GBP 6.8 per share post announcement.



Future Challenges

The transaction is subject to customary closing conditions, including approval by Playtech shareholders. Further, with the acquisition of Playtech, Aristocrat also acquires betting and gambling segments that may not be approved in certain jurisdictions which could be inconsistent with Aristocrat's risk appetite and approach to compliance.

Darryl Karberg
Investment Banking Division

M&A: Top Deals

Blackstone Inc to Acquire Spanx Inc

The American shapewear maker Spanx, Inc is to be acquired by the New York based investment management company Blackstone for a consideration of USD 1.2 bn. Blackstone is intending to buy a majority stake in the Atlanta-based womenswear brand founded by Sara Blakely in 1998. The transaction has been led by an all-female Blackstone investment team.

Buyer vs Seller

Spanx's founder Blakely will maintain a significant equity stake in the business. Further, she will become executive chairwoman of the newly appointed board of directors. The investment in Spanx is the most recent example of Blackstone's growing investment portfolio of female-founded companies. Blackstone is the world's largest alternative asset manager with USD 684.0 bn in AuM. Spanx was represented by Goldman & Sachs and Allen & Co. while JP Morgan acted as lead financial advisor to Blackstone.

Industry Overview

The shapewear industry is expected to reach USD 7.0 bn by 2030. In 2020, the size of the global shapewear market amounted to USD 1.9 bn. This sector is expanding due to Gen-z's cultural developments toward body positivity, diversity, and inclusivity across size and gender. On the buyer side, this acquisition highlights Blackstone's initiative to help empower women globally.

Peers	Currency	Market Cap (CUR m)
Adidas	USD	63,931,000
Nike	USD	263,429,000
Under Armour	USD	9,521,000
Skims	USD	1,600,000

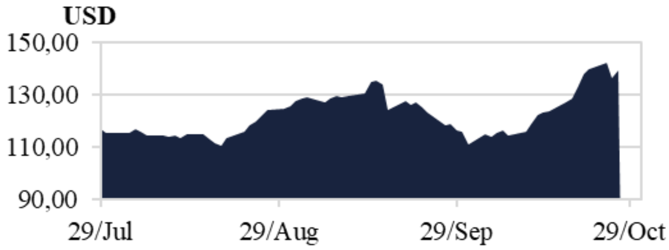
Deal Rationale

Blackstone decided to acquire a majority stake in the shapewear brand because of its technology application to create products, digital sales, and potential expansion via improved marketing. On the selling side, this strategic alliance will allow Spanx to accelerate its digital transformation, expand its global footprint and strengthen its online business. Blackstone regards founder Blakey as vital for the Spanx brand DNA and hence allows her to retain a major equity stake tying her brand as well as her operational expertise to the firm.

Market Reaction

Blackstone Inc

Since the announcement on the 20th October 2021, the stock added 1.50% to close at USD 128.7. The closing price reached USD 139.4 on the 28th October 2021 (+8.30%).



Spanx

Spanx is privately owned and hence does not publicly disclose financial information. The company was founded in 1998 by Sara Blakely, a woman without background in business. Yet, Blakely was able to turn Spanx into a leading shapewear company globally. The founder was featured on Forbes magazine's cover as the youngest self-made female billionaire.

Future Challenges

The acquisition values Spanx at USD 1.2 bn. However, according to Forbes Spanx is worth far less than Blackstone offered, reaching only an estimate of USD 540.0 m. Hence, it remains to be seen whether this deal will bring to both companies the synergies expected. Finally, Spanx's founder stated that this is a crucial moment in time for female entrepreneurs.

Margaux Richard de Foucaud
Investment Banking Division

M&A: Top Deals

Emerson Electric Co. to Acquire Aspen Technology Inc

Emerson Electric Co has agreed to combine its software units with smaller rival Aspen Technology for a total cash consideration of USD 10.8 bn. The acquisition includes a control premium of 26% as Emerson will buy 55% of Aspen's shares for USD 160.0 compared to a closing price of USD 126.8 on the 6th of October before Bloomberg News first reported talks.

Buyer vs Seller

Emerson is a US-based multinational global technology, software, and engineering company that manufactures products and provides engineering services for industrial, commercial, and consumer markets. AspenTech is an AI-powered software company that assists the world's leading energy, chemical, and engineering companies in their digital transformation, aiming to improve their operational efficiency and reduce their environmental impact.

Industry Overview

The software & services industry was valued at USD 389.9 bn in 2020 and is expected to reach USD 824.9 bn by 2028, representing a positive CAGR of 11.30%. The rapid increase in the volume of enterprise data and growing automation of business processes across several end-use industries such as retail, manufacturing, healthcare, and transportation are expected to drive the demand for business software and services.

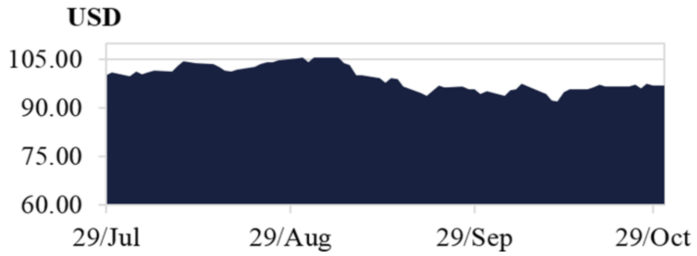
Peers	Currency	Market Cap (CUR m)
PTC Inc	USD	14,948.57
ANSYS Inc	USD	33,119.31
Cadence Design Systems Inc	USD	47,975.88
Synopsys Inc	USD	50,810.87
Autodesk Inc	USD	69,826.70

Deal Rationale

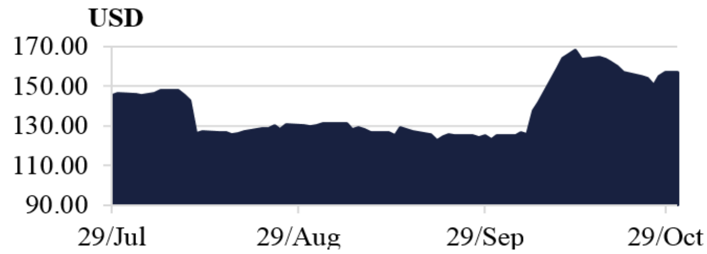
This deal implies synergies on both sides of the table while transforming and scaling a high-growth industrial software space. The combined industrial software company will comprise Emerson's grid modernization technology and geological simulation software and AspenTech's software offerings to the mining, manufacturing, and pharmaceutical industries. The deal is expected to be accretive to adjusted earnings after the first year and provide meaningful cost synergies with a complete end-to-end software designed optimally, thus generating a considerable potential value creation.

Market Reaction

Emerson Electric Co.
October's share price closed at USD 97.0 and followed, along with the predictions and deal announcement, the YTD trend.



Aspen Technology Inc.
In a reaction to first reported talks on the transaction, the firm's stock rose by 27.43%. Three trading days after the announcement date, the stock peaked at USD 167.9.



Future Challenges

Besides being subject to the customary regulatory approvals, the deal is also subject to AspenTech's shareholder approval until the expected closing in the 2nd quarter of 2022. In addition to that, the registration statement on the SEC Form S-4 must be effective, which is required to register any material information related to a merger (or acquisition).

David Silva
Investment Banking Division

What happened to

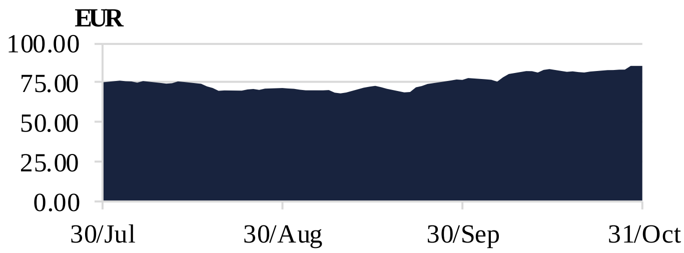
Daimler AG

Daimler AG is a multinational automotive corporation headquartered in Stuttgart, Germany. Besides its Mercedes-Benz Cars & Vans and Daimler Truck & Buses divisions, the firm provides vehicle financing, car sharing, and charging services to its dealers and its retail customers. As of December 2020, the firm employs 288,481 staff worldwide.

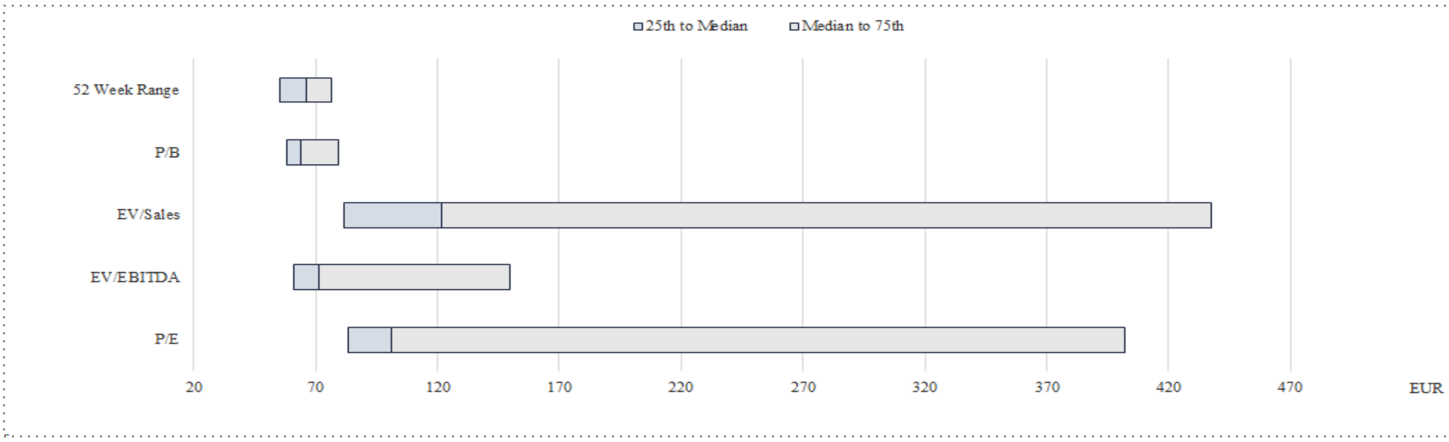
Corporate News

Daimler's stock price is up 51% YTD and 93% for the last 52 weeks, despite a considerable sales decrease of 25% to 578,000 in the third quarter compared to the previous year's period. Operational losses have arisen from certain external events that impacted the automotive industry in 2021. For instance, shortages of semiconductor components led to disruptions in production networks and supply chains, while higher raw material prices elevated operational expenses. Consequently, production capabilities were impeded, leading to limited sales volume. However, Daimler proofed resilient by maintaining prior year's revenue level of c. EUR 40.0 bn. Subsequently, group EBIT in the third quarter increased to EUR 3.6 m thanks to an improved product mix and high-quality revenues from premium prices. Furthermore, the global rollout of four new luxury EV products is well received in the market with strong initial demand, thus, underpinning investors confidence.

Price (31 Oct 21, EUR)	**87.43**
Target Price (EUR)	100.00
3M Performance	16.22%
Market Cap (EUR m)	93,535.89
Enterprise Value (EUR m)	73,597.89
**Target Price is for 12 months*	



Valuation Analysis



Daimler was, as of the 29th of October 2021, trading at c. EUR 87.0. If we further conduct a comparable analysis, we can immediately detect that its 52-week share price is considerably higher than comparable companies. Reasons could be investor´s confidence emerging from robust financials and recent EV initiatives. Furthermore, by evaluating the EV/EBITDA ratio, it seems that Daimler is moderately valued in the lower mid-range. Lastly, a relatively low P/E ratio indicates a favorable price for current earnings.

In the race of digital and electric innovation among big automotive players, multiple restructurings can be discovered. With more than 99% of shareholders in favor of the proposed spin-off of Daimler Trucks, the firm is reframing its core focus on commercial (electric) vehicles. Furthermore, the firm recently acquired a 33%-stake in battery cell manufacturer JV ACC, aiming to scale up battery output to advance electric transformation and reacting to supplier dependence.

Peers	**Currency**	**Market Cap** (Cur m)
Stellantis NV	USD	63,998.46
Renault SA	EUR	9,622.80
Volkswagen AG	EUR	127,396.24
Bayerische Motoren Werke AG	EUR	59,358.83
Ferrari NV	USD	48,343.32

Roman Bauer
Investment Banking Division

What Happened To

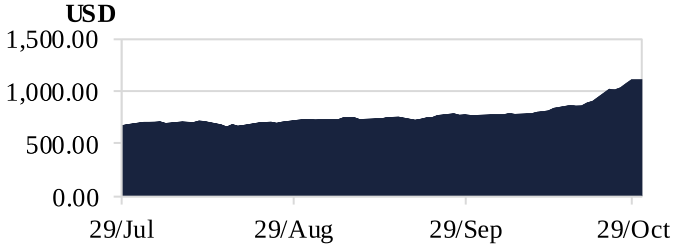
Tesla Inc

Founded in 2003, Tesla is a business known for designing, manufacturing and selling high performance electric vehicle powertrain components. The firm currently has over 70,000 employees globally and operates several giga-factories across the U.S. Tesla recently opened factories in Germany and China to expand their global footprint. The firms most famous vehicles are the Tesla Model S, Model X and the Model 3 sedan.

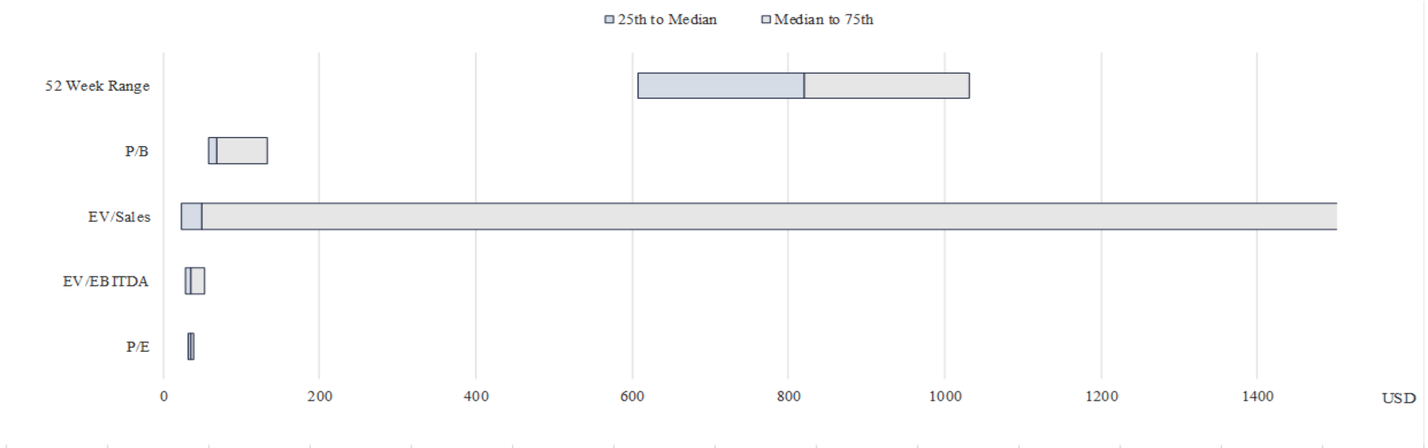
Corporate News

In October 2021, Tesla became the first carmaker to be valued at USD 1 trillion after the rental group Hertz has made an order of over USD 4 billion for 100,000 electric vehicles of the Model 3 sedan. This move came as the group is pushing to restructure its business by making electric vehicles available for its customers. Upon the announcement, Tesla's share closed 13% higher at a value of USD 1,024.0 (increase of 40% YTD). This implies that CEO Elon Musk's stake at the firm is now valued at almost USD 300 billion which exceeds the market capitalisation of the oil giant Exxon Mobil. This position enhances Tesla as a giant in the S&P 500 as the sixth trillion- dollar company after the so-called FAANG. Tesla's operational performance continues to underpin its high valuation as they delivered 240,000 cars in the past quarter which is 20% more than Q2 this year and 70% higher than the same quarter last year.

Price (31 Oct 21, USD)	**1222.09**
Target Price (USD)	845.00
3M Performance	77.84%
Market Cap (USD m)	1,227,302.03
Enterprise Value (USD m)	1,222,774.03
**Target Price is for 12 months*	



Valuation Analysis



Considering the key valuation multiples, Tesla consistently surpasses its peer group indicating an extraordinarily positive investors outlook for the firm. Given that Tesla cars are manufactured after an order is placed, the increase in quarterly production represents a significant trend in the use of electric vehicles which explains a high EV/Sales multiple.

There is a massive valuation gap in the market capitalisation of Tesla compared to other automakers, as the business' value is greater than all its peers combined. The usage of technology and production of forward-looking product such as electric vehicles enhances Tesla's position to be a profitable investment for the long-term future. This takes place as most its rivals do not possess the same scale of production of electric vehicles or are yet to begin producing them.

Peers	Currency	Market Cap (Cur m)
Lucid Group Inc	USD	67,658.38
Fisker Inc	USD	5,628.85
Ford Motor Co	USD	77,087.50
General Motors Co	USD	84,962.86
Harley-Davidson Inc	USD	5,864.25

Arsénio Renato Jr
Investment Banking Division

NIC's View On

WeWork is going Public

Rodrigo Baltazar
Investment Banking Division

"WeWork has spent the past year transforming the business and refocusing its core, while simultaneously managing and innovating through a historic downturn.
As a result, WeWork has emerged as the global leader in flexible space with a value proposition that is stronger than ever.
Having Vivek and the BowX team will be invaluable to WeWork as we continue to define the future of work."

- S. Mathrani, CEO of WeWork

WeWork is a commercial real estate company that provides flexible shared workspaces primarily for startups. Essentially, the company enters long-term leases for properties to rent them out on a short-term basis. The company was founded in 2010 by Adam Newman and Miguel McKelvey and today holds more than 800 properties in its portfolio, spread between the US, Europe and Asia.

Months after receiving a USD 47.0 bn financing from Japanese conglomerate SoftBank, WeWork failed to raise cash through an Initial Public Offering. That resulted in WeWork requiring multibillion-dollar rescue financing from Softbank in order to avoid bankruptcy. Only when the company was about to go public, investors and the media realized the lack of sustainability of the firm cash use, reinforced by Neumann's lavish spending and overly ambitious expansion plans. An attempt by the "lex column" (Premium Financial Times commentary service) to value WeWork, arrived at a valuation of USD 3.0 bn which is well below the USD 47.0 bn target IPO valuation.

Such bailout came with significant change for the companies' operations. The controversial CEO Neumann stepped down and got his ownership and voting rights reduced to only 11%. Real estate veteran Sandeep Mathrani was chosen for the former's replacement and ditched some of Neumann's ambitious projects and mantras, including a mission to "elevate the world's consciousness" and a loss-making school conceived by Neumann's wife. Also, emphasis was put on cost-cutting, with numerous locations being closed. According to the new CEO, the company "has spent the past year transforming the business and refocusing its core."
Nonetheless, WeWork is still loss-making. In 2020 as the pandemic hit the business, USD 3.2 bn losses were reported. In the first quarter of 2021, the firm further lost USD 2.1 bn, including a USD 500.0 m non-cash settlement with Neumann.

After two rollercoaster years, WeWork could finally go public after shareholders approved a USD 9.0 bn merger with BowX Acquisition blank-cheque company. On Thursday, 21st of October 2021, WeWork finally started trading on the New York Stock Exchange under the ticker WE. The deal comes with a USD 1.3 bn cash injection. Out of those, USD 800 m come from institutional investors Starwood Capital, Fidelity, and BlackRock and the remaining USD 483.0 m were raised by BowX in its initial public offering.

Following the deal, WeWork executives project revenue to increase by almost USD 4 bn by 2024 while adjusted earnings before interest, taxes, depreciation and amortization margin – an industry-specific metric – to swing from negative 55% in 2020 to almost 30% in 2024. Such projections rely on occupations rates well above 70%, which the company assumes to be the break-even metric. We believe the cash injection comes at a critical time for WeWork to capitalize on a post-Covid work era. Businesses are now expected not to enter long-term leases for their workspaces and may increasingly look for more flexible options like WeWork's locations.

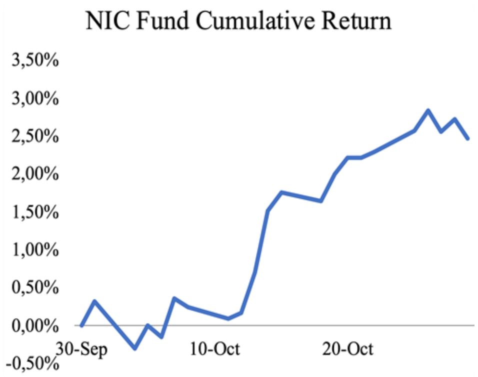
Date	Recent News
21 Oct 21	WeWork merges with BowX Acquisition and starts trading on the NYSE **Source:** *ft.com*
02 Feb 20	WeWork appoints Sandeep Mathrani as CEO **Source:** *wework.com*
23 Oct 19	After not securing an IPO, Wework is bailed out by Softbank **Source:** *ft.com*
09 Jan 19	WeWork receives financing from Softbank at valuation of USD 47.0 bn **Source:** *cnbc.com*

Rodrigo Baltazar
Investment Banking Division

NIC Fund

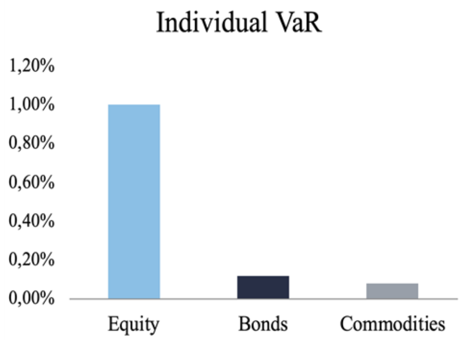
NIC Fund

Portfolio Overview



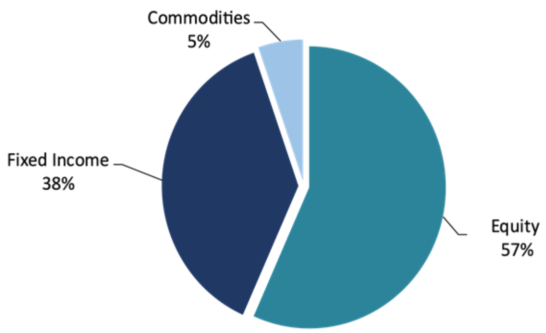
Portfolio Statistics	
Cumulative Return	2.47%
Annualized Return	29.69%
Daily St. Dev	0.33%
Period St. Dev	1.51%
Annualized St. Dev	5.23%
Info Sharpe	5.68
Skew (Daily)	-0.05
Kurtosis (Daily)	-0.30

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 last month, the NIC Fund remained invested in Equities, Fixed Income and Commodities. Overall, 57% of our fund remained devoted to Equities, 38% to Fixed Income and 5% Commodities. Comparing to the benchmark, the portfolio has deviated slightly being overweight on Equities and underweight on Fixed Income and Commodities. The fund pursues a long-term investment strategy and allow us to take active weights across all investments. Depending on expectations on specific asset classes, the portfolio weights may differ slightly from our benchmark.



Return Metrics

The overall performance of the portfolio was positive, with a cumulative return of +2.47%. This was mainly driven by the strong results from Equities, contributing with a positive return of +2.38% MTD. Moreover, holding a position in the S&P500, the portfolio is also invested in specific stocks from 9 different sectors. The Energy and Industrials sectors presented the strongest results, yielding returns of +15.71% and +15.41% MTD, respectively. The weakest sector of the fund was Materials, which returned -3.37% MTD, being the only sector to deliver a loss. Regarding Commodities, despite the low weight associated to this asset class, it contributed with +0.18% to the overall fund return, mainly due to the exceptional performance of Invesco Db Commodity Index T, which returned +5.60% MTD.
On the contrary, the negative returns of Ishares 1-3 Year Treasury Bonds and Ishares 3-7 Year Treasury Bonds (-0.34% and -0.80% MTD, respectively) led Fixed Income to be the only asset class to contribute negatively to the overall performance of the fund during last month (-0.01% MTD).

Risk Metrics

In terms of risk, our portfolio registered a daily VaR of 1.02%, representing a decrease when compared to the month of September. Nonetheless, it is still significantly below the maximum established threshold of 2.50%.

Equities were the asset class with the highest individual VaR, which was around 1.00%, and by far the main contributor to the increase in the overall daily VaR of the fund. On the other hand, Bonds and Commodities were characterized by much lower VaRs of 0.12% and 0.08%, respectively.

João Vaz
Financial Markets Division

NIC Fund

Assets in Brief

Asset Class	Symbol	Comments
US Equity	**NFLX**	Netflix reached a new all time high of USD 690.6 on the last trading day of October, yielding a total return of +13.10% MTD. Netflix surpassed expectations by reporting 4.38 millions net new members for the third quarter amid the launch of ‘Squid Games’, a Netflix original series. Even though criticized for not having enough enduring franchises such as Marvel and Star Wars, the service is outplaying its rivals in the contest of who can keep the most subscribers from canceling.
US Equity	**MELI**	After signs of recovery until mid-October, Mercado Libre ended up returning -11.81% MTD. The largest e-commerce and fintech player in Latin America is up against a challenging H2 period since, according to analysts, revenue growth rates are likely to decelerate over the coming quarters. Nonetheless, Wall Street investors remain optimistic since, despite the solid growth rates, Mercado Libre already achieved profitability, unlike other fast-growing e-commerce and fintech players in Latin America.
US Equity	**EOG**	The leader in oil and gas exploration and production in the US has beaten analysts’ expectations for Q2, which allowed for a pronounced recovery since then, yielding a return of +15,71% for the month of October. With increasing pressures on oil prices and with a competitive cost structure, EOG Resources generated USD 2.1 bn of free cash flow during H1, and this value is estimated to grow to USD 2.3 bn in H2. Moreover, the company plans to prioritize returning its growing excess of cash to shareholders, increasing the attractiveness of this stock for investors.
US Equity	**TRUP**	After enduring a rocky September due to missing Q2 earnings, the US pet insurer Trupanion Inc. registered a solid increase of +31.84% MTD for the month of October, as we approach the Q3 earnings release. Analysts see the industry as poised for continued prosperity, as it is growing at a 20-30% CAGR, and believe that Trupanion, with its 18% market share and remarkably consistent revenue growth over the last few years, will grow in excess of the market.
FP Equity	**MCPHY**	McPhy Energy S.A. was the best performer in our portfolio for the month of October, yielding a solid return of +34.52% MTD. In the beginning of October, the manufacturer of components for hydrogen production and storage units, announced the supply of 16MW alkaline electrolyser to the CEOG Power Plant in French Guiana (the greatest project of its kind), representing McPhy’s 2nd largest electrolyser order to date. This ultimately led to a soaring stock price of the company.
US Equity	**NVDA**	Nvidia Corp.’s share price rally since its pandemic low continues, with a return of +23.42% MTD. The American multinational technology company is on pace to become the seventh largest US company by market share, as it is on pace to move ahead of Berkshire Hathaway Inc. After its pandemic low in March 2020, Nvidia has gained almost USD 530.0 bn in market value and reached its share price all time high in October at USD 257.1.
US Treasury Bonds	**IEI ETF**	Our benchmark bond index, IEI invests in treasuries with maturities from 3-7 years. As inflation continues climbing, the yield of the 3-7 years treasury bonds keeps dropping, returning -0.8% MTD. We will continue to monitor these changes, especially with tapering of the Fed in the horizon.
Commodity	**DBC ETF**	Our primary commodities index, tracks a basket of 14 commodities. The ETF had positive performance over the last month, mainly driven by the increase in oil prices (which soared above USD 80.0 for the first time in 3 years) as production in the US continues do decrease. The main driver of this increase in prices is the supply limit of crude oil imposed by OPEC.

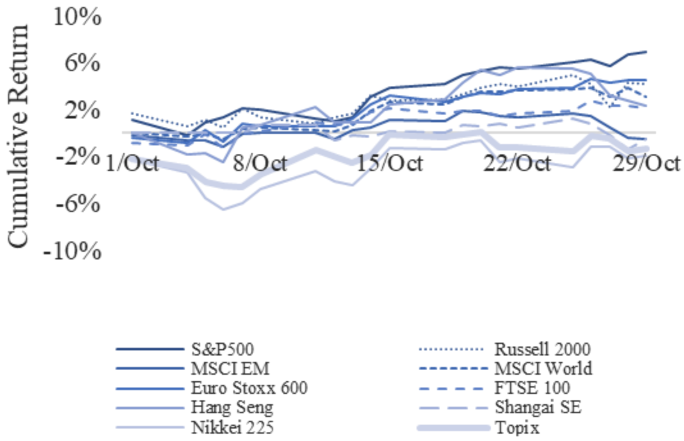
João Vaz
Financial Markets Division

NIC Fund

Equities

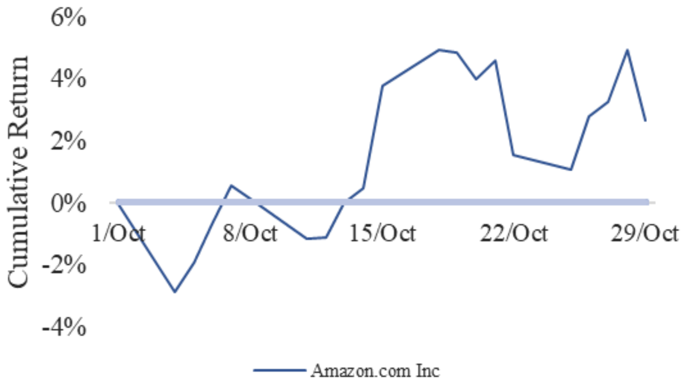
World Equities

While the month of October may be notorious for big market crashes, the one in 2021 held onto its gains and remained at or close to all-time highs. The earnings season played a major role in the significant rise in the equities market since more than 80% of US companies that reported earnings in October beat analysts' earnings expectations, leading all three major U.S. stock indexes to a new peak. The S&P 500 finished the month at a new all-time high as it surged 6.70% MTD, noting its biggest monthly gain since November 2020. While the S&P 500 is now up more than 22% YTD, the Dow Jones Industrial Average and Nasdaq Composite are all up by more than 16% YTD. European equities hit record highs as well, with the Euro Stoxx 600 up 4.55% MTD. Further, concerns regarding the Chinese property developer Evergrande have eased after the embattled company was able to meet some interest payments on outstanding debt and improve its stability. Not only positive earnings figures drove the equities market to new highs but also the decisions of central banks. Despite Eurozone inflation hitting a 13-year high of 4.10% YoY in September, the European Central Bank decided to continue its pandemic emergency purchase programme and will keep interest rates unchanged. In contrast, the Consumer Price Index climbed to 5.40% YoY in the US, signaling high inflation. In consequence, the Federal Reserve will likely begin reducing its monthly USD 120.0 bn bond-purchasing program after its policy meeting on 2nd and 3rd of November and signaled rising interest rates would follow more quickly than expected.



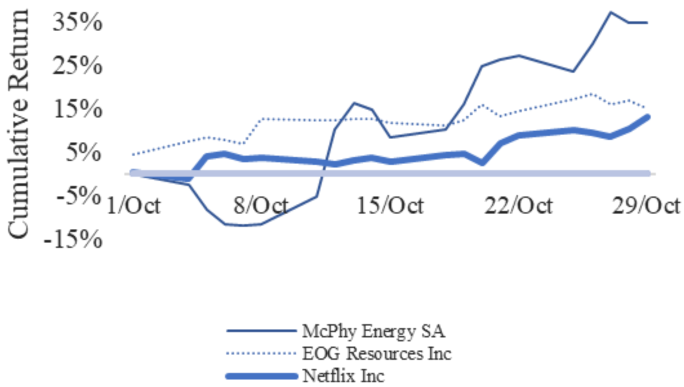
In Depth: Are Amazon's earnings indeed a miss?

Amazon.com Inc.'s (AMZN US) Q3 2021 earnings were once again classified as a miss. While analysts reported an EPS estimate of USD 9.1 bn, the company reported earnings of USD 6.1 bn on 28th of October. Further, it missed analysts' revenue estimates by USD 1.0 bn (USD 110.8 bn vs. USD 111.8 bn estimated). However, despite the company missing analyst estimates, the e-commerce giant posted strong revenue figures, which are in the upper range of its own revenue forecast of USD 106.0 bn to USD 112.0 bn. Similarly, its operating profit of USD 4.9 bn, driven by its North America sales, was forecasted by AMZN to be USD 2.5 bn to USD 6.0 bn. While still growing in every business segment YoY, the US-based company persistently reports strong, consistent, and predictable financial figures.



Our Performance

After a rather weak performance of the equities market in September, our NIC equity holdings reported a positive cumulative return of +2.47% MTD to the overall portfolio in October. As energy led the markets for another month, our holdings in McPhy Energy SA (McPhy FP) rose by 34.52% and EOG Resources Inc. (EOG US) gained 15.71%. Another driver of the positive performance was Netflix, Inc. (NFLX US), rising 13.10% MTD after reporting solid financial results.



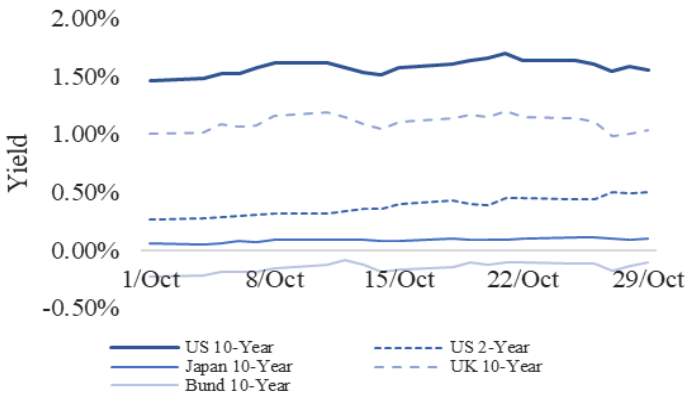
Raphael Northoff
Financial Markets Division

NIC Fund

Fixed Income

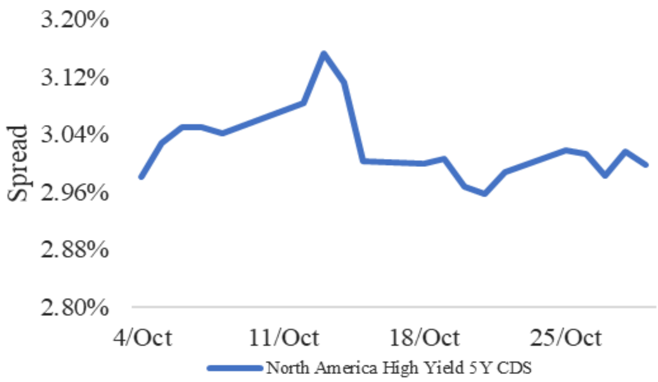
World Yields

The US Treasury yield curve flattened in October ahead of the Federal Open Market Committee, suggesting that investors anticipate the Fed will announce a sooner-than-anticipated tightening of monetary policy. Yields also rose across the curve as investors increasingly expect inflation to persist. The 2-Year Treasury yield increased 88.40% MoM versus a smaller 6.19% increase in the 10-Year Treasury yield. Inflation fears have also spread to Japan, which has historically been exceptionally insulated from inflation. As the country is a net energy importer, analysts expect a depreciating yen and higher energy prices to feed price increases. The country's 10-Year break-even rate rose from 0.29% to 0.44% in October, contributing to a 59.68% increase in the 10-Year yield. In the UK, a cut in the government's issuance plans led to a rise in long-term Gilts. The move forced investors that had bet on a steepening of the yield curve to cover their positions, further contributing to a flattening of the curve, according to Theo Chapsalis, head of UK rates strategy at NatWest Markets. In Germany, the sovereign yield curve also flattened in October, with the 10 and 2-Year Bunds rising 16.79% and 52.68%, respectively.



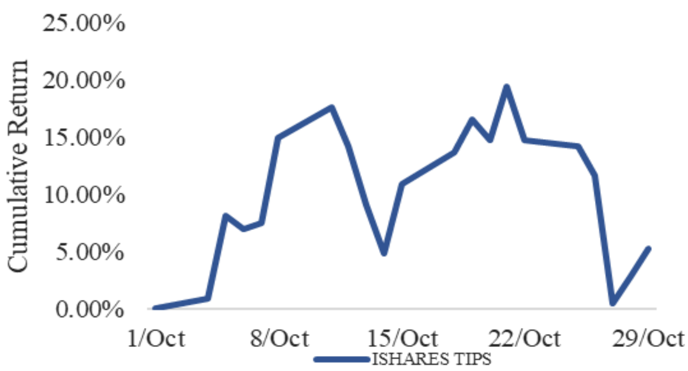
In-Depth: High Yield Bonds

According to the IMF, total global debt levels rose by 35% in 2020 to reach a record USD 281.5 tn by year-end. Leading the increase were the public and corporate sectors. Government debt increased by 88% from 2019 to 105% of GDP in 2020, whilst non-financial corporate debt increased by 63% to 100% of GDP. This is, of course, the outcome of the easy monetary policy carried out by central banks globally in response to the pandemic, which has allowed governments to finance vast fiscal stimulus packages and companies to issue record levels of debt. Though arguably necessary, such an intervention has created a worrying degree of fragility in certain areas of the fixed income markets, which could be exposed to defaults should borrowing costs rise or economic growth fall. One area that is fraught with risks, but which does not seem to worry markets, is high-yield. Coverage ratios (Debt to EBITDA) for high-yield bonds currently stand at about 6.5x, the highest they have been since the mid-1980s. In return, they offer yields only 3.15% above 5-Year US treasuries – the lowest spread since May 2007. So, how should investors protect themselves when it is difficult to know why or when these risks will materialize? As Howard Marks says, "'Prices are too high' is far from synonymous with 'the next move will be downward.'" Luckily, at roughly 300 bps, high yield CDSs are close to the cheapest they have been historically, allowing investors to obtain relatively inexpensive insurance against default.



Our Performance

The fixed income allocation of our portfolio contributed negatively to the fund, with a 0.10% decrease MoM. In line with global fixed income markets, the best performer in October was the ISHARES TIPS Bond ETF, which contributed 0.08% to the portfolio.



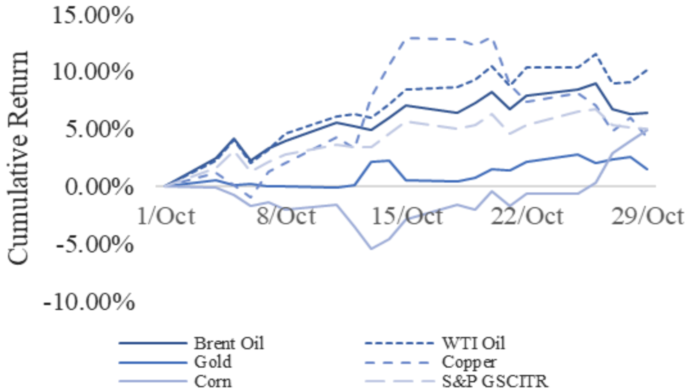
Nicolas Gomez
Financial Markets Division

NIC Fund

Commodities

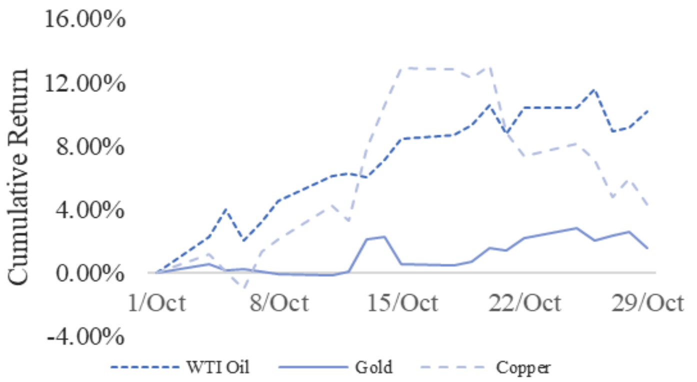
October Round-Up

During the month of October, the S&P GSCI Total return index increased by 5.68% after an appreciation of 6.03% in the previous month. This bullish trend in commodities' prices has seen a 44% year-to-date return of the index. Among the best performers, the price per barrel of crude oil reached its 7-year high on expectations that OPEC+ will maintain productions cuts. To illustrate, Brent and WTI oil went up by 7.46% and 11.38%, respectively. On the other hand, pressured by higher domestic output prospects and falling European gas prices, natural gas registered a -10.39% return for the month of October. President Vladimir Putin stated that Russia will start refilling its European gas-storage facilities from the 8th of November. The agriculture and metals sectors, represented by the GSCI Agriculture and GSCI All metals, had an appreciation of 3.73% and 3.23%, respectively. Gold had a modest monthly return of 1.63%. The non-yielding metal is still under pressure from a strong dollar. Despite gold's reputation as an inflation hedge, higher interest rates raise the opportunity cost for holding it, which explains why this commodity underperformed the others. Corn futures also climbed during the month by 5.87% and copper by 6.82%.



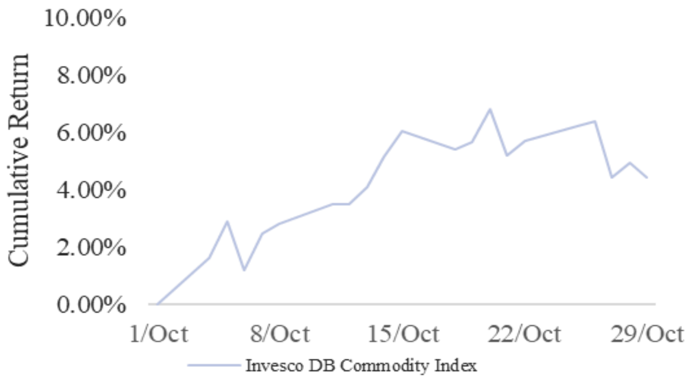
Outlook for November

The current upward trend of oil prices is likely to persist as reopening's from the pandemic intensify, restraints for travel are lifted and more supply is held back than is necessary. Markets expect OPEC and its allies to stick with the plan to add no more than 400,000 barrels per day in December even as India, Japan and other big oil consumers joined the US in pressuring oil producers to increase output. Gold has certainly seen a slight incremental upwards move the past month, but it has not been able to build a significant amount of confidence with bullish speculators. However, prospects of a weaker dollar could help drive the price of gold upwards. The US Federal Reserve's commitment to keeping interest rates close to zero for the next couple of years is likely to result in prolonged weakness in the dollar, which tends to favour commodity prices. A sustained increase in input prices will eventually lead to a pickup in inflation. Conventionally, a weaker dollar leads to rising long-dated commodity prices, which creates a feedback loop that will drive further declines in the US currency. As such, Goldman analysts expect to see an increased rotation into commodities as an inflation hedge.



Our Performance

During the month of October, we maintained the allocation of 5.30% in commodities which resulted in a positive 0.18% effect on our overall portfolio return. The Invesco DB Commodity Index returned 5.60% while the Goldman Sachs Physical Gold ETF was up by 1.55%.



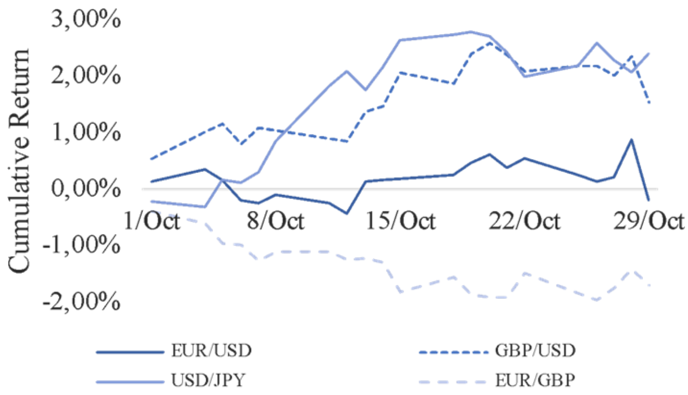
Yan Afonso Souza
Financial Markets Division

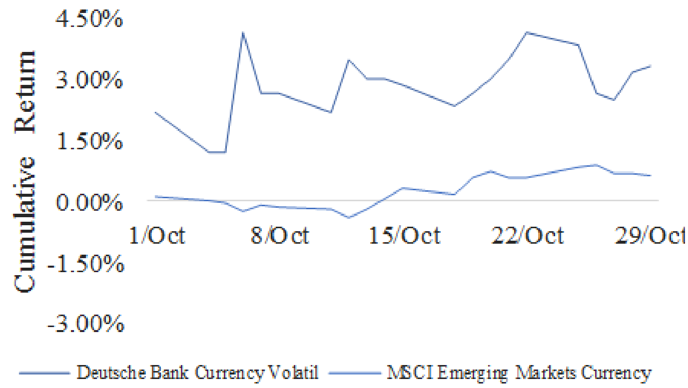
NIC Fund

Currencies

World Currencies

The month of October was very volatile for currencies. The USD Index was initially stable with strong US retail sales data, but later in the month decreased in value by 0.11% (against a basket of 6 major currencies). For the first half of the month, EUR/USD continued its downward trend as the Federal Reserve's message about raising interest rates was interpreted as harsher relative to the announcements of European Central Bank. Mid October brought a five-week winning streak of US Dollar to an end, suggesting that expectations of the Fed beginning to increase interest rates sooner than expected may have been slightly overblown. Towards the end of October, the US yield curve flattened, and global risk appetite rebounded as economies started reopening. As a result, we have seen reduced demand for the safe-haven currency, and high beta currencies such as Euro, British Pound, and Australian Dollar, benefited. Leading gains against the US Dollar loss were commodity currencies as oil prices kept surging. The Australian Dollar, which is seen as a liquid proxy for risk appetite, was up 4.3% at 0.75 AUD/USD for the first time since July, while NZD/USD and CAD/USD both hit 4-month highs of 0.72 and 0.81, respectively. Despite softer than expected UK price data, the British Pound held momentum due to rising expectation that the Bank of England will increase interest rates as soon as next month. Against the Euro, UK currency was at 1.19, near its highest levels since February 2020. The biggest loser of the month was Japanese Yen, also perceived as a safe-haven currency, falling to as low as 114.4 JPY/USD, its weakest level in 3 years.





In Depth: The Increasing Volatility of Forex

As the end of the month is approaching, investment managers are rebalancing their portfolios across currencies. However, this is not the only factor affecting the increasing volatility of the currency market. Key inflation data from the US and Euro zone showed consumer prices spiking to multi-year highs. As consumer prices and interest rates increase, forex volatility could go up significantly in the upcoming months. During the pandemic, currency markets remained stable due to the coordinated easing of central banks. Now, however, as countries are recovering from pandemic at different speeds, monetary responses of major central banks are likely to go in different ways, and currencies may no longer stay calm. Exchange rate volatility was already notably higher in the month of October across the major currencies. Deutsche Bank's CVIX, a gauge of forex volatility, was up by 1.31%. MSCI Emerging Market Currency Index has sunk to the weakest level since March 2020, suggesting that central banks' strategy of increasing interest rates to defend currencies is failing. We are now waiting for major central bank meetings at the beginning of November to indicate the further direction of currency markets. Overall, a regime of higher and unstable inflation across major economies could cause a further spike in exchange rate volatility, and ultimately the depreciation of currencies in countries experiencing the highest levels of inflation.

Our Performance

We currently hold no currency related assets in our portfolio.

Sara Ivackovic
Financial Markets Division

Extras

Hot Topic

Meta – The Next Evolution of the Internet?

Simon Hoffmann
Financial Markets Division

"By the end of this decade, or even by the middle of the decade, I would guess that we`re going to reach a point where our VR (virtual reality) devices will start to be clearly better for almost every use case than our laptops and computers are."

– Mark Zuckerberg, CEO of Meta (former Facebook)

On the 28th of October 2021, the CEO of former Facebook, Mark Zuckerberg, announced one of the biggest restructurings in the company's history. This new structure should officially bring together the apps and technologies under one new brand, called Meta.

The so-called metaverse will provide the users with a hybrid experience by expanding online social network into three dimensions and even projecting it into the physical world. The Financial Times calls this a "techno-utopia where people are connected and live in a virtual universe". With this restructuring, the main social networking platforms will become one part of Meta, while so-called Reality Labs will become a second unit. Those Labs will finally create the vision of the metaverse.

Bringing this new concept to life, the company is planning to spend USD 10.0 bn on the development of metaverse in 2022. Those operating costs could also potentially rise in future years. Besides that, Meta already has around 10,000 employees working on this new project and is planning to double the team size soon. To highlight the importance of this strategic shift, highly respected employees, such as Andrew Bosworth or Vishal Shah are working permanently on metaverse.

For this strategic move, the timing of the rebranding is of significant importance. Critics have noted that the rebranding is a timely attempt by CEO Zuckerberg to distance former Facebook from its latest scandals. Market experts are referring to the leak of information by Frances Haugen, who suggested that Facebook has poorly handled misinformation and hate speeches, potentially harming teenagers and children. The released internal documents showed that Facebook was well aware that its products could potentially harm its user but the company failed to address those issues. Mark Zuckerberg denied that the company restructuring was only introduced to shift attention away from the latest scandals. Immediately after the announcement, analysts from various investment companies commented on this action from Facebook, both positively or sceptically.

Neil Campling, a technology analyst at Mirabaud Securities, estimated that the new segment would lose around USD 7.0 bn in 2021, and even more in the upcoming year. Nevertheless, the new separation in two different units, shows the pure scale of investments, which is dramatically higher than for any other competitor which is investing in this new Reality Labs area. The expert also said, that Facebook is creating an "all-encompassing platform", which cannot be compared to any other company as those are either focussing exclusively on the hardware segment or the software of the metaverse.

Brent Thill, software and internet analyst at Jefferies, highlighted that investors welcomed the separation of the Reality Labs from the rest of the core social media businesses, as it gives more clarity on how the project is developing, and helps investors understand the story. Potential gains are not only revenues through advertising, but also creating an online shopping business with digital items, such as clothes or art. Those could be then combined with technologies, such as cryptocurrencies or NFTs.

Nevertheless, critics are already concerned that the metaverse will cause major privacy and safety issues, as it remains unclear how Meta will moderate an open system with one, or potentially multiple virtual identities.

Simon Hoffmann
Financial Markets Division

Extras

Hot Topic

COP26: What to Expect from Climate Finance?

David Silva
Investment Banking Division

"For those countries most vulnerable to the impacts of climate change who are already seeing their homes disappear under water and their crops decimated by drought - COP26 simply can't be another talking shop. […] Donors need to demonstrate that the target will be met and surpassed."

– Alok Sharma, Minister of State at the Cabinet Office and President for COP26

The 26th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP26) in Glasgow started on the 31st of October and was widely regarded as a pivotal moment in the effort to halt climate change. According to the most recent physical-science report from the Intergovernmental Panel on Climate Change, it remains possible to keep temperatures from rising by more than 1.5°C over the preindustrial baseline—and thereby stabilize global warming, nevertheless, the required reduction of greenhouse-gas emissions are not yet happening at the necessary pace. The climate crisis, the most complex and critical challenge of our time, must be tackled on diverse fronts. Hence, COP26 will bring together governments, businesses, local authorities, and civil society to discuss global climate action.

This "turning point for humanity" aims to increase global objectives on greenhouse gas reduction efforts inscribed in the Paris agreement, but more importantly to expand global efforts on climate financing. Hence, it is of the utmost importance that Climate Finance is mobilized. The latter is translated into several major topics on the COP26 agenda: development finance, corporate commitments, and capital investment. All these topics converge to the same issue — to achieve the climate goals, every financial institution will need to change.

In 2009, developed countries vowed that by 2020, they would mobilize USD 100 bn per year to pay for climate mitigation and adaptation in developing countries which should continue through the following years. However, analyses by the OECD and the UN indicate that developed countries mobilized only USD 78.9 bn for climate aid to developing countries in 2018. This financing gap leaves poorer, less developed countries with limited financial resources to cope with physical climate hazards to which they are disproportionately exposed. In addition, it prevents these countries from achieving low-carbon development and delivering on the Nationally Determined Contributions made during the Paris agreement. Hence, official delegates of developed countries will be charged with settling plans to achieve their respective commitments.

Countries are striving to unleash the trillions in private finance that are needed to secure a global net-zero by 2050. To do this, every financial decision is expected to take climate into consideration, a trend with increasing interest over the past year. Earlier this year, some 160 banks, asset managers, and asset owners, representing around USD 70 tr AuM, formed a new mega-alliance of financial institutions called Glasgow Financial Alliance for Net Zero (GFANZ) that has committed to aligning their operations and portfolios with net-zero pathways. During and after COP26, this consortium is expected to recruit additional members and help them share the best practices they are using to pursue net-zero targets. Crucially for businesses, GFANZ also targets to synthesize its members' opinions on what a company's net-zero transition plan should entail to develop a standard set for companies to follow. Adhering to these standards will help corporate leaders remain in good relationship with capital provides which these companies need to sustain long-term growth.

In summary, following up on the COP26, central banks and regulators will adapt financial systems to support the transition to net-zero. Moreover, banks, insurers, investors, and other financial firms are expected to ensure that their operation including investment and lending are linked to a sustainable component, e.g., net-zero.

David Silva
Investment Banking Division

Extras

ESG Review

ESG Investing: A Spotlight on the "S"

Irina Pereira
Investment Banking Division

"*We've become accustomed to assessing businesses by their impact on the environment; how they look to reduce their environmental footprint and if they deliver products or services that help customers become more energy efficient. However, more awareness needs to be established around companies' impact on society.*"

– Thomas Sørensen, Co-Manager of Nordea's Global Climate and Social Impact strategy

Last year, in Europe, investments in ESG products accounted for 50.46% (EUR 289.7 bn) of a total fund flow of EUR 574.3 bn: such an amount showcases the rising interest in ESG investing. However, studies indicate that most investors associate the impacts of this megatrend to environmental metrics and typically overlook the social pillar.

According to the Sustainability Accounting Standards Board (SASB) standards, these social issues encompass topics such as health (product and work safety and labour conditions), equal opportunity (gender and minority representation across the corporate structure), information security, business ethics, and financial inclusion. Not surprisingly, the Covid-19 pandemic has magnified the risks associated with these. However, the lack of consensus around how to quantify these risks challenges their incorporation in investment strategies. In short, unlike its counterparts ("E" and "G"), one's impact on society is often intangible, lacking mature data, and having weak regulation in place.

Such challenges lead to a lack of consistency, as there are no common metrics that are applied on a global level. In addition, ESG matters are more intertwined than ever, which creates "noisiness" in focusing on only one of its components. The premise of specific quantification from an Accounting perspective is posing an interesting proposition, as it should numerically represent the impact of each practice in the financial statements, and risk management frameworks. It is relevant to highlight that the acronym's constituents "Environmental", "Social" and "Corporate Governance" do not carry the same weight for different companies, industries, and even countries. Note that for emerging markets, the risks posed by labour rights and human security are more extreme than in developed markets, and for an energy company, perhaps, the environmental risks should be the priority and should be reflected as such in a company's financial performance, whereas this would be less important for a financial services company, for example.

A 2017 study by the NYU Stern Centre for Business & Human Rights, which reviewed reporting gaps related to this topic, concluded that even though ESG frameworks are becoming increasingly more advanced, the measurement of "S" is usually focused on what is "most convenient", rather than "most meaningful" practices. The vagueness associated with the reporting also highlights how often companies are rewarded for their efforts to acknowledge the problems, instead of the actual practices they implement. With the establishment of United Nations Principles of Responsible Investments (UN PRI) and the development of government policy such as the Corporate Sustainability Directive (CSRD), these challenges have been gaining prominence.

The lack of emphasis in the "S" highlights a persistent dichotomy: although there is clear neglect of the social issues, 11 of the 17 SDGs are oriented toward social empowerment, and more than ever there is a strong emphasis on the recent social justice movements and call-out culture. Opening the "S" frontier seems to rely on the alignment of financial performance and social returns. As a consequence, investment solutions such as Nordea's Global Social Empowerment Strategy bridge the gap between the social needs and the available resources to solve them. Based on a pandemic-focused approach, the potential structural weaknesses from companies, around the social pillar of ESG, have showcased the real inequalities in healthcare, education, and labour protection, which have until now been overlooked by the industry.

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Thank you!

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

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