NIC

— Nova Investment Club —

Newsletter

February 2022

NIC
—Nova Investment Club—

Table of Contents

Macro Overview

In Focus
January — p.1

Deeper Dive
The Rise of Brazil as Latin America's FinTech Hub — p.2

Regional View
Ukraine Conflict: The Financial Consequences — p.3

Economic Calendar
February — p.4

Investment Banking Division

M&A: Overall Activity
Global and selected regions: North America, Europe, Asia — p.5

M&A: Top Deals
- Take-Two to Acquire Zynga — p.6
- Microsoft Corp to Acquire Activision Blizzard — p.7
- Pearson Plc to Acquire Credly Inc — p.8

What Happened To
- Bridgepoint Plc — p.9
- TSMC — p.10

NIC's View On
- Hawkish Fed Meeting Fallout & Effects On Financial Markets — p.11

Financial Markets Division

NIC Fund
Portfolio Overview — p.12
Assets in Brief — p.13
Equities — p.14
Fixed Income — p.15
Commodities — p.16
Currencies — p.17

Extras

Hot Topic
- Weighing the Trade-offs of the Energy Transition — p.18
- Strategic Realignment of Private Equity Groups — p.19

ESG Review
- ESG - A joint effort to reach net zero — p.20

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, our Head of Corporate Relations, Arsenio Renato Jr, elaborates on the rise of Brazil as a fintech hub. Moreover, in our Regional View, our Head of Communications, Sara Ivackovic, reviews the Russo-Ukrainian conflict.

Our Investment Banking Division will guide you through January's overall M&A activity. Read about Take-Two acquiring Zynga, Microsoft acquiring Activision Blizzard, and Pearson acquiring Credly. Additionally, get a detailed overview on what happened to Bridgepoint and TSMC, and read our opinion on current US monetary policy.

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 January was slightly negative, with a cumulative return of -2.95%. A loss that can be mainly attributed to Equities.

On the Hot Topics of this month, Nicolas Gomez discusses the trade-offs of the energy transition, while Roman Bauer, elaborates on the strategic realignment of private equity houses. Lastly, on our ESG review in collaboration with Nordea, Felix Mitterer, discusses the evolution of ESG investing.

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 The reports may contain inaccurate or outdated information and should not be used as an exclusive mean for investment decisions.

Macro Overview

Monthly

February 7th, 2022

Deeper Dive

The Rise of Brazil as Latin America's FinTech Hub

— p.2

Regional View

Ukraine Conflict: The Financial Consequences

— p.3

Market Moves

% change

	Last Close	-1W	-3M	YTD
S&P 500	4,516	2.39%	-1.95%	-5.26%
DJIA	35,132	2.23%	-1.92%	-3.32%
Nasdaq	14,240	2.78%	-8.12%	-8.98%
MSCI World	3,578	0.34%	-5.67%	-5.29%
MSCI EM	4,416	-2.65%	-5.58%	-5.03%
Russell 2000	2,028	-0.25%	-11.70%	-9.66%
Euro Stoxx 50	4,175	2.97%	-1.79%	-2.88%
FTSE 100	7,464	2.29%	3.13%	1.08%
Nikkei 225	27,002	-2.13%	-6.54%	-6.22%
Hang Seng	23,802	-3.46%	-6.21%	1.73%
Dollar Index	96.54	0.65%	2.57%	0.91%
EUR/USD	1.124	-0.80%	-2.79%	-1.19%
GBP/EUR	1.197%	0.52%	1.10%	0.66%
GBP/USD	1.345%	-0.30%	-1.72%	-0.63%
USD/JPY	115.110	1.02%	1.02%	0.03%
USD/CHF	0.93	1.48%	1.21%	1.57%
Brent Crude	91.210	5.73%	8.09%	17.27%
Gold	1,795.0	-2.54%	0.62%	-1.84%

Generic Bond Yields

change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	1.777%	0.6	22.5	26.7
GER 10Y Yield	0.011%	11.8	11.7	18.8
JPY 10Y Yield	0.178%	3.6	7.9	10.7
UK 10Y Yield	1.302%	17.6	26.8	33.1
PT 10Y Yield	0.665%	11.4	14.5	20.0

**Source: Bloomberg, as of 2022-01-31*

In Focus

January

The Federal Reserve continues to aim for maximum employment and inflation at the rate of 2% over the long run. In the last meeting, the central bank kept the target range for the federal funds rate at 0 to 0.25%. However, as inflation continues to be a major concern and economic activity continues to strengthen, the committee announced that it is expected that they will soon raise the target range. Estimates on Wall Street now range from three to seven rate increases in 2022. Thus, the federal funds rate is projected to end the year in a range of 1.25% to 2%.

Fuelled by soaring energy prices, energy stocks continue to rise despite a major sell-off in equities. The energy sector was the best performer of the last year, last month and last week. Year to date, the S&P 500 energy sector is up 23%, while the broader index is down about 5% on the year. In 2020, Exxon Mobil, America's largest publicly traded oil and gas company, lost USD 22.4 bn as demand for oil collapsed. However, as countries eased pandemic restrictions, the company reported annual profits of USD 23.0 bn in 2021. Chevron also announced its best quarter since 2014.

Lumber prices began 2021 in an upward run. However, in the past two weeks, lumber prices plummeted 30%. Concerns over the US market cooling down as interest rate raises contributed for the crash in lumber prices. Additionally, it was reported that the US Department of Commerce plans to reduce tariffs for most Canadian softwood producers from almost 18% to 11.64%. On top of that, lumber is still facing supply chain disruptions after storms knocked out crucial railways in British Columbia late last year.

The tensions in Ukraine continue to escalate after President Vladimir Putin said that the Kremlin's fundamental concerns have been ignored in its demands over Ukraine. Putin gave a speech stating that he had not seen NATO countries halting their expansion in Europe and the US pulling back its missile systems and removing itself from Europe's security order as demanded. In response, the US will deploy troops closer to Russia after Western officials warned of punishing economic sanctions if Russia further invades Ukraine, even though Moscow denies its plans to do so.

The Eurozone GDP increased by 0.3% during the fourth quarter of 2021, following a 2.3% increase in the previous quarter. The economic slowdown during the last quarter of the year was due to the rapid spread of the Omicron variant that put a break on activity. Nevertheless, estimates indicate that the full-year Eurozone output grew by 5.2%, which is a sharp rebound from the Eurozone economy collapse of 6.4% in 2020. As a result, German unemployment fell by 48,000 to 2.35 million in January, the lowest number since March 2020 and the fourth consecutive monthly decline in unemployment.

Google parent Alphabet beats earnings expectations and reports revenue of USD 75.0 bn in the last quarter of 2021. To put this into perspective, YouTube, the online video sharing platform owned by Google, brought in USD 8.6 bn in Ad Revenues, while Netflix total revenues was USD 7.7 bn. Additionally, the company announced a 20-for-1 stock split to make its shares more accessible to smaller traders. Google's stock split decision triggered speculation that its stock will be included into the Dow Jones Industrial Average. As a result, alphabet shares rose by more than 8% in the pre-market following the announcement.

Yan Afonso Souza
Financial Markets Division

Deeper Dive

The Rise of Brazil as Latin America's FinTech Hub

Arsénio Renato Jr
Investment Banking Division

"The removal of fees, ease of interaction with technological platform with more accessible and less distant communication between bank and the customer – all this facilitated and innovated service"

– Joelson Sampaio, Professor of Finance, the Getulio Vargas Institute

Over the past couple of years, Latin America has been a region with persistent societal issues. Difficulties to buy a used car, rent an apartment and open a bank account became consequences of the increased amount of bureaucracy and legal barriers. As these problems amount along with political instability, start-ups are created to tackle such issues in society, particularly with the use of technology. Since then, the Latin American region has been at the forefront of the emerging market tech boom. As of 2021, Latin America Venture Capital investments tripled to USD 15 bn.

Indeed, Brazil has its spotlight within the region. Most Latin American innovative companies are based in Brazil, as it receives more than half of the investments made in fintech in the continent. This is supported by the fact that Brazil is ranked 3rd in terms of number of unicorn start-ups in the fintech industry. The most interesting aspect about the country is that despite facing severe levels of poverty and inequality across the country, Brazil is also highly digitised as technology initiatives are quickly adopted by companies and citizens. Thus, digitisation has paved an easy road for the country's leading fintech position.

The month of December 2021 became a staple for the region, as the USD 30.0 bn IPO made Nubank the country's largest fintech business. The firm has been engaging in digital lending since its foundation in 2013 in São Paulo, when it was offering zero-fee credit cards by a mobile app. David Velez, co-founded the bank after it took him six months to open a bank account as he moved to São Paulo.

Nubank's business defies bureaucratic regulations that leave the wider population excluded from access to basic financial services in the past. Nowadays, the firm has more than 40 m customers and provides personal loans, savings, and business accounts. In the first nine months of 2021, the Warren Buffet-backed business generated a revenue of USD 1.1 bn.

The dominance of Brazil's fintech expertise also extends to another unicorn, Creditas, a lending start-up that has recently reached a valuation of USD 4.8 bn, while having names such as Softbank as backers. Founded in 2012, the São Paulo-based business, provided insurance alongside consumer secured loans and runs an online used-car sales platform.

These are prime examples of how the improved stability and growth of technology within the Latin American industry has prompted investors, including venture capitalists to bet on the region. For instance, Softbank has a dedicated Latin American investment arm with significant stakes worth billions of USD invested in the region, specifically in Brazil.

The country has been very effective in tackling its banking system issues using technology. The Brazilian Central Bank recently established another platform named "Pix" – a fast money transfer system through mobile phones – one of the most efficient payment systems in Latin America. The platform has enhanced financial inclusivity as now more than 100 m people can transfer money without the need for internet connection (Pix Offline) and by mobile phone approximation (NFC).

Brazil is likely to remain the hub of technological innovation, especially as the world's first DeFi (Decentralised Finance) exchange fund launches in the upcoming months. The fund will allow investors to track a range of projects within the segment, as it departures from direct investments to crypto businesses and currencies such as Bitcoin or Ethereum.

Overall, it is exciting to see a region benefiting from such growth in tech. Perhaps, one day Brazil will have the capabilities to compete with global tech hubs such as the Silicon Valley.

Arsénio Renato Jr
Investment Banking Division

Regional View

Ukraine Conflict: The Financial Consequences

Sara Ivackovic
Financial Markets Division

"People don't understand the value of human life and that's what it's about. I do support serious dialogue."

– Volodymyr Zelensky,
President of Ukraine

Tensions between Ukraine and Russia reached their highest levels in years during the month of January, with Russian troops build-up at Ukraine's borders spreading fears that Moscow could launch an invasion. The crisis in Ukraine began in 2014 when the country started denying Russian supremacy and seeking a way to join the European Union and the North Atlantic Treaty Organization (NATO). It continued with the Russian invasion of Crimea and fall of Malaysian Airlines flight. Since then, the situation in Ukraine escalated into an international conflict, causing further deterioration of the relations between the US and Russia, and increasing risk of, what some media called, the Third Cold War.

In mid-December of 2021, Russia issued a list of demands for withdrawing its military forces from the border. The list included a ban on Ukraine entering the NATO and a reduction of NATO troops and military equipment in eastern Europe. In January, these requests were rejected by the US and other NATO allies, who warned Russia about economic sanctions in case they proceed to invade Ukraine. President Putin commented that Washington's written responses to Moscow was inadequate, signaling that a diplomatic resolution of the conflict is still far from ending.

The Pentagon announced that Russia had deployed enough troops to invade the entire Ukraine. For this reason, the US has put 8,500 troops on standby for possible deployment to Eastern Europe. After sending about 2,000 troops to Poland and Germany, Biden announced he would deploy roughly 1,000 troops from Germany to Romania. The UK and the US have ordered a partial withdrawal of their embassies in Ukraine, emphasizing an increasing threat of Russian military action against the country. Ukraine officials sharply criticized these actions calling them premature. President Putin denied interest in invading Ukraine and accused the US of trying to contain the development of Russia by dragging it into a conflict over Ukraine.

The sanctions on Russian financial institution in the event of a Ukraine invasion are already agreed upon the US and EU members. These financial sanctions include cutting Russian banks off from the global financial system and restricting Russia from SWIFT – the Society for Worldwide Interbank Financial Telecommunication. The European Central Bank issued warning to lenders with significant exposure to Russia to prepare for the imposition of international sanctions against the country. Russia showed to have a back-up plan, an alternative messaging system called SPFS, which handles a fifth of domestic payments. However, SPFS is far less capable and limited in scope than SWIFT.

These financial sanctions would raise considerable risks for international banks with large Russian exposure, including Citi in the US, Société Générale in France, Austria's Raiffeisen and Italy's UniCredit. Some of these have already taken actions to prevent the worst. After attending the call between Italian business executives and president Putin, CEO of UniCredit has announced withdrawal from a potential bid for Otkritie, one of Russia's largest state-run lenders. On Tuesday, as investors are fleeing the country, Russian stocks had its worst decline in nearly two years. The Russian Rouble fell by 2.30% to its 15-Month low and Russia's Central Bank had to step in to prevent further depreciation.

The Biden administration confirmed talks with large gas exporters including Qatar and Australia to plan preventive measures in case a Russian invasion of Ukraine disrupts supplies to Europe. Along with the EU, the US is trying to mitigate the potential loss of Russian energy supplies of gas and cover a shortfall of supplies in Europe. And while we wait to see if warnings by the US are justifiable, one thing became certain: The Ukraine conflict heightened tensions in Russia's relations with both the United States and Europe, complicating the potential for cooperation on issues such as terrorism and arms control.

Sara Ivackovic
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

OPEC Meeting

The upcoming OPEC and non-OPEC Ministerial Meeting will be held on the **2nd** of February. Market participants expect a modest increase in production of about 400,000 barrels a day, starting next month. Due to the increasing oil demand, price of oil was driven upwards in the last months.

Olympic Winter Games

From the **4th** to the **20th** of February, China is hosting the Olympic Winter Games which puts an extra spotlight on the current international relationships. The United States, Canada, Australia and the United Kingdom have decided to diplomatically boycott the Games due to China`s poor human rights record.

The Conservative Political Action Conference

From **24th** to the **27th** of February, members of the conservative party will meet on their yearly conference in Orlando, Florida. There are rumors that Donald Trump might participate, which would strengthen his chances running for a president at the next election.

Central Bank Decisions

Central Bank of Brazil Interest Rate Meeting

The Central Bank of Brazil will hold its monetary policy meeting on the **2nd** of February. After an interest rate hike in December from 7.75% to 9.25% another interest hike of 150 basis points is expected to follow.

Bank of England Interest Rate Meeting

On the **3rd** of February the Bank of England will publish their latest interest rate decision. Economists expect the Monetary Policy Committee to announce a 25 basis points hike, taking the Bank Rate to 0.50%. The inflation of the UK recently soared to a 30-year high, which lead to a first interest hike in December.

ECB Monetary Policy Decision

On the **3rd** of February, the ECB will publish its latest interest rate decision. The announcement is coming in light of the latest inflation figures released on the **2nd** of February. The ECB insists on not raising the interest rates in 2022.

Inflation and Deflation

Update on Euro Zone Inflation

January inflation data for the euro area will be published on the **2nd** of February. Inflation in the euro area is expected to ease and fall to 4.40% from its record of 5% in December. The high inflation is putting pressure on the upcoming ECB interest rate decision.

Brazil’s Inflation

Brazil’s inflation rate will be announced on the **9th** of February. According to macro models and analysts` expectations, the inflation rate for January will be around 10.46%. The soaring inflation led to latest interest rate hikes. Projections for 2023 forecast an inflation rate of around 4.25%.

US Consumer Price Index

The YoY US core consumer price index will be released on the **10th** of February. Inflation is expected to be around 5.90%, up from 5.50% in December. Due to the high inflation, the Fed indicated interest rate hikes starting in March this year.

Labour Market

Euro Zone Unemployment Data

The European Zone unemployment rate will be announced on the **1st** of February. The overall unemployment rate is expected to remain stable around 7.10%. The upcoming monetary policy decisions of the ECB will be impacted by the recent releases.

Canadian Labour Market

On the **4th** of February, Canada will announce its unemployment rate. Forecasts expect the unemployment rate for January to be slightly higher than for December 2021, up from 5.90% to 6.10%.

US Unemployment Data

On the **4th** of February the US payrolls number with ADP employment change data for January and the weekly jobless claims, will be announced. The unemployment rate is expected to remain around 3.90%, unchanged from the previous release for December 2021.

Simon Hoffmann
Financial Markets Division

NIC
—Nova Investment Club—

Investment Banking

M&A
Overall Activity

Global

The year of 2022 has so far continued the remarkable deal activity of 2021 with a total transaction volume of USD 332 bn in the first month. The ongoing deal-making comes not naturally as global inflation rates reach record levels while countries across the globe are witnessing another steep surge in confirmed Covid-19 cases. However, global deal-making is flourishing, with buyers willing to pay an astonishing average multiple of 13x, with the majority of the deals ranging from USD 5 bn to 10 bn within the first month of the year. Private equity behemoths have become the main buyers accounting for almost 50% of the transaction numbers, followed by technology and consumer companies. In terms of regional breakdown, North America (66%) led the cohort of deal counts, followed by Europe (16%) and the Asia Pacific (15%). The first month of 2022 was characterised by Microsoft´s announcement to buy gaming company, Activision Blizzard, in a USD 67 bn deal. Later the month, Vista Equity Partners and activist investor Elliot Management announced to acquire Citrix Systems at a valuation of USD 14.5 bn net of debt.

Selected Regions

North America
Technology transactions of USD 114.4 bn amounted to more than half of the total deal volume, dwarfing the rest of the industries. Consequently, buyers were willing to pay an average EBITDA multiple of 18.5x, signalling the ongoing popularity of the technology sector. Besides the Fed´s indication to change interest rates, buyout groups continue to leverage mega deals conveying them on par with tech deal-making.

EMEA
Deal activity recorded a significant decline YoY. In Europe, financial services turned out to be the target industry with USD 24.1 bn in total deal volume followed by (USD 11.3 bn) the industrial sector, which used to be attractive for deal-making, showed a moderate deal volume of USD 6.9 bn constituting a YoY decline of 43%. Temasek Holdings heads EMEA deal-making with its acquisition of EMT Ltd.

Asia
Deal-making activity moderately increased YoY by 27% to an overall transaction volume of USD 50.3 bn. Even though the financial segment constitutes the biggest contributor to total deal volume with USD 25.7 bn marking an 82% increase YoY, Vedanta´s announced acquisition of Bharat Petroleum Corp, an oil refining company, heads the deal table with a transaction volume of USD 4.5 bn.

M&A
Deals of the Month

Announced Date	Target	Buyer	Target Region	Target Business	Value (USD m)	Premium (%)
18 Jan 22	Activision Blizzard Inc	Microsoft Corp	US	Entertainment Software	67,883.41	46.00%
31 Jan 22	Citrix Systems Inc	Consortium led by Vista Equity Partners LLC	US	Computer Software	14,474.58	4.63%
24 Jan 22	Kohl´s Corp	Starboard Value LP	US	Retail	13,810.12	30.44%
10 Jan 22	Zynga Inc	Take-Two Interactive Software Inc	US	Entertainment Software	11,190.39	55.21%
26 Jan 22	Centene Corp	Cigna Corp	US	Medical	7,759.00	-
24 Jan 22	Element Materials Technology Ltd	Temasek Holdings Ltd	UK	Commercial Services	7,000.00	-
13 Jan 22	Mimecast Ltd	Thoma Bravo LLC	US	Internet Security	6,007.86	16.67%
9 Jan 22	Shockwave Medical Inc	Penumbra Inc	US	Medical Products	5,967.16	-
25 Jan 22	Bally´s Corp	Standard General LP	US	Gambling	4,555.35	8.96%
11 Jan 22	Wind River Systems Inc	Aptiv PLC	US	Decision Support Software	4,300.00	-

Roman Bauer
Investment Banking Division

M&A: Top Deals

Take-Two to Acquire Zynga

Take-Two Interactive Software Inc announced the acquisition of Zynga Inc at a valuation of USD 11.2 bn, including debt. The transaction was announced on the 10th of January and is expected to be completed by end of June this year. The Take-Two offered USD 3.5 in cash and USD 6.4 in shares for each Zynga share, implying a 64% premium to the closing price on the 7th Jan.

Buyer vs Seller

Take-Two Interactive Software, Inc. develops, markets, distributes and publishes interactive entertainment software games. The firm holds blockbuster video games such as Grand Theft Auto and Red Dead Redemption in its portfolio. Zynga is less vertically integrated, designing and developing video games, having developed several widely recognized games such as FarmVille and Zynga Poker. Goldman Sachs advised the latter while JP Morgan and LionTree Advisors advised Take-Two on the buy-side.

Industry Overview

The gaming is among the fastest growing mega markets globally. In 2021, the space generated USD 173.7 bn in revenue. By 2027, analysts predict the revenue to grow at a 9.67% CAGR to more than USD 330.0 bn. Driving the growth is the expansion of gaming to a larger array of geographies, age groups, and platforms such as mobile. Also, in-game purchases are expected to grow as well as the sale of game-related merchandise.

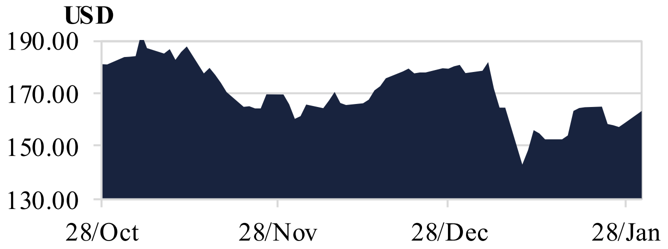
Peers	Currency	Market Cap (CUR m)
Sciplay Corp	USD	1,638.19
ROBLOX Corp	USD	38,301.55
Skillz Inc	USD	1,681.18
Take-Two Interactive Software	USD	19,030.23
Electronic Arts Inc	USD	38,792.79

Deal Rationale

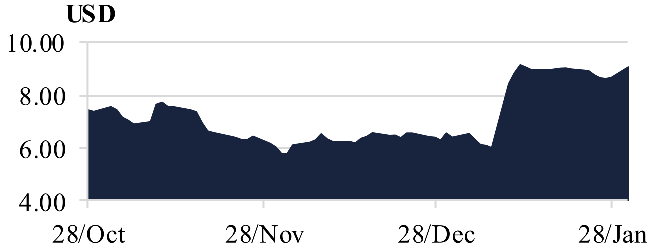
In a booming industry, mobile gaming is the fastest-growing segment. Having plenty of cash and few investment opportunities in console and pc gaming, Take-Two was keen to put money to work in the space. According to Take-two´s CEO, the combination will yield cost synergies of USD 100.0 m in the first two years and upwards of USD 500.0 m of incremental revenue opportunities in the next five years. The former is a clear consequence of the newly formed alliance competing more effectively with incumbents such as EA and Activision in the mobile space, which have reinforced their market position through M&A.

Market Reaction

Take-Two
Following the deal announcement, Take-Two's share price decreased by 15%. Investors fear that Take Two has overpaid when acquiring Zynga.



Zynga
Zynga's shares surged 45% on the Monday following the announcement, still 15% below the offering price announced by Take-Two.



Future Challenges

Although being accretive to Take-Two's shareholders on an EPS basis, the transaction has a risk of not realizing the USD 500 m revenue synergies guidance. As Barclays points out in an investor note, top-line synergies will be binary in nature in the sense that using Zynga's expertise as a vehicle to launch a successful GTA mobile title might prove to be fruitful or a terrible mistake.

Rodrigo Baltazar
Investment Banking Division

M&A: Top Deals

Microsoft Corp to Acquire Activision Blizzard

Microsoft Corp (MSFT) has announced to acquire Activision Blizzard Inc (ATVI) through an all-cash offer for USD 95.0 per share, a 45% premium to the closing price on January 17th. Adjusted for net cash, MSFT is buying the business for USD 68.7 bn resulting in a valuation of around 17x 2022 EV/EBITDA. The accretive transaction is expected to close by June 2023.

Buyer vs Seller

ATVI is a leading game developer and interactive entertainment content publisher. It owns video game franchises such as Call of Duty, Warcraft, Diablo and Candy Crush. MSFT, the multinational technology corporation produces consumer electronics, software as well as video games for its computer and Xbox consoles such as Halo, Minecraft, Fallout and Gears of War. Goldman Sachs acted as financial advisors to MSFT while Allen & Company advised ATVI.

Industry Overview

The global video gaming industry is valued at USD 173.7 bn in 2021 and is expected to grow by 9.64% CAGR p.a. until 2027. Main drivers include lockdowns due to Covid-19 and people more frequently staying at home which is fuelling the mobile gaming market. The transaction was announced after the Take-Two Interactive-Zynga deal (USD 11.2 bn) and prior to the Sony-Bungie deal (USD 3.6 bn), continuing market consolidation with an expected deal volume of USD 150.0 bn in 2022.

Peers	Currency	Market Cap (CUR m)
Electronic Arts Inc	USD	37,517.33
ROBLOX Corp	USD	38,122.12
Take-Two Interactive Software	USD	18,833.07
Skillz Inc	USD	1,962.73
Zynga Inc	USD	10,160.05

Deal Rationale

Gaming is the largest and most rapidly growing sub sector of entertainment with approx. 3 bn global gamers today (4.5 bn by 2030), primarily fuelled by the popularity amongst the younger generation. With the closing of the transaction, MSFT would become the world's third-largest gaming company by revenue behind Tencent and Sony. The deal enhances MSFT's position in mobile games, expands its already sweeping position in the emerging metaverse, provides new games and 400 m monthly active users to include in its Xbox Game Pass subscription program, and allows to pull popular games away from rival PlayStation.

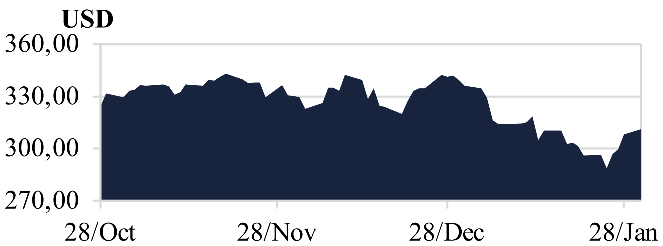
Market Reaction

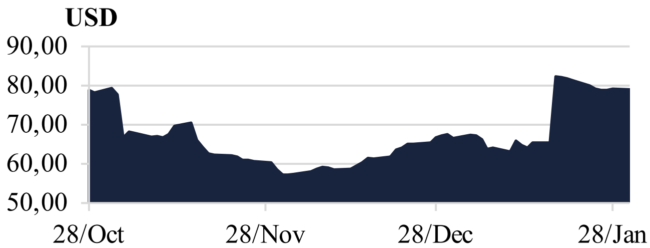
Microsoft Corp

After the official announcement of the transaction on Jan 18th, MSFT's share price dropped by 2.42%, fearing antitrust scrutiny, still recovering to pre-deal levels by end of January.

Activision Blizzard Inc

Shares have soared 37% in premarket trading upon the announcement of the deal (+25.87% by EOD). Yet, the market is only pricing in a 60% probability of the deal succeeding.





Future Challenges

The transaction is contingent on customary closing conditions and requires the completion of a regulatory review as well as Activision Blizzard's shareholder approval. Nevertheless, the deal has already been approved by the boards of directors of both Microsoft and Activision Blizzard.

Mats Lützenkirchen
Investment Banking Division

M&A: Top Deals

Pearson Plc to Acquire Credly Inc

The British education company Pearson announced the acquisition of Credly for USD 140.0 m, in an all-cash deal, valuing the company at USD 200.0 m. Pearson is a long-term investor and partner in Credly as it already held a 20% stake since 2018 in the company. Credly was sold to a consortium led by City & Guilds of London institute. The deal was completed on January 31st.

Buyer vs Seller

Pearson Plc is a long-standing player in providing educational products and services to institutions, governments, and individual learners across the globe. Pearson currently serves 75 million learners, with the goal to increase that number to 200 m, by 2025. Credly is the market leader in digital credentialing, building programs of skill progression and promoting career development. AGC Partners acted as an advisor for the target and Pearson was advised by K&L Gates LLP.

Industry Overview

The education sector has seen a spike in M&A activity before the pandemic, specially led by PE firms (eg. Ardian/Study Group and Providence/TES Global deals). Now, the focus is on the segment of workforce, and a market valued at USD 400.0 bn. The rise of fast-growing startups has been a contributing factor to this phenomenon. In the case of Credly, its revenues, in 2021, increased 47% YoY to USD 13.3 m, resulting in a revenue CAGR (19-21) of 42%.

Peers	Currency	Market Cap (CUR m)
salesforce.com Inc	USD	228,638.20
Workday Inc	USD	63,185.00
Veeva Systems Inc	USD	36,611.25
Guidewire Software Inc	USD	8,547.41
Open Text Corp	CAD	16,479.89

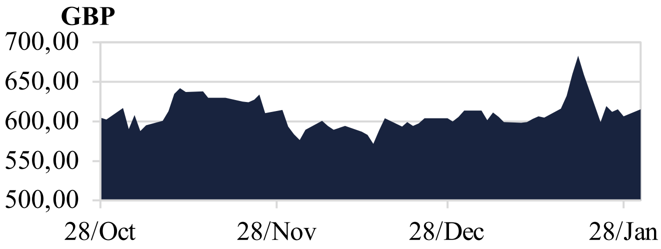
Deal Rationale

The acquisition of Credly intends to build connectivity across the entire company's portfolio, by strengthening its positioning in the global workforce skills sector. In 2021, Pearson bought AI and analytics group Faethm, which spots skills gaps for organizations. Credly complements this recent acquisition to create a more holistic and dynamic learning journey – identifying skills needs, providing learning services to address those, and offering trusted credentialing. Additionally, this move combines Credly's operations with Pearson's global scale, learning expertise and financial strength.

Market Reaction

Pearson Plc

The company has just released its Q4 2021 results before the acquisition, which were considered to be disappointing. There was little movement after the acquisition announcement.



Credly Inc

Credly is a private company, founded in 2012 by Jonathan Finkelstein. It hosts the largest and most-connected digital credential network in the world. Last year, it received Deloitte Technology Fast 500 Award, acknowledging its fast growth in the technology industry. Currently, the company only operated in the US.

After the acquisition, the full Credly team, including Finkelstein, will join Pearson and the company will continue to do business as usual under its new ownership structure.

Future Challenges

Fitch Ratings does not foresee any integration difficulties in the acquisition and Pearson's strong balance sheet and net cash position is considered to be at a comfortable range for the company. However, there is market uncertainty regarding the expected cash flow generation of the long-term strategy of Pearson.

Irina Pereira
Investment Banking Division

What Happened To

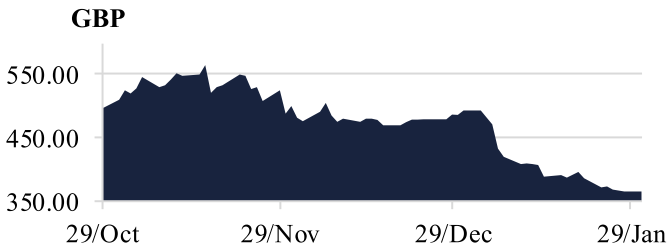
Bridgepoint Group Plc

Bridgepoint is a UK-based quoted private equity firm specializing in principal sectors including business services, consumer, healthcare, advanced industrials and technology. With roughly EUR 30.0 bn AUM, the investor focusses on mid-market businesses valued between EUR 250 m to EUR 1.5 bn. The group employs c. 180 investment professionals in 10 offices globally.

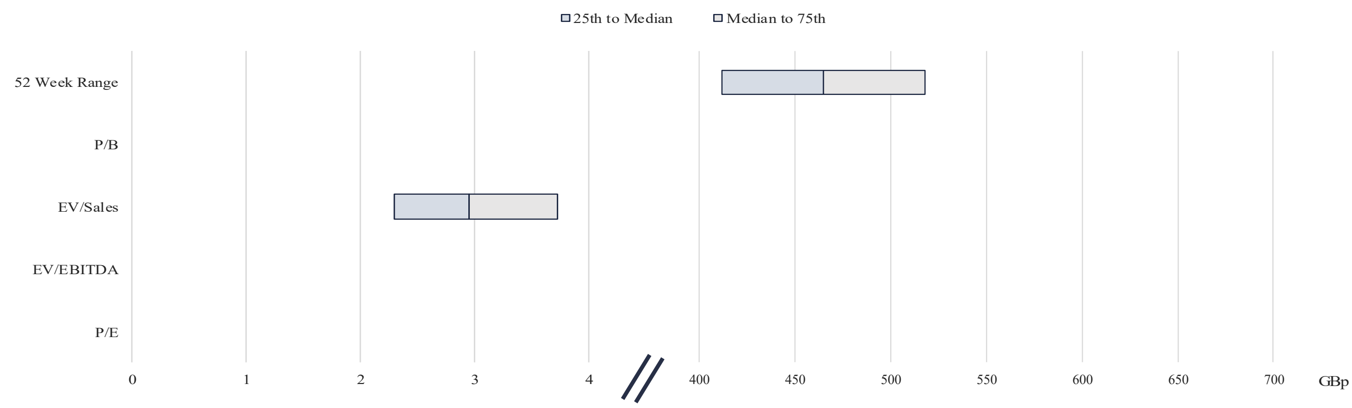
Corporate News

With its IPO in July 2021, Bridgepoint joined in the recent wave of private equity firms seeking access to public equity capital markets. Bridgepoint's decision to follow 3i Group and ICG as leading UK-based quoted investment firm, was rooted in a recognition that, "as private markets mature, access to capital to drive that maturity becomes crucial", said executive William Jackson. Following the IPO, Bridgepoint's share price opened at GBP 437.0 valuing the company at over GBP 3.5 bn. However, shares in Bridgepoint have fallen 24% since the beginning of this year. This might be rooted in debt capital markets remaining very strong which continues to fuel competition for assets. Valuations are therefore reaching all-time highs on a quarterly basis. Further, large amounts of dry powder increases competition among investment firms. It remains unclear if Bridgepoint can continue to find profitable investment opportunities and deliver returns to its shareholders.

Price (31 Jan 22, GBP)	364.50
Target Price (GBp)	565.00
3M Performance	-26.51%
Market Cap (GBp m)	3,000.81
Enterprise Value (GBp m)	3,089.52
**Target Price is for 12 months*	



Valuation Analysis



The median price since IPO is around GBP 460.0. Bridgepoint's share, however, plummeted this year to GBP 364.0 at the end of trading on Monday 31st of January following uncertainties about the European fiscal economic environment. Nonetheless, Bridgepoint remains confident in its financial outlook for 2022, reporting strong performance of fund portfolios underpinned by strong realisations. In January 2022 the investment firm announced the divestment of two key European portfolio companies.

A common phenomenon in the private market space is the desire for large balance sheets. "The market is consolidating and the larger platforms are getting larger," said M. Arougheti, chief executive of Ares Management. In line with this trend, Bridgepoint expanded its credit business by acquiring EQT credit. This acquisition increased the firm's total assets under management by roughly 48% in 2021 reaching EUR 29.2 bn.

Peers	Currency	Market Cap (Cur m)
Molten Ventures PLC	GBp	1,124.55
Urban Logistics REIT PLC	GBp	835.40
Intermediate Capital Group PLC	GBp	5,426.07
Industrials REIT Ltd	ZAr	11,221.88
Tikehau Capital SCA	EUR	4,076.15

Darryl Karberg
Investment Banking Division

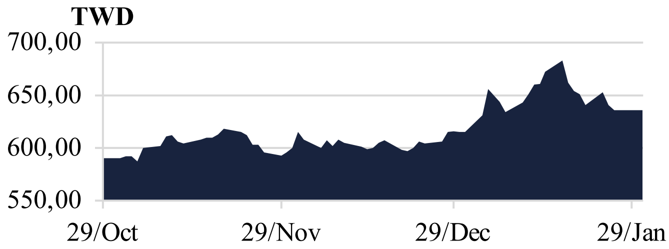
What Happened To
Taiwan Semiconductor Manufacturing Company, Ltd

TSMC is a Taiwanese semiconductor, wafer, and silicon manufacturer. With a market share of over 50%, TSMC is the global market leader in the semiconductor industry. The firm supplies to more than 500 customers, including Apple and Intel. TSMC has factories in China, Taiwan, and the US and has 60,000 employees globally.

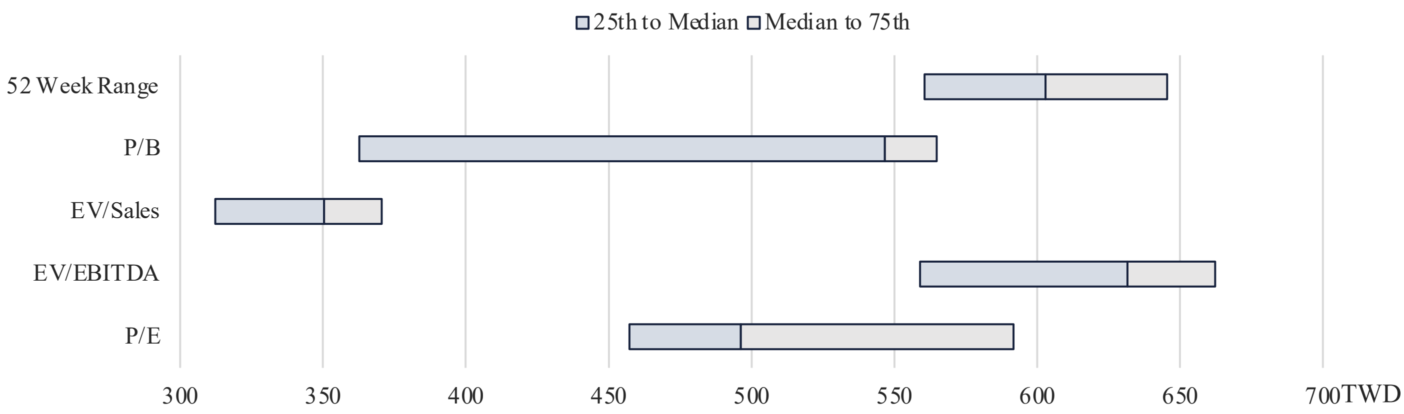
Corporate News

TSMC's shares are up 3.41% YTD. Currently trading at TWD 636, with a target price of TWD 836.90 and a 52-week price range of TWD 688 – 518, TSMC is set up for solid growth in the coming years and is currently a dominant player in the semiconductor industry. TSMC's quarterly profits are up 16.40% to TWD 166.0 bn. The global chip shortage has been exacerbated by the unexpected demand for tech tools needed for home offices caused by the pandemic, together with logistics disruptions and global manufacturing. TSMC benefited from the situation, raising prices and requiring customers to pre-pay to secure capacity. The strong demand and full capacity utilization drove TSMC's gross margin to 52.70% in Q4 2021. Responding to the world's insatiable appetite for semiconductors, TSMC plans to increase capital expenditure from US 30.0 bn to US 44.0 bn. It plans to expand its production capacity and hire about 8,000 employees.

Price (31 Jan 22, TWD)	**636.00**
Target Price (TWD)	836.90
3M Performance	7.80%
Market Cap (TWD m)	16,491,721.97
Enterprise Value (TWD m)	16,035,272.97
**Target Price is for 12 months*	



Valuation Analysis



Based on the comparable analysis, the P/B ratio indicates that TSMC might be overvalued, which is confirmed by the high EV/EBITDA ratio. Moreover, the EV/Sales shows that there is a large amount of enterprise value generated for every dollar of revenue compared to peers. Finally, the relatively low P/E ratio indicates a favorable price for current earnings. The high valuation is due to the chip supply chain shortage and the strengthening of TSMC's market-leading position.

TSMC outpaced Intel and Samsung over Apple's demand chips. To preserve Taiwan's leading position in the chip supply chain, the government planned to invest NT 300.0 m in R&D and talent development. The pandemic is not over yet, and the industry stays at risk, as the Chinese ambassador to Washington warned that the US and China could end up at war over Taiwan's independence.

Peers	**Currency**	**Market Cap** (Cur m)
United Microelectronics Corp	TWD	715,290.09
Win Semiconductors Corp	TWD	142,244.08
Vanguard International Semicon	TWD	213,887.19
Advantest Corp	JPY	1,909,619.48
Tokyo Electron Ltd	JPY	8,604,153.16

Margaux Richard de Foucaud
Investment Banking Division

NIC's View On

Hawkish Fed Meeting Fallout & Effects On Financial Markets

David Silva
Investment Banking Division

"[Inflation] has not gotten better. It has probably gotten a bit worse ... To the extent that situation deteriorates further, our policy will have to reflect that. [...] This is going to be a year in which we move steadily away from the very highly accommodative monetary policy we put in place to deal with the economic effects of the pandemic"

– Jerome H. Powell, Chairman Federal Reserve

The Federal Reserve has three tools to steer monetary policy – open market operations, the interest rate, and reserve requirements. Using the three tools, the Fed influences the demand and supply balances that depository institutions hold at the Federal Reserve and alters the federal funds rate.

The Federal Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and four of the remaining eleven Reserve Bank presidents. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions to determine the appropriate stance of monetary policy and assesses the risks to its long-run goals of price stability and sustainable economic growth.

At its December 2021 meeting, the FOMC decided to double the pace of tapering by announcing that it would gradually taper its quantitative easing (QE) bond purchases. Given the rampant inflation, the market was already expecting an end of QE and the shutdown of the Fed's tapering program. However, the Fed has decided to rapidly shift to quantitative tightening suggesting that it is willing to slow down economic growth to stabilise inflation. In fact, with the economy regaining all of its lost output, inflation running at its highest rate since 1982, and the U.S. unemployment rate dropping below 4%, Chairman Jerome Powell announced, on the 26th of January 2022 FOMC, that it will soon be appropriate to raise the target range for the federal funds rate and that there's a substantial amount of shrinkage in the balance sheet to be done.

As one could imagine there is a specific party that is not thrilled about the Fed's newfound hawkishness: investors.

After rising through much of the pandemic, reaching an all-time high on the 3rd of January, the stock market has tumbled in recent weeks. The sell-off pushed the S&P 500 stock index several times into correction territory this month. The S&P 500 index ended the month down by more than 5 %, its worst monthly performance since March 2020, and its biggest January decline since 2009. Moreover, right after the announcement, capital markets did not see a significant initial reaction as markets were already fully pricing in, a March rate hike, and expecting three further moves during 2022. Markets were significantly jittery with polarized investors' opinions on adapting to such circumstances. Some investors are worried about entering a bearish market; thus, we expect some investors to hedge against volatility and review their risk tolerance while rebalancing their portfolios regularly. Contrarily, only ten times in the past two decades has the Chicago Board Options Exchange Volatility Index, better known as the VIX, risen for that many trading sessions in a row. According to Bloomberg, investors who shorted the gauge after the previous nine streaks of that length would have earned a return of nearly 19% after 20 days. Thus, seven straight jumps in the "fear gauge" for the S&P 500 signals that it may be time to wager against volatility if history is any guide.

Date	Recent News
27 Jan 22	Fed likely to hike rates in March as Powell vows sustained inflation fight ***Source:*** *reuters.com*
26 Jan 22	Federal Reserve issues FOMC statement ***Source:*** *federalreserve.gov*
05 Jan 22	Fed warns faster rate rises may be needed to tame soaring inflation ***Source:*** *ft.com*
15 Dec 21	Federal Reserve issues FOMC statement ***Source:*** *federalreserve.gov*

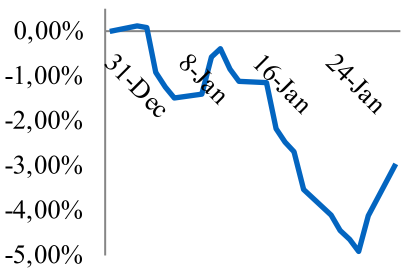
David Silva
Investment Banking Division

NIC Fund

NIC Fund

Portfolio Overview

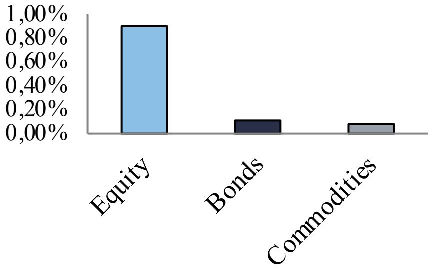
NIC Fund Cumulative Return



Portfolio Statistics	
Cumulative Return	-2.95%
Annualized Return	-34.44%
Daily St. Dev	0.58%
Period St. Dev	2.66%
Annualized St. Dev	9.23%
Info Sharpe	-3.84
Skew (Daily)	0.66
Kurtosis (Daily)	0.03

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%

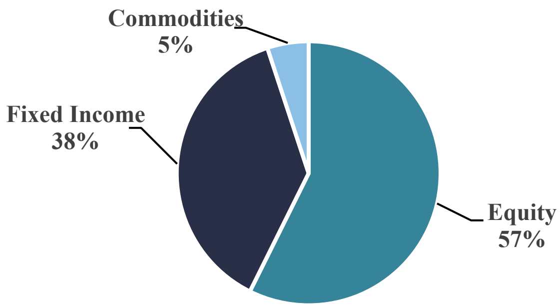
Individual VaR



Portfolio Snapshot

During January, 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. In comparison to the benchmark, the portfolio is overweight in Equities by 17% and underweight in Fixed Income and Commodities by 2% and 5%, respectively.

Markets in January were marked by volatility as investors considered the implications of the Fed's policies to combat inflation.



Return Metrics

The overall performance of the portfolio was negative, with a cumulative return of -2.95%. The best performers were Commodities, contributing with a positive return of 0.11%, although gold contributed negatively to January returns. Equities and Fixed Income contributed negatively to the portfolio, with a loss of -2.59% and -0,55% respectively.

In terms of Equities, besides holding a position in the S&P500, 23% of the overall portfolio was allocated to specific stocks from nine different industries. With a negative -12.21% return MTD, the Information Technology sector was the worst-performing sector of our portfolio, while the Energy sector performed best with a return of 26.42% MTD.

Communication Services contributed positively to the portfolio return at 0.20%. This is largely attributable to a positive MTD performance of Zynga Inc. Stocks in the Information Technology sector on the other hand decreased the return by -0.68%, despite positive MTD performances of Mastercard Inc. and Visa Inc.

Risk Metrics

In terms of risk, our portfolio registered a daily VaR of 0.84%, taking into consideration the benefits of diversification. This metric is significantly below the maximum established threshold of 2.50%.

Equities were the asset class with the highest individual VaR, which was around 0.86%. On the other hand, Bonds and Commodities considerably lower VaRs of 0.15% and 0.08% respectively.

Lisa-Marie Perchtold
Financial Markets Division

NIC Fund

Assets in Brief

Asset Class	Symbol	Comments
US Equity	**ZNGA**	Our position in Zynga Inc has performed positively in January 2022. The stock has returned nearly 42% since the beginning of the year. The market expects the company to deliver a YoY increase in earnings once it announces its numbers for 2021. Furthermore, Take-Two Interactive Software has announced its intentions to acquire all of Zynga's outstanding shares in a deal that values the company at USD 12.7 bn. The two companies plan to combine forces to become a bigger player in video gaming.
US Equity	**EOG**	EOG Resources Inc saw more than 26% returns in January. The company, like many of its peers amongst the upstream oil and gas stocks, benefited from increased oil and gas prices. 98% of the company's reserves are located within the US, therefore an uptick in the benchmark oil and gas prices benefits the company. Furthermore, New Mexico’s Oil Conservation Division approved 63 drilling permits for the company.
US Equity	**TRUP**	The company has posted the worst returns in our portfolio during the previous month. The company returned -27.86% since the start of the year. The company is expected to announce quarterly sales in excess of USD 193.0 m. This would indicate a YoY growth rate of more than 35%.
EU Equity	**SEM**	Purchased at our January 3rd Investment Committee Meeting, Semperit AG looks poised for growth. The developer and producer of specialized rubber products for the industrial and medical sector benefits from a well diversified portfolio and stable revenues. It is a small cap stock with a positive outlook that continues to benefit from the high demand for hygienic equipment, caused by the ongoing pandemic.
US Equity	**MA**	Mastercard has exceeded quarterly profit expectations. The company reported strong end-of-year earnings and benefited from an uptick in international travel. Mastercard is currently working with platforms to launch crypto cards in Asia. In addition to that the company is scaling its B2B efforts.
Equity	**VPN ETF**	This ETF seeks to invest in companies that operate data center REITs and other digital infrastructure supporting the growth of communication networks. VPN contributed negatively to the fund's overall performance. Tech stocks were some of the hardest hit in January, as investors feared higher rates would raise operating costs. Investors reassessed the valuations of tech companies in their portfolios. However, at the end of the month, Tech stocks started to recover.
US Treasury Bonds	**SHY ETF**	Our benchmark bond index, IEI invests in treasuries with maturities from 1-3 years. Despite the rising inflation and rate hikes expected as early as March 2022 with more to follow later in the year, the yield curve has been flattening. The ETF has contributed -0.69% MTD to the funds returns.
Commodity	**AAAU**	AAAU seeks to reflect the performance of the price of gold less the expenses of the Trust's operations. The ETF contributed negatively to our fund’s January performance as gold prices suffered as investors expect interest rate hikes by the Fed. Rising rates increase the opportunity cost of holding non-yielding bullion.
Commodity	**DBC ETF**	Our primary commodities index, DBC tracks a basket of 14 commodities. The ETF had a positive performance over the last month, mainly driven by high demand for products in all sectors as the economy recovers from the pandemic. Energy prices are at the highest level since 2014, while non-energy prices are the strongest since 2011. Oil prices in particular have risen due to escalating tensions in Ukraine.

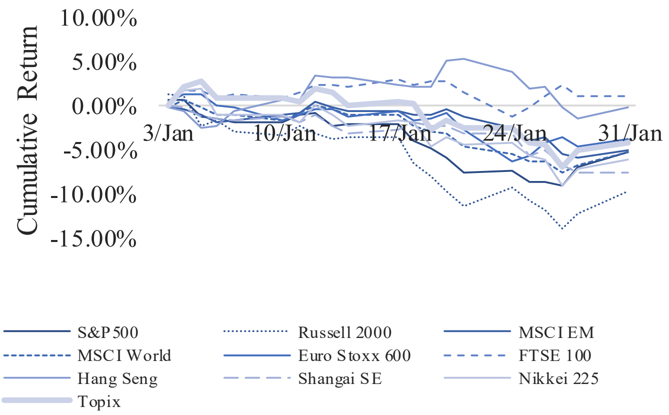
Lisa-Marie Perchtold
Financial Markets Division

NIC Fund

Equities

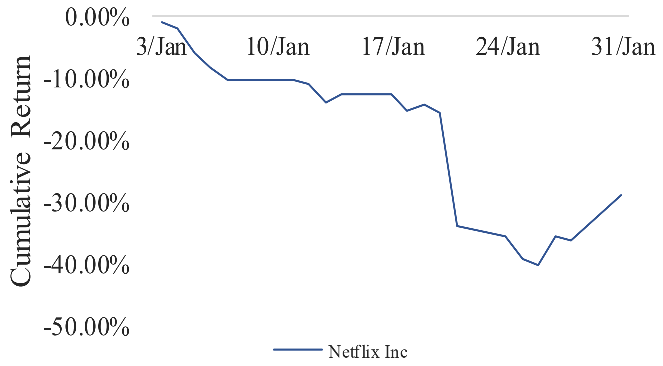
World Equities

Global equities were affected by a major market correction, which resulted in the worst month for the S&P 500 since March 2020. On a MTD basis, the S&P recorded -7.01%. The Russel 2000 has a even weaker performance of -9.66% MTD. While US equities suffered most, the Euro Stoxx 600 index was down by -3.88%. However, the FTSE 100 recorded a positive performance of 1.08% MTD. This can be explained by the quick recovery after the index was down on 24th of January 2022. Within seven days, the index increased by 167 points, reaching almost beginning of January levels. Equities in Asia had a similarly negative performance in January, with Japan's Topix index returning -4.27% MoM, Hong Kong's Hang Seng being down by -7.65% and China's Shanghai SE Index being down by 7.65% MoM. Similarly to US stocks, Asian equities were affected by the market correction following the continuous upwards trend during the pandemic.



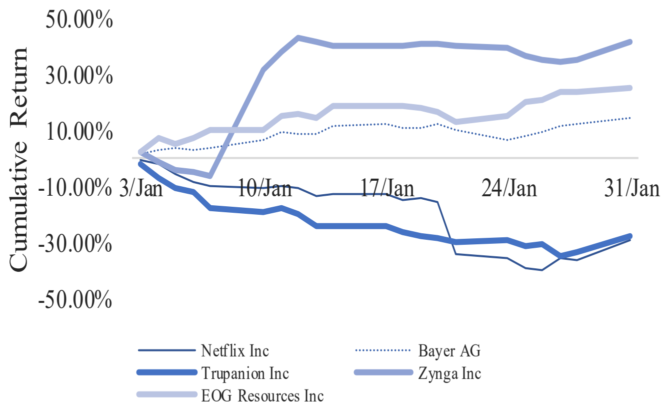
In Depth: Netflix

Netflix's stock price is down -29.10% MTD. Considering the past three month, the shares decreased by 40%. This decline is attributed to a subscriber slowdown, which is considered a key valuation factor within this industry. Analysts suggest to value the business based on financial results rather than subscriber growth. Long-term earnings are predicted to grow at a double digit rate with further expansion into international markets. Taking into consideration that Netflix stock has been up 2,500% since 2012, while the S&P 500 increased by 228%, this current stock price decrease can be an interesting buying opportunity. If stocks were bought on 26th of January, one would already have a return of USD 27.0 per share.



Our Performance

In January, the overall portfolio performance was negative, with equities contributing –2.59% to the cumulative return. While most stocks in the portfolio have a negative MTD return, Zynga Incorporation recorded an extraordinary performance of 41.70%. The online game maker's shares increased significantly on 7th of January after it agreed to be acquired by the video game maker Take-Two Interactive. EOG Resources and Bayer AG both contributed positively to our portfolio performance with MTD returns of 25.50% and 11.92%, respectively. However, Trupanion Incorporation was one of the companies with the worst performance. The stock price has been decreasing since mid-December 2021. While the industry increased by 26.30% YoY, the company lost 16.70%. In January, we added the Austrian company Semperit AG to our portfolio.

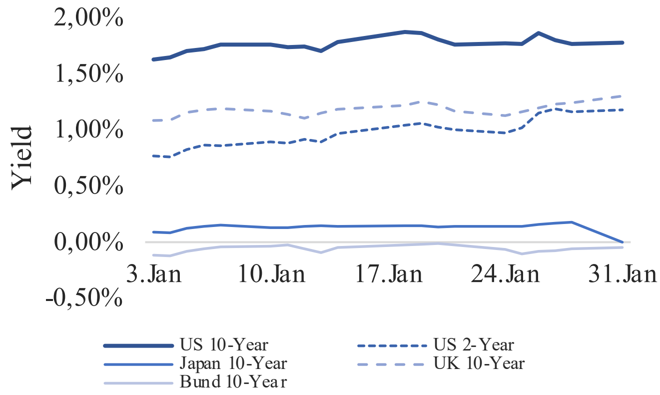


Frauke Lührs
Financial Markets Division

NIC Fund
Fixed Income

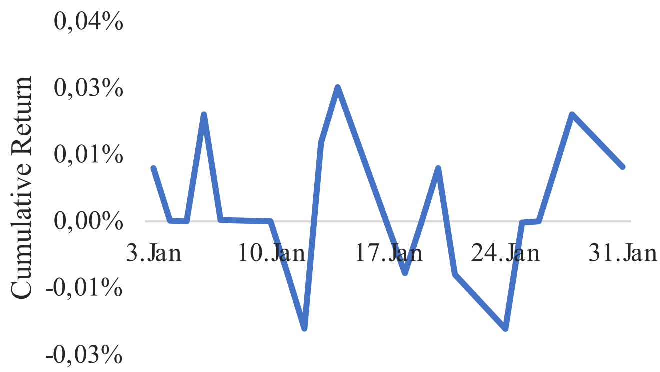
World Yields

In January, the 10-Year yield of US treasuries surged to a 2-year high of around 1.87% before pulling slightly back at the end of the month to 1.77%. All in all, the 10-Year treasury yield still featured a substantial increase of 17.65% MTD, laying out a structural trend for fixed income markets across the board. Investors are preparing for five rate hikes, that are expected in March onwards, after signals in the Fed's meeting in January. This rate hike and fears of a potentially quicker winding down of the central bank's balance sheet, compared to the last cycle, are based on strong recovery numbers by the job market, rampant inflation in the US and the subsiding fear of the Omicron variant. An additional factor influencing US yields in January was the Russia-Ukraine conflict, spurring the demand for perceived as safe perceived US bonds. Largely driven by the same factors mentioned above, the 2-Year US treasury yield also significantly increased to 1.17% from 0.76% in December. The UK 10-Year government yield also increased by 34% MTD to 1.30% at the end of January, mainly fueled by the fact that the BOE is expected to impose the first back-to-back interest rate hike since 2004. The British Central Bank is grappling with the highest inflation numbers in thirty years and a strong recovery of the labor market. Anticipating monetary tightening, the Japanese 10-Year JGB yield rose as high as 0.18%, for the first time in the past six years, fueled by expectations that Japan's Central Bank may be swayed away from its negative interest policy. Yields on their German counterparts, have turned positive for the first time since May 2019 in January, ending the month positively with a 0.01% yield, mainly driven by record-setting 5% Eurozone inflation and a slower than expected rate of asset purchases by the ECB.



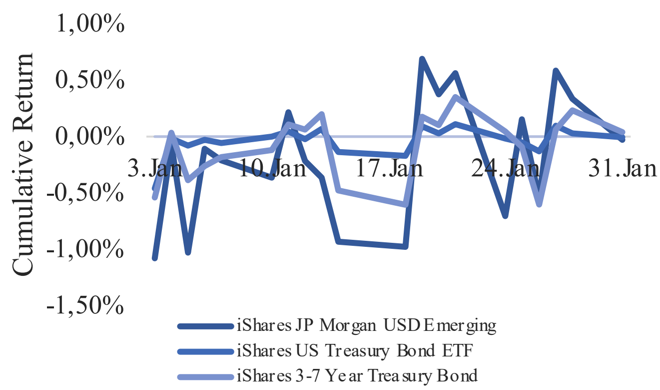
In Depth: Floating Rate Bond ETF

Floating rate notes set themselves apart from fixed-rate counterparts by featuring a variable coupon, resetting periodically with prevailing interest rates. This allows investors to benefit from higher short term interest rates through higher coupons, capitalizing on market changes. VanEck's Investment Grade Floating Rate ETF (FLTR) provides exposure to US Dollar denominated floating rate notes, having been issued by corporate issuers and rated investment grade. Even though compared to fixed-rate counterparts floating rate notes pay less, in environments of economic tightening they offer an attractive investment that rises in unison with the benchmark rates set by the FED.



Our Performance

Our benchmark fund for fixed income, the IEI ETF, tracking 3-7-Year US Treasury Bonds, had a negative return of -0.07% MTD. Fixed income contributed negatively to our portfolio in January with a -0.55% MTD return.



Felix Mitterer
Financial Markets Division

NIC Fund

Commodities

January Round-Up

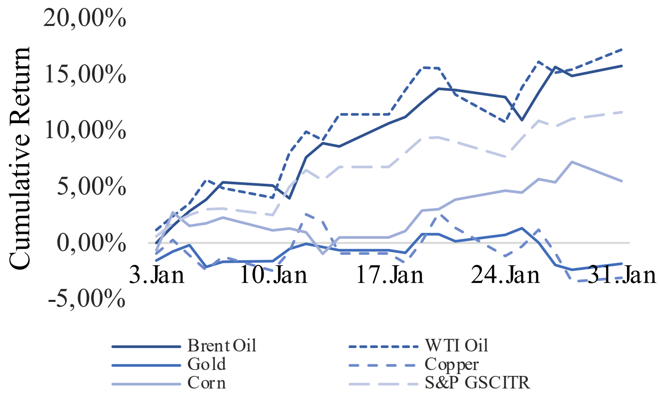
For the month of January, oil prices had their strongest January performance in at least 30 years, as global supply struggles to keep up with rebounding demand. In fact, Brent Oil, the WTI Oil and the S&P GSCI Total return index, which tracks 24 commodities (heavy on energy), rose 17.27%, 17.21% and 11.63%, respectively, this month. The winter storm on the U.S. East Coast has pushed fuel demand higher in recent days, and geopolitical concerns also continue to support oil prices. The Russia-Ukraine crisis is still bringing a risk premium to energy prices amid fears of disruptions of supply. Since in case Russia invades Ukraine, the West would impose sanctions on Moscow. Another geopolitical flare-up is in the Middle East, where the United Arab Emirates reported a third attack this month, following a deadly attack with drones from the Iran-aligned Houthis two weeks ago and intercepted missiles last week. Meanwhile, OPEC+ is meeting next week to decide production levels for March, while the market is wondering about the extent to which the alliance can actually increase output. Another winner in January was Corn, with a return of 5.52%. On the contrary, Gold performed badly last month, with a negative return of -1.84%, as U.S. Treasury yields edged up with the Federal Reserve likely to raise interest rates in March. Additionally, Copper prices decreased during January as well, returning a loss of -3.11%.

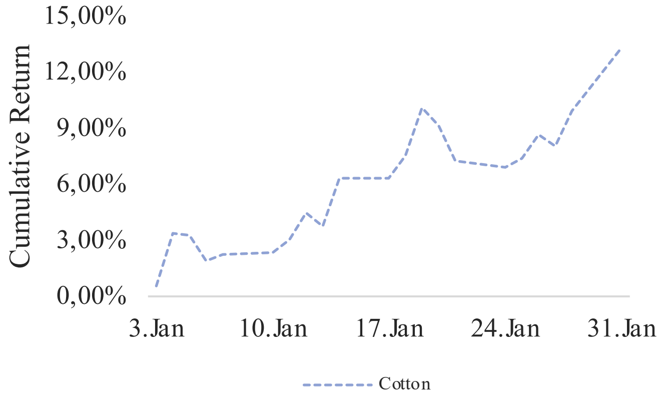
Outlook for February

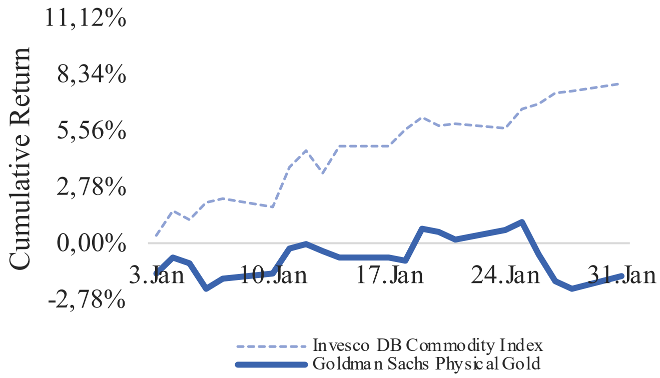
Gold held on to gains in the first days of February, recovering after a sharp drop. Fed officials stressed that they want to avoid unnecessary disruptions to the US economy as they prepare to start raising interest rates, suggesting little appetite for an aggressive 50 basis point move in March. The market will have a close eye on the US jobs report for January, for clues on the trajectory for inflation. As for oil prices, these are expected to continue rising, given the lower-than-expected Covid-19 hit and the persistence of the geopolitical tensions taking place at this moment. Moreover, the cotton industry, which usually has a significant growth around this time of the year, is set to grow even more this year as the Omicron variant impacts diminish and demand increases. A good way to get exposure to this commodity is through the iPath Bloomberg Cotton Subindex Total Return ETN, which follows the Bloomberg Cotton Subindex Total Return, delivering returns through an unleveraged investment in the futures contracts on cotton. This commodity presented a return of 13.20% this month and is expected to peak in April.

Our Performance

During December, the Powershares DB Commodity Index returned 7.89% while the SPDR Gold Shares Index returned a loss of -1.62%, leading to an overall return of 0.11%.







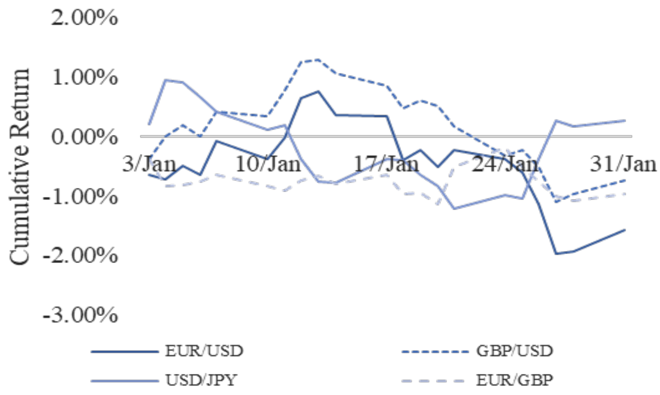
João Vaz
Financial Markets Division

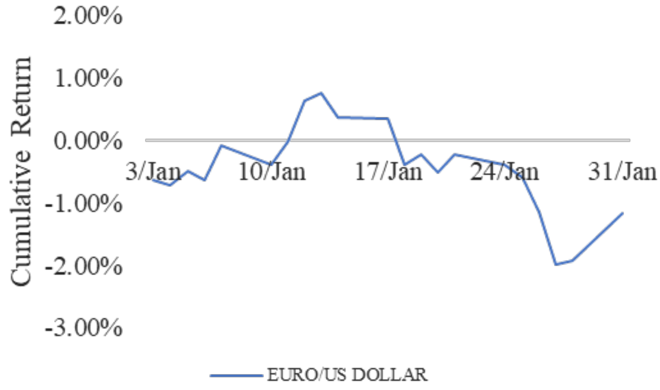
NIC Fund

Currencies

World Currencies

The Euro lost 1.57% against the US Dollar in January after the Federal Reserve signalled on 26th of January that it intends to raise interest rates as early as March 2022. One of the main drivers of the monthly downturn was the monetary policy decision of the central banks after which the US dollar surged to its highest level in 18 months. While the US Federal Reserve is anticipated to move forward with an aggressive monetary policy tightening in 2022, the European Central Bank is likely to maintain its wait-and-see stance. In comparison to the Fed and the US economy, the ECB and the Eurozone economy are still lagging in terms of the cycle, inflation, wages and labour market tightness. After the news concerning rate hikes by the Fed in 2022, leading to a dip in the currency pair, the Euro found support with the US dollar softening. The British Pound is currently trading around its strongest level in almost two years against the Euro. The recent rise was propelled by expectations that the Bank of England's tightening cycle would far outpace the ECB's process. On the 3rd of February, the BoE decided to raise interest rates for the second time in 2022 to 0.5%. The US dollar gained 0.25% relative to the Japanese Yen in January, driven by worsening Covid-19 conditions in Japan as escalating numbers of Covid-19 cases Tokyo are pushing the government to announce the virus-led emergency for the second time.





In Depth

The Euro has weakened against the US dollar already since the beginning of 2021 from approximately USD 1.23 to its current exchange rate of USD 1.12, pressured by a stronger US Dollar and rising US treasury yields as investors are positioning themselves for higher interest rates in the United States. However, the US dollar represents not the only currency, the Euro slipped against in recent months. One main driver for the weak currency performance is the decision-making of the European Central Bank and its stand towards inflation in the eurozone. Already in December, Christine Lagarde discussed with the Frankfurt European Banking Congress, pointing out that the ECB would not be rushing into a "premature" monetary tightening, as Lagarge considers the currently high inflation figures to be fading over the medium term. Since the medium term is the horizon that matters for monetary policy, the central bank needed to be "persistent" in its monetary policy in order to return to the ECB's target inflation rate of 2%. Lagarde justified her view by pointing out that inflation stemmed from supply-side issues and a surge in energy prices, which is expected to slow the pace of the recovery in the near term. Despite Eurozone inflation reaching a new multi-decade high of 5% in December, Lagarde mentioned it is unlikely that the ECB will increase interest rates in upcoming months, which will continue to put downward pressure on the Euro.

Our Performance

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

Raphael Northoff
Financial Markets Division

Hot Topic

Weighing the Trade-offs of the Energy Transition

Nicolas Gomez
Financial Markets Division

"In the energy transition, you cannot have your cake and eat it, too"

– Javier Blas, Opinion Columnist, Bloomberg

There is little disagreement about the importance of ensuring an energy transition away from fossil fuels towards renewable energy in order to avert an otherwise inevitable climate crisis. However, the word transition generally evokes the impression of a smooth and seamless change of state. The energy transition, on the other hand, is so far proving to be anything but. Policy-makers must ensure that they are taking the necessary steps for this transition to net-zero not to have unintended consequences for the most vulnerable groups in our society.

Global energy prices experienced extreme volatility towards the end of 2021. Brent crude futures shot up to over USD 90.0 per barrel in January 2022, their highest level since 2014. Meanwhile, coal futures were trading at around USD 225.0 per tonne by the end of January, more than 5 times their price level in September 2020. Even more dramatically, UK natural gas prices peaked at more than 450 pence a therm in December 2021, a more than 6-fold increase over their January 2021 levels.

It must be noted that environmental considerations were one among many of the causes cited for the current energy crunch. Analysts have also pointed to the rapid resurgence of energy demand post-Covid, extreme weather events, supply chain disruptions, poor regional and global stockpiling, and stepped-up safety checks at Chinese coal mines. Nevertheless, there is also the sense that renewables have not been able to keep up with the growing energy gap that has formed as we move away from fossil fuels, leaving too little slack in the world's energy system and making it vulnerable to unexpected supply shocks.

Capital spending on upstream oil and gas resources decreased by about USD 260.0 bn (44%) from 2015 to 2020. In 2020 and 2021 the global upstream capital expenditures averaged USD 320.0-350.0 bn, roughly 25% short of what is needed to hold production steady at 100 MMb/d. Investment decisions to build coal-fired power projects have declined approximately 80% since 2015 from a level equivalent to over 90 GW to less than 20 GW in power generation.

Global investments in renewables have only increased by USD 51.0 bn (17%) from 2015 to 2020, according to the IEA. Costs and productivity levels of renewable energy sources have also increased, however, meaning that renewable energy generation has increased by just over 1.5 GW (93%). Yet this increase is from a relatively small base; fossil fuels still represent 84.30% of global energy consumption, whereas wind and solar only represent 3.30%.

Some argue that the increases in energy prices are by design – after all, they provide the incentive to make investments in renewables and to begin to move down production cost curves. However, such a laissez-faire policy is highly regressive and would disproportionately harm the working class through higher prices for heating, travel, and food. For example, the recent increases in gas prices in the UK are estimated to leave 1 in 10 people unable to afford consistent heat and electricity. In September 2021, more than half of India's coal-fired plants had less than 2-3 days of coal supplies, a frighteningly low level given the country relies on coal for roughly 70% of its energy generation.

Given the complexity of global energy markets, and the inelastic nature of supply and demand, as we move away from fossil fuels, governments may want to consider ensuring there is enough slack in the system as a way of providing a margin of safety to protect against unintended consequences.

Nicolas Gomez
Financial Markets Division

Extras

Hot Topic

Strategic Realignment of Private Equity Groups

Roman Bauer
Investment Banking Division

"The market is consolidating and the larger platforms are getting larger."

– Michael Arougheti, Chief Executive, Ares Management

The year of 2021 was an outstanding year for global buyout firms as low-interest rates facilitated an ongoing increase in deal activity. As the entire private equity industry is maturing, access to capital to maintain that level of maturity is becoming even more relevant. Hence, buyout groups profited from favourable market conditions with generous valuations in public listings. Amid the ongoing pandemic, a cohort of the most prominent players, gained USD 240.0 bn in market capitalization, drawing just the beginning of a new wave of private equity floatings. But what is it that motivates private equity groups to make their private business less private?

Until early 2021, investors of listed private equity firms mainly benefitted from performance fees earned through the buyout group´s transactions. The first private equity IPOs of heavyweights such as Blackstone, KKR, and Carlyle sold a claim on almost half of their performance fees. However, the latest IPOs helped group executives take their firms public at high valuations while retaining the vast majority of lucrative performance fees for themselves. Assuming KKR paid 40% of management and performance-based fees to its employees until early 2021, the firm is now contributing 70% of the performance fees to the firm´s employees, hence, changing the stake public shareholders receive.

However, investors benefit from the reform as they are attracted by management fees, typically a 2% charge, that becomes more attractive when firms accumulate more assets. Boosted by high valuations, private equity IPOs are heavily in fashion as San Francisco-based buyout group TPG relished a 15% stock price appreciation on its first day of trading. Concerning future stock market debuts, it can be expected that further listings are happening as Europe-based buyout groups are also in conversations with advisers to go public.

Amid IPO activities, debt placements can also be considered a strategic step towards maturity and growth. Record numbers of over USD 9 bn were raised during 2021 through discrete debt placements by industry giants such as Warburg Pincus, Vista Equity Partners, and Bain Capital. Historically, private equity firms have taken loans against a target company to finance the majority of an acquisition.
Thus, private debt placements on the buyout firms themselves mark an interesting shift in their growth strategies. Capital received through these issuances is used to finance the firm´s own funds, facilitate company growth or pay dividends to partners. Moreover, debt placements come with tax advantages and no dilution of ownership.

Amid the low-interest practice of central banks, debt placements come in handy for buyout groups as they can borrow debt for a decade at c. 3% to invest in deals generating an estimated average return of 16% annually. On the other side, investors are willing to lend on advantageous terms with minimal covenants.

Ultimately, strategic steps from buyout groups to fund future growth, whether through stock or debt placements, are heavily influenced by monetary policy changes. Contemplating above-average inflation data and the Fed´s December meeting minutes, investors and analysts anticipate server actions from the central bank. Consequently, changes in the interest rate level would undoubtedly affect private equity activities, whether the financing of deals with borrowed debt or valuations of buyout groups intending to float.

Roman Bauer
Investment Banking Division

Extras

ESG Review

ESG - A Joint Effort to Reach Net Zero

Felix Mitterer
Financial Markets Division

"While climate change and the transition towards a low carbon society are very complex issues, seeking to reduce the carbon footprint of your investment is a step we all can take today."

– Christophe Girondel, Global Head of Institutional and Wholesale Distribution, Nordea Asset Management

ESG-focused investment strategies were developed in the 1960s in response to the growing recognition of climate change, unjust treatment of stakeholders by corporations and unfairly skewed corporate governance practices. Nowadays, with growing institutional awareness on the aforementioned topics, the ESG investment strategies have enjoyed an inexorably increasing interest. Nordea Asset Management's ESG STARS Strategies have recently celebrated their tenth anniversary, offering a good opportunity for a closer look into ESG investment strategies.

The steadily growing popularity of ESG investment strategies is imminent especially amidst institutional investors. According to PricewaterhouseCoopers, almost 60% of mutual fund assets will follow ESG approaches by 2025. Allocation towards sustainable investment strategies is strongly on the uptick, with institutions such as the Japanese government investment fund, and the Dutch pension fund strongly expanding. A study conducted by the London Stock Exchange, found that 84% of institutional asset owners globally were implementing or evaluating sustainable investment strategies in 2021, up from 53% in 2018. Also, inflows towards ESG strategies surged in 2021, with global sustainable fund assets doubling in the months to September 2021, reaching USD 3.9 tn, according to Morningstar. This substantial shift towards sustainability is catalyzed by strong performance of ESG strategies in the past years. In 2020, Morningstar demonstrated that six out of ten sustainable funds delivered higher returns than equivalent conventional funds over the past decade, contributing to the success of this investment approach. In this context Nordea's ESG STARS range just celebrated its 10th anniversary, building on the belief that integrating environmental, societal, and governance considerations helps to identify the top performers of tomorrow. In this fund range, Nordea manages over EUR 17.5 bn, both in equity as well as in bond strategies. Through active management, alpha is generated in this ever more important field, building on bottom-up fundamental research through the direct collaboration of ESG analysts and portfolio managers. Within the ESG STARS products, ESG is not just treated as an overlay, but rather a portfolio driver, enabling them to identify tomorrow's sustainable corporate leaders and generate alpha even in the most efficient markets. Many years experience of ESG investing in equities enabled Nordea to become a pioneer in ESG investing in fixed income markets.

A fundamental component of Nordea's ESG approach, especially in bond markets, is to consider the environmental impact of their investments. In the fight to curb deforestation in the Amazon, in 2019 Nordea suspended the purchase of Brazilian sovereign bonds for Emerging STARS Bond strategy and rolled this out to include all their internally managed Emerging Market debt strategies. In an effort to support companies that follow an ESG approach, Nordea invested in Suzano, a Brazil-based paper and pulp company, that came up with a structure of issuing carbon-linked bonds. This essentially means if Suzano does not reduce its emissions, it will have to pay a higher coupon. Clearly, by investing in Nordea's ESG STAR strategies, investors can benefit from decarbonization while also generating alpha.

To conclude, Nordea's ESG STARS Strategies offer an attractive option to invest sustainably, bearing in mind the environmental, social, and governance implications of asset allocation. 10 years after their inception, their strategies not only offer alpha due to their rigorous active management but also allow for returns in a sustainable way.

Felix Mitterer
Financial Markets Division

Thank you!

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

Our team:

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

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

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