NIC

— Nova Investment Club —

Newsletter

March 2022

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, David Silva, elaborates on the current economic environment. Moreover, in our Regional View, Yan Afonso Souza, discusses the obstacles of Bangladesh's economic development.

Our Investment Banking Division will guide you through February's overall M&A activity. Read about Oxford Instruments receiving a takeover offer from Spectric, the potential combination of HealthCare Trust of America and HealthCare Realty Trust, and Intel Corp acquiring Tower Semiconductor. Additionally, get a detailed overview on what happened to Gazprom and RWE AG, and read our opinion on a potential Porsche IPO.

Our Financial Markets Division will present the monthly results of the NIC Fund, an active relative return fund investing across three different asset classes: Equities, Fixed Income, and Commodities. The analysts will also provide commentary on each of the four major asset classes through analysis of the past month's major market moves. The overall performance of the NIC Fund in February was slightly negative, with a cumulative return of -1.52%. A loss that can be mainly attributed to Equities.

On the Hot Topics of this month, Raphael Northoff discusses the potential "Stagflation" in times of geopolitical tensions, while Mats Lützenkirchen, elaborates on the private equity's ESG paradigm shift. Lastly, on our ESG review in collaboration with Nordea, Eric Pedersen, Head of Responsible Investment at Nordea Asset Management discusses why ESG investors must not exclude climate-crucial mining companies.

NIC
—Nova Investment Club—

Macro Overview

Monthly
March 7th, 2022

Deeper Dive

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Market Moves

% change

	Last Close	-1W	-3M	YTD
S&P 500	4,374	0.58%	-4.23%	-8.23%
DJIA	33,893	-0.55%	-1.71%	-6.73%
Nasdaq	13,751	1.50%	-11.50%	-12.10%
MSCI World	3,537	-0.45%	-2.53%	-6.37%
MSCI EM	4,461	-2.09%	-2.43%	-4.08%
Russell 2000	2,048	1.93%	-6.86%	-8.78%
Euro Stoxx 50	3,924	-1.54%	-3.42%	-8.71%
FTSE 100	7,458	-0.35%	5.65%	1.00%
Nikkei 225	26,527	-1.43%	-4.65%	-7.87%
Hang Seng	22,713	-6.03%	-3.25%	-2.93%
Dollar Index	96.71	0.65%	0.74%	1.08%
EUR/USD	1.122	-0.81%	-1.05%	-1.33%
GBP/EUR	1.196%	-0.54%	1.96%	0.57%
GBP/USD	1.342%	-1.34%	0.91%	-0.83%
USD/JPY	115.000	0.23%	1.62%	-0.07%
USD/CHF	0.92	0.10%	-0.23%	0.43%
Brent Crude	100.990	5.87%	43.11%	29.84%
Gold	1,900.7	0.11%	7.17%	3.94%

Generic Bond Yields

change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	1.825%	-10.4	38.1	31.5
GER 10Y Yield	0.135%	-7.1	48.4	31.2
JPY 10Y Yield	0.192%	-2.1	13.5	12.1
UK 10Y Yield	1.410%	0.2	60.1	43.9
PT 10Y Yield	0.998%	-12.2	66.8	53.3

**Source: Bloomberg, as of 2022-02-28*

In Focus

February

Russia's full-scale invasion of Ukraine has sparked turmoil in global financial markets. European banks were particularly hard hit by the event due to their higher exposure to Russia. Shares of Italy's UniCredit and France's Société Générale, which both have consumer banking operations in Russia, have fallen by more than 30% since their peaks in February. Although markets had partially anticipated the event, it appears in hindsight that certain parts of the markets were not fully pricing in a full-scale invasion. The iShares MSCI Russia ADR/GDR index is down close to 75% since Russia launched its invasion of Ukraine.

A list of retaliatory actions have been taken against Russia by Western governments and their corporate counterparts. The measures employed by the US, EU, and UK include freezing the assets of important Russian politicians and oligarchs; removing selected Russian banks from SWIFT; cutting Russian companies' access to financial markets, and restricting transfers of technology, among others. On the corporate side, energy giants BP, Shell, Exxon Mobil, and Equinor announced that they would begin to divest their operations in Russia. Major international brands such as Apple, Nike, and Boeing also announced the halting of their operations in the country.

Commodity prices hit multi-year highs in February as the invasion of Ukraine continues to contribute to shortages in already tight global commodity markets. Russia is a major exporter of a range of commodities including aluminum, nickel, palladium, oil and gas. Ukraine is also a key exporter of agricultural products, together with Russia, it accounts for a quarter of global wheat exports and a fifth of corn sales. Sanctions, as well as the potential for output cuts from Russia in the event of further escalations, have sent the prices of these commodities to multi-year highs.

Investors have flocked to safe-haven assets as they focus more on the negative growth implications than the inflationary risks of the Ukraine conflict. The US dollar is rising versus most of its peers as investors seek the safety of dollar liquidity. Moves to freeze the assets of Russian banks and restrict their access to SWIFT have produced signs of funding strain in Eurodollar markets, as reflected by a widening gap between future Libor and Fed rates.

The ongoing developments in Ukraine have not yet deterred the Fed from sticking to its plans to hike rates in March. In a monetary policy hearing on Wednesday, the Federal Reserve Chairman Jerome Powell told the Financial Services Committee that he is "inclined to support a 25 basis point rate hike", in line with the Fed's prior plans. He cited an "extremely strong" labour market and a still "stimulative" federal funds rate as justification.

Emerging Markets are being shunned by investors as the Russia-Ukraine crisis has triggered so-called "risk-off" selling. The additional yield investors demand for holding EM debt over US Treasuries has risen by 0.37% to 4.50%, according to JP Morgan indexes. This has added to a long list of problems faced by Emerging Markets including high inflation, slowing growth, strained public finances, and rising interest rates in developed economies. A flight to safety could force Emerging Market central banks to increase interest rates to stem capital outflows, raising the cost of borrowing and increasing the debt burden at a time when rising global energy and food prices are squeezing household budgets.

Nicolas Gomez
Financial Markets Division

Deeper Dive

Shattered Hopes of a Strong Economic Recovery

David Silva
Investment Banking Division

"The expected easing of contact restrictions, together with the strong recovery in the labour market and elevated pipeline pressures have increased upside risks to inflation over the medium term. At the same time, the shock of war hanging over Europe has clouded the global outlook."

– Isabel Schnabel,
Executive Board Member,
European Central Bank

The world, which is still recovering from the COVID-19 recession, is now facing a new crisis: Russia's invasion of Ukraine. It appears to be Europe's most serious war since 1945. Russian bombardments and attacks forced civilians to flee the country and sparked nationwide resistance in Ukraine. The unfolding conflict shook financial markets, and geopolitical tensions engendering high inflation and supply chain bottlenecks. Stiff economic sanctions are hitting some of Russia's largest banks and wealthy individuals while cutting off western exports of advanced technologies and leaving Moscow increasingly isolated from the world. Aftershocks from the invasion have shattered the hopes of a robust global economic recovery and could worsen vulnerabilities of the current economy: high inflation and jittery financial markets.

Apart from Germany's Nord Stream 2 pipeline freeze, sanctions have steered clear of Russia's oil and gas sales to spare the energy industry. Energy prices are the main channel through which the Ukraine war has an immediate impact far from the frontlines. Russia supplies about half of the European Union gas and nearly a quarter of its oil, and prices have been climbing for months. Thus, official GDP growth projections are progressively being called into doubt. The latter will continue to increase the portion of household income dedicated to fuel and heating spending, leaving less available cash to spend. In addition, the Fed and the ECB may have to rethink their tightening monetary policy to manage energy prices and keep both economies growing.

Some of these consequences were captured by Bloomberg Economics in three scenarios that looked at how this conflict may affect growth, inflation, and monetary policy.

The first scenario assumed a rapid ceasefire, thus forecasting the prevention of a further upward spiral in commodity markets, keeping the United States and European economic recoveries on track. Other than scrapping their plans, central bankers would have to adjust them. This highly optimistic scenario assumes that the oil and gas supply will not be disrupted and that prices will remain stable at current levels. Hence, leading to a more conservative tightening monetary policy.

In the second scenario, a protracted conflict, a harsher Western response, and delays to Russia's oil and gas exports would result in a preponderant energy shock and an enormous hit to global markets. This would eventually lead to a material hit to GDP, taking ECB rate hikes off the table this year until 2023, while Fed tightening would slow down.

Finally, if the West imposes maximal sanctions on Russia, the third and worst-case outcome: Russia's complete gas flow shut off to Europe. Although it is a farfetched outcome, after stress tests, the ECB estimated that a 10% gas rationing shock could trim euro-area GDP by 0.70%. Scaling that figure up to 40% implies an economic hit of 3%. Given the upheaval that such a historic energy shortage will undoubtedly cause, the total amount might be far higher. That would mean recession and no ECB rate hikes in the foreseeable future. In the United States case, the latter would encompass significantly tighter financial conditions, a bigger hit to growth, and a markedly dovish Fed.

In a nutshell, the market reaction so far is a taste of what may be to come: oil and gas prices soaring, the cost of grains rising, and stock markets sharply down.

In closing, the global economic recovery is dependent on the solution to the quandary confronting Western leaders: How to put pressure on Moscow without strangling its oil and gas production?

David Silva
Investment Banking Division

Regional View

The Obstacles to the Fast-Growing Economy of Bangladesh

Yan Afonso Souza
Financial Markets Division

"The world has to share the responsibilities of the climate migrants who have been displaced due to the impacts of climate change like sea-level rise, river erosion, increasing salinity, floods and droughts"

– Sheikh Hasina,
Bangladeshi Prime Minister

Bangladesh has benefited from the trade conflict between the United States and China, as well as India's and China's ongoing economic conflict. The country's physical proximity to China, as well as their tremendous economic potential, suggest that in the next years, China will become an even more vital trade and development partner for Bangladesh. Another reason for China's interest in Bangladesh is to counterbalance Indian influence in the region, an effort which has mostly been successful thus far.

Another sign that Bangladesh's economy is rapidly expanding, is its GDP increase by 5.47% in the last fiscal year, exceeding government's expectations of a 5.43% increase. Despite the Covid-19 pandemic, the major improvements have been in the services and manufacturing sectors.

Bangladesh's export earnings have also seen strong improvement, registering a year-over-year growth of 31%. According to the Export Promotion Bureau (EPB), Bangladesh earned about USD 34.0 bn from July of 2021 to February of 2022, while the receipts during the same period in the last fiscal year amounted USD 26.0 bn. In February, garment shipments generated the greatest earnings of USD 3.5 bn, up 33.80% year on year. Woven goods brought in USD 1.8 bn, while knitwear items brought in USD 1.7 bn. Furthermore, the country is expected to become India's fourth largest importer this year, indicating its growth in purchase power capability.

On the other hand, the Russia-Ukraine conflict is likely to pose a threat to the country's exports. Every month Bangladesh might lose about USD 50.0 m in exports due to the war as 30 to 40 garment makers export apparel items directly to Russia. If the conflict expands across other European countries, Bangladesh's economy could be severely damaged.

Moreover, climate change is projected to seriously disrupt Bangladesh's economy, halting its progress and jeopardizing the country's safety and prosperity. The increase in global green house gas emissions have impacted temperatures worldwide, contributing to the increase in the intensity of rains and raising sea levels.

In Bangladesh, a country that is already dealing with the Rohingya crisis, in which thousands of refugees migrated to its capital, global warming is contributing to a massive internal migratory issue. Hundreds of thousands of Bangladesh's coastal population are being forced to migrate to urban slums as large seaside areas are being washed away. As a result, social and economic issues are arising due to the high population density in urban areas.

The majority of those fleeing dangerous coastal areas seek opportunities in one of the world's fastest growing and densely populated megacities, Dhaka. The city is seen as Bangladesh's economic powerhouse, but it is also plagued by extreme poverty, public health problems, human trafficking, and other dangers, including its own flood insecurity.

To illustrate, over the last decade, an average of 700,000 Bangladeshis were displaced annually from their own homes due to natural disasters. Out of that number, 400,000 low-income migrants arrived in Dhaka, further accentuating the city's social problems. According to a World Bank report, the number of Bangladeshis displaced by the varied impacts of climate change could reach 13.3 million by 2050.

In conclusion, Bangladesh's economy has been growing rapidly in the last decade. However, the current conflict in Eastern Europe and the growing natural disasters caused by global warming are substantial threats to further economic development of the country and the safety of its population. Therefore, the country is urging that all nations raise their climate ambitions and fulfill their climate action target promises.

Yan Afonso Souza
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

26th OPEC Meeting

The 26th OPEC and non-OPEC Meeting will take place on the **2nd** of March. Driven by geopolitical tensions in Eastern Europe, oil prices have been soaring. OPEC+ has not announced a change of its current plans to increase oil output by 400,000 barrels per day in March.

South Korean Presidential Election

The presidential of South Korea will take place on the **9th** of March. The two main candidates are Lee Jae-myung of the ruling Democratic Party (DP) and Yoon Seok-youl of the People Power Party (PPP). Current president Moon Jae-in will run again.

European Council Summit

On March **24th** and **25th**, Brussels will host the summit of European Union leaders. The main topics will include Covid-19, the Russia-Ukrianie conflict, and security and defence.

Central Bank Decisions

Bank of Canada Interest Rate Meeting

The Canadian Central Bank is meeting on the **2nd** of March to discuss where to set the interest rate. As Canada’s inflation rate hit a 30-year high of 5.10% in January, money markets are betting the Bank of Canada will increase rates to 0.50% from the current 0.25% level.

ECB Interest Rate Decision

The meeting of the Governing Council of the ECB will be held on the **10th** of March in Frankfurt. Although the Eurozone has seen record inflation, there is no action expected from the ECB. Christine Lagarde has announced that inflation is still seen as transitory.

Fed Monetary Policy Decision

The FOMC holds its monetary policy meeting on the **15th and 16th** of March. Economists believe the Fed will raise interest rates by 0.25%. During their last meeting in February, the policy making FOMC decided not to raise interest rates but strongly indicated a hike in March.

Inflation and Deflation

Update on Euro Zone Inflation

The YoY inflation level in the EU Zone will be announced on the **2nd** of March. It is predicted to fall to 4.40% from the 5% figure announced in January, despite the expected ECB’s decision to keep key interest rates unchanged.

Russia’s Inflation

February inflation data for Russia will be published on the **9th** of March. As the country invades Ukraine, inflation risk further increases. According to analysts, inflation in Russia is expected to hit 8.80%, its highest level since 2016.

Brazil Consumer Price Index

Brazil’s YoY figures on consumer prices will be available to the public on March **11th**. Inflation is forecasted to remain high at 10.39%, double its level in February last year, putting the pressure on the Central Bank to continue raising interest rates.

Labour Market

German Labour Market

Germany announces its unemployment data on the **2nd** of March. The job market had a good start of 2022 with the lowest unemployment rate since April 2020. Despite a rise in the number of Covid -19 cases in the country, the unemployment rate is expected to stay stable at 5.20%.

US Employment Readings

On the **4th** of March, the US ADP employment change for February will be announced. Despite last months’ decrease in private-sector employment, the labour market is expected to add around 300 k jobs and the unemployment rate in the US is forecasted to remain close to 4%.
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Euro Zone Employment Change

The Eurozone unemployment rate will be announced on the **3rd** of March. The overall unemployment rate is not expected to fall below 7%, as the Eurozone recovery is hitting a soft patch on the back of the Omicron variant.

Sara Ivackovic
Financial Markets Division

Investment Banking

M&A

Overall Activity

Global

The second month of 2022 was characterised by an abrupt change in circumstances worldwide. Central banks began raising the prospects of increased interest rates several times this year as the Eurozone dealt with a 5.10% increase in consumer prices and the U.S faced the fastest increase in prices in four decades. The scenario aggravated as Ukraine was invaded by the Russian military, sending oils prices above USD 105.0 per barrel which has furthered inflationary pressures whilst financial markets worldwide sold off because of the attacks. Although it remained stable, deal activity in the upcoming month shall be driven by interest rates and inflation expectations as well as the progression of the war in Eastern Europe. Globally, the financial services, including REITs, Real Estate and Banks were the segments with the highest level of dealmaking. The deals that marked the month were the acquisition of First Horizon by Canadian TD Bank for total compensation of USD 13.4 bn. Additionally, Intel Corp acquired Semi-conductor business Tower Semi-conductor Inc for a total value of USD 5.4 bn.

Selected Regions

North America

As the leading region for transaction activity, the North American region demonstrated its resilience towards interest rate expectations, fast inflation, and increased energy prices as it saw a 23% increase in activity with a volume of USD 271.1 bn, with an average EV/EBITDA of 12.1x. The leading target industries across the region were utilities with a 301% increase YoY and financials with 200%.

EMEA

In Europe, dealmaking activity declined by 38.7% YoY amongst conflicts in Ukraine. The total transaction volume of USD 118.7 bn, including an average EV/EBITDA of 16.5x. Financials was the industry with the highest activity recorded, as it had USD 52.3 bn of with an increase of 90% on a YoY basis. The Middle East & Africa, saw a sharp increase in activity 145% YoY with technology as the leading sector.

Asia

Asian Pacific markets have far been more reactive to U.S inflation data and the prospect of interest rate increase across the world than other geographies. The region saw an overall volume of USD 79.3 bn, a decline of 11% YoY with an average EV/EBITDA 9.3x. However, the leading sector for the region was the utilities sector which saw an increase in transaction activity of 283% on a YoY basis.

M&A

Deals of the Month

Announced Date	Target	Buyer	Target Region	Target Business	Value (USD m)	Premium (%)
08 Feb 22	AthenaHealth Group	Bain Capital Private Equity	US	Healthcare Services	17,000.00	-
15 Feb 22	Tower Semiconductor Ltd	Intel Corp	US	Semiconductors	5,370.51	54.80%
18 Feb 22	DuPont de Nemours	Celanese Corp	US	Materials	11,000.00	-
21 Feb 22	Hansongneotech Co Ltd	Alpha Holdings Inc	KOR	Textile	8,102.00	-
21 Feb 22	Lagardere SA	Vivendi SE	EU	Media	5,522.72	5.33%
22 Feb 22	TEGNA Inc	Standard General LP	US	Media	8,688.21	5.38%
23 Feb 22	Tenneco Inc	Apollo Global Management	US	Manufacturing	6,181.26	94%
24 Feb 22	South Jersey Industries Inc	J.P Morgan Investment Management	US	Energy	7,427.14	47.16%
28 Feb 22	First Horizon Corp	Toronto-Dominion Bank (TD Bank)	US	Financial Services	13,250.00	40.08%
28 Feb 22	Healthcare Trust of America	Healthcare Realty Trust Inc	US	Healthcare Services	10,009.95	-1.71%

Arsénio Renato Jr
Investment Banking Division

M&A: Top Deals

Oxford Instruments Receives Takeover Offer by Spectric

On the 28th of February, Oxford Instruments (OXIG) confirmed that it had received a takeover offer from Spectris (SXS). The non-binding offer of GBP 31.0 per share values the manufacturer at GBP 1.8 bn (USD 2.4 bn). The deal structure comprises GBP 19.5 in cash and GBP 11.5 of new stock implying a 35% premium to Oxford Instruments' three-month average share price.

Buyer vs Seller

OXIG, a UK-based manufacturer commercially spun-off in 1959 from Oxford University, specializes in technology instruments for industrial usage and scientific research areas. Its product range comprises X-Ray tubes, optical imaging, and microscopy tools. The acquirer, SXS, an FTSE 250 company, manufactures specialized sensors and testing equipment for markets such as scientific research, industrials, and pharmaceuticals and reports revenue of BP 1.3 bn for FY2021.

Industry Overview

The lasting global pandemic has raised even more awareness towards critical diseases. With that, long-term growth opportunities in the healthcare (manufacturing) space have accelerated at a significant pace. The UK remains the sixth-largest market for medical devices globally, the most prominent market in which Oxford Instruments and Spectris operate, recording constant double-digit growth since 2015 with an overall market value of GBP 12.0 bn.

Peers	Currency	Market Cap (CUR m)
Spectris PLC	GBP	2,855.92
Vaisala Oyj	EUR	1,532.16
Note AB	SEK	4,830.63
Hexagon AB	SEK	333,855.97
Halma PLC	GBP	9,096.30

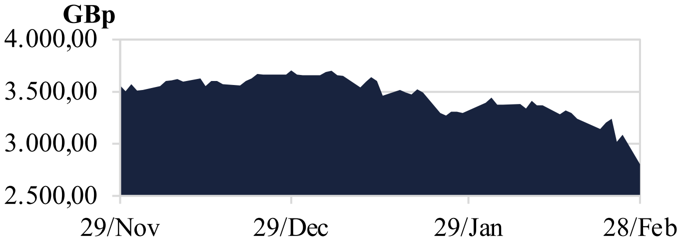
Deal Rationale

The proposed acquisition has a strategic and operational rationale as Oxford Instruments and Spectris have complementary businesses that could release significant synergy potential. Especially in the field of research & development and manufacturing, improvements in supply chains and consolidations of scientific departments promote immediate cost synergies. At the same time, the combined firms would build a UK champion in the high-tech instrumentation sector. After the acquisition, the company would create an FTSE 100 candidate with a combined market capitalization of c. GBP 4.5 bn.

Market Reaction

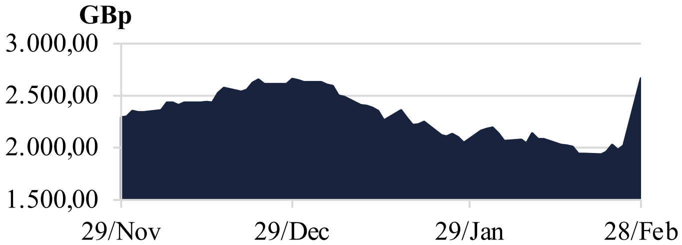
Spectris PLC

Commencing the announced offer on 28th February, shares in Spectris PLC recorded a decline of 9%, indicating a slightly gloomy market sentiment towards the acquisition.



Oxford Instruments PLC

Oxford Instruments shares surged by 30% following the bidding announcement, reflecting the considerable premium that comes with the offer.



Future Challenges

The strategic acquisition comes in a M&A-environment dominated by buyout groups, with plenty of dry powder, drive deal volume, particularly in the Tech and MedTech segment. Even though the board of Oxford Instruments has indicated to back the offer, the closing of the deal is conditional on confirmatory due diligence and debt financing.

Roman Bauer
Investment Banking Division

M&A: Top Deals

HealthCare Trust of America and HealthCare Realty Trust to Combine

HealthCare Trust of America (HTA) and Health Reality Trust (HR) announced to embark on a strategic merger on the 28th of February. Following the USD 18.0 bn deal, HTA shareholders will receive a total value of USD 35.08 per share consisting of a cash dividend of USD 4.8 per share and a transaction exchange ratio of 1:1 based on HR's price of USD 30.3 on the 24th of Feb.

Buyer vs Seller

HealthCare Reality Trust, is a real estate investment trust (REIT) that owns, manages, finances, and develops properties associated with the delivery of clinical and outpatient healthcare services throughout the United States with particular focus in the Seattle area. HealthCare Trust of America has a similar ownership structure and asset property consisting of medical office buildings, hospital and assisting living facilities. JP Morgan and Citi advised the former and the latter, respectively.

Industry Overview

US Healthcare REITs own healthcare infrastructure thus are exposed to the growing US Healthcare Market. From the USD 3.8 tn in 2019, the market is expected to reach 6.1 tn in 2028 with an implied 5% CAGR. Driving the expansion is the ever-increasing life expectancy of the western population following breakthroughs in disease prevention and resolution. Healthcare Real Estate is a high fixed cost space - where scale matters - thus M&A activity aims at merging capacity between players.

Peers	Currency	Market Cap (CUR m)
Omega Healthcare Investors Inc	USD	6,582.76
Healthcare Trust of America In	USD	6,852.48
Diversified Healthcare Trust	USD	652.46
Medical Properties Trust Inc	USD	12,097.42
Healthpeak Properties Inc	USD	16,583.60

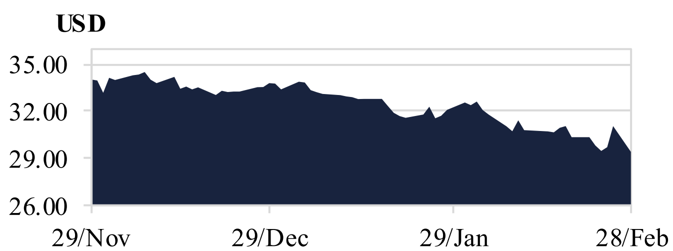
Deal Rationale

The transaction has strategic, operational and financial motives. Regarding the first, by joining forces the newly created entity will be the largest owner of healthcare real estate in the US with 44.3 m square foot and double the size of the second largest REIT. The transaction is also expected to deliver material cost synergies, associated with redundancy of corporate functions that should amount to USD 33.0 to 36.0 m within 12 months of closing. As for the financial motivations, the combined entity is prone to command better access to the capital markets and a stronger balance sheet.

Market Reaction

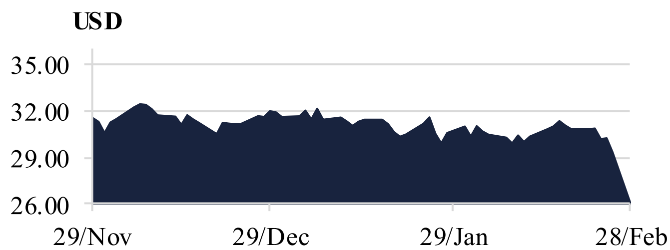
Healthcare Trust of America

HTA's shares fell 9% against the sector ETF XLRE fall of 4% which suggests the market perceived the transaction as destroying value at announcement date.



Healthcare Realty Trust

HR's share price decreased by 8% over the last three months pre-transaction. It decreased further after the announcement as the deal was perceived as undervalued.



Future Challenges

According to Fitch, the transaction does have scale benefits spanning its influence in better market positioning, operational synergies and better access to capital, however, the transaction will increase combined leverage with net debt to recurring EBITDA jumping to 6x from a historical 5x. Thus, it will be essential to prove to the market the new level of debt is sustainable.

Rodrigo Baltazar
Investment Banking Division

M&A: Top Deals

Intel Corp to Acquire Tower Semiconductor

Intel Corp (INTC) has announced to acquire Tower Semiconductor (TSEM) through an all-cash offer for USD 53.0 per share, a 60% premium to the closing price on the 14th of February. Adjusted for net cash, INTC is buying the business for USD 5.4 bn resulting in a valuation of around ~24.5x CY2022 P/E. The accretive transaction is expected to close within 12 months.

Buyer vs Seller

INTC designs, manufactures and sells computer components particularly microprocessors, chipsets, embedded processors and microcontrollers. TSEM is a leader in the USD 15.0 bn specialty foundry market and develops radio frequency, power, silicon germanium (SiGe), and industrial sensors with manufacturing locations in the US, Israel, Italy, and Japan. It generates revenues of USD ~1.5 bn and has 5,500 employees globally. Goldman Sachs acted as financial advisors to INTC, J.P Morgan advised TSEM.

Industry Overview

The addressable global foundry market is estimated at USD 72.3 bn, which grows at a CAGR of 7.20% until 2028, primarily driven by the increased emphasis on adoption of analytics, machine learning and automation and rising demand in 5G. However, the complex value chain of the industry will remain a future market constraint. Due to the high concentration of players in south-east Asia, this region reigns the market, despite North America high growth in recent years.

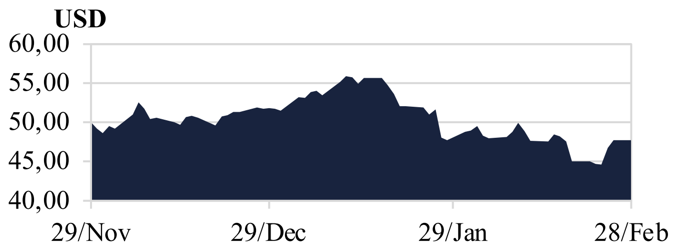
Peers	Currency	Market Cap (CUR m)
Nova Ltd	USD	3,132.83
CMC Materials Inc	USD	5,204.56
Amkor Technology Inc	USD	5,413.30
Allegro MicroSystems Inc	USD	5,292.90
Win Semiconductors Corp	TWD	131,220.69

Deal Rationale

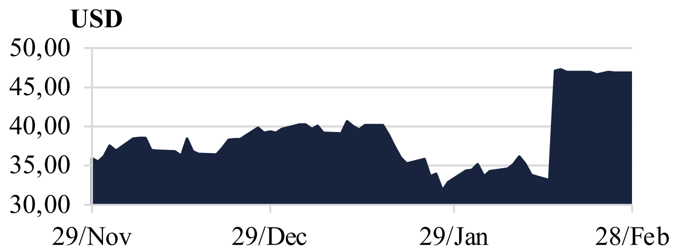
The accretive acquisition of TSEM will advance INTC's IDM 2.0 strategy laid out in March 2021, generating the base for its Intel Foundry Services (IFS) segment to catch up on the increasing global demand for semiconductor production capacity primarily in the US and Europe. TSEM itself has a highly specialized product portfolio, serving high-growth markets while operating in complementary geographies. Its deep customer relationship and service-oriented operations will assist INTC to become a key provider of foundry capacity worldwide, as INTC is as of today the only leading player with R&D and manufacturing in the US.

Market Reaction

Intel Corp
After the official announcement of the transaction on February 15th, INTC shares have increased by 1.81%, indicating investors enthusiasm.



Tower Semiconductor Ltd.
Shares have soared by 42.08% upon announcement of the deal compared to the pre-announcement trading price. Yet, the market is not pricing in the full price offered by INTC.



Future Challenges

The transaction has been approved by INTC and TSEM boards and is subject to certain regulatory approvals and customary closing conditions, including the approval of TSEM's shareholders. However, TSEM assets appear to be sub-scale given the lack of its historical growth and weak profitability. Additional risk arises from customers tending to move their chip design in-house.

Mats Lützenkirchen
Investment Banking Division

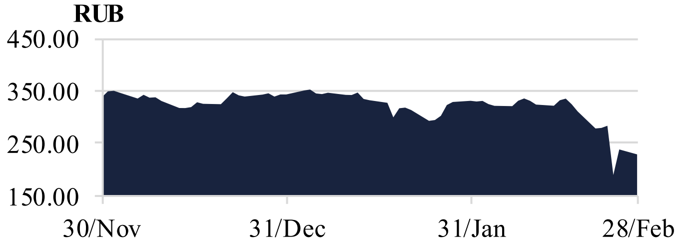
What Happened To
Gazprom

Gazprom is a Russian majority state-owned multinational energy corporation. It is one of the major gas suppliers to Europe, involved in its production and distribution, with a substantial amount of pipelines across this territory. It was also responsible for operating Nord Stream 2, an undersea pipeline, meant to ferry natural gas directly from Russia to northern Germany.

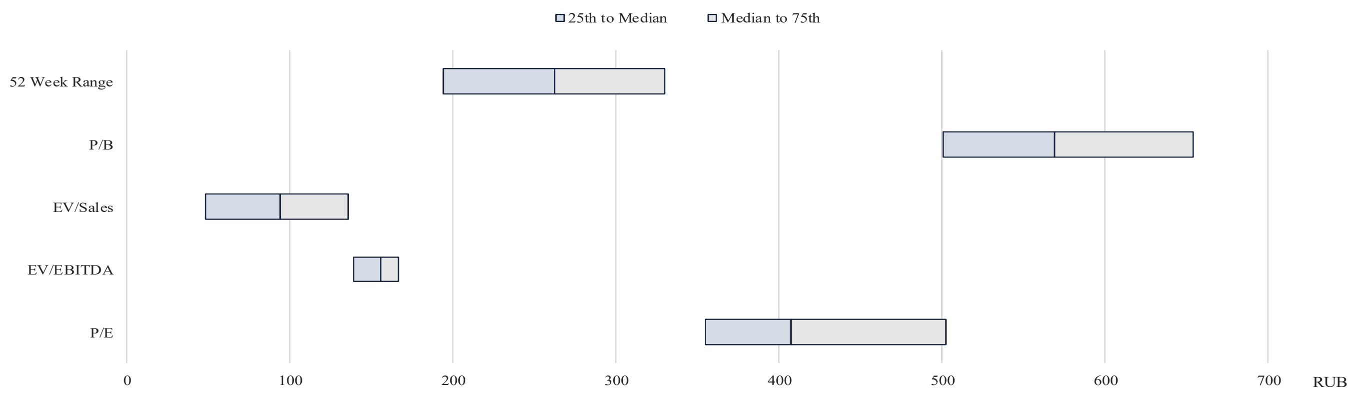
Corporate News

As the Russo-Ukrainian war unfolds, Gazprom has been a constant topic of debate. Historically, the company had mastered the balance between the Kremlin's and its own commercial interests. However, the current events have shifted the company's reputation and business plan. Note that proceeding the news on the attack, the company's share price dropped in one day 32% in the Russian Stock exchange and as much as 97% to USD 0.02 in the LSE. This unprecedented collapse plunged its market capitalization to USD 250.0 m, whereas in 2008, the company had famously claimed that it would reach a market cap of USD 1.0 tn. Nonetheless, its business model is, for many, considered bulletproof, as it relies on a monopoly on the high-margin export of piped natural gas to cross-subsidise cheap gas to Russians, showcasing an unsurprising mix of Europe's overdependence on gas and Russian politics.

Price (28 Feb 22, RUB)	**228.55**
Target Price (RUB)	464.00
3M Performance	-32.41%
Market Cap (RUB m)	5,410,581.37
Enterprise Value (RUB m)	8,819,643.37
**Target Price is for 12 months*	



Valuation Analysis



With revenues of RUB 8.7 tn in 2021, an EBIT of RUB 2.1 tn and a net margin of 21.75%. The stock hit its 52-week low on the 24th of February (RUB 189.1) and it is currently trading at RUB 228.0. Gazprom's enterprise value dropped by c. 30% YoY bringing the EV/EBITDA multiple to 2,75. In 2019, the firm announced a new dividend program estimated to reach 13-16% of its stock price. It remains uncertain if the company will be able to maintain their dividend level.

Around 40% of gas imports in Europe come from Russia. Therefore, most of Gazprom's competition comes from other Russian players, such as Novatek and Rosneft. Even so, considering its monopoly on exports and on the domestic pipeline grid, the control this company has over gas prices and amounts has been questioned as an anti-competitive practice. The claim suggested that Gazprom limits gas supplies at a time of increased demand.

Peers	Currency	Market Cap (Cur m)
Polskie Gornictwo Naftowe i Ga	PLN	39,535.23
KOC Holding AS	TRY	81,098.02
Tatneft PJSC	RUB	820,635.70
Rosneft Oil Co PJSC	RUB	3,267,418.22
LUKOIL PJSC	RUB	3,409,592.41

Irina Pereira
Investment Banking Division

What Happened To

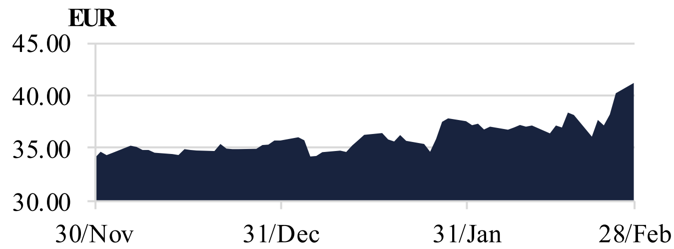
RWE AG

RWE AG is a Germany-based globally active energy company generating and trading electricity. RWE has a capacity of about 10 gigawatts based on renewable sources, as well as a gas fleet and an internationally active energy trading business. RWE is the second largest energy company in Germany and serves clients in Europe, Asia Pacific, and the United States.

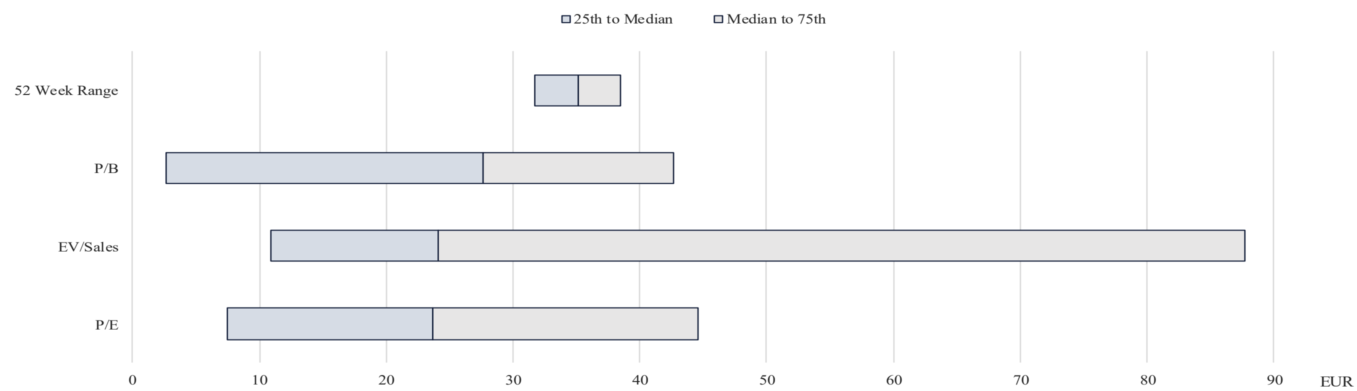
Corporate News

In the past 52 weeks RWE's shares traded between EUR 28.3 and EUR 41.8. The 52-week low was hit in July 2021 in response to announcements by the German government aiming to accelerate the phase out of brown coal mines. In the second half of 2021 RWE's shares experienced consistent increases in value driven by rising energy prices due to global energy supply shortages. From Thursday, the 24th to Monday the 28th of February RWE's shares gained almost 10% closing at 1-Year high of EUR 41.8. Following Russia's military invasion into Ukraine and the EU-wide imposition of sanctions towards Russian energy companies, investors anticipate favorable market conditions for European energy companies. The intensified tightening of global energy supply is most likely going to fuel prices which positively affects RWE's margins. Further, RWE's stock benefits from the German government reassessing the closure of brown coal mines.

Price (28 Feb 22, EUR)	36.01
Target Price (EUR)	45.00
3M Performance	5.79%
Market Cap (EUR m)	24,350.68
Enterprise Value (EUR m)	31,011.68
**Target Price is for 12 months*	



Valuation Analysis



The average RWE price target from different analysts is currently at EUR 45.6 indicating considerable upside potential for the stock. RWE's management has recently upward adjusted their earnings forecast. The firm expects to generate adj. EBITDA of between EUR 3.6 bn and EUR 4.0 bn at group level in 2022 - against a prior forecast range of EUR 3.3 - 3.6 bn. With a Price to Earnings ratio of c. 12 RWE's shares trades at significant discount to their peers.

Given the current market environment RWE's peers are similarly benefitting from increased demand and rising energy prices. EON SE, RWE's closest competitor and Germany's largest energy company, however, gained to a lesser degree. Demands of Poland's government to terminate Nord Stream 1 create uncertainty around EON's stock. Unlike EON, RWE is not involved in either of the two Nord Stream pipelines.

Peers	Currency	Market Cap (Cur m)
E.ON SE	EUR	27,865.91
REN - Redes Energeticas Nacion	EUR	1,724.69
National Grid PLC	GBp	40,378.51
Federal Grid Co Unified Energy	RUB	119,002.75
ROSSETI PJSC	RUB	131,107.09

Darryl Karberg
Investment Banking Division

NIC's View On

The Rocky Road of Porsche's IPO

Margaux Richard de Foucaud
Investment Banking Division

"An important step for the implementation of the NEW AUTO strategy. More personal responsibility and motivation for brands and brand groups, more resources for a powerful development of the new platform topics: battery, charging, software, autonomous driving, mobility services."

– Herbert Diess, Chairman of Volkswagen AG's Board of Management

On the 22nd February, Volkswagen AG officially announced that it was in advanced discussions with the majority shareholder of Porsche Automobil Holding SE (PAM) about a potential IPO of Porsche. However, both parties stressed that no agreement had been finalized yet. Following the announcement, shares of Volkswagen and Porsche holding surged by 9.21 % and 10.13 % respectively on the Frankfurt stock market, in a DAX dominated by the Russio-Ukrainian conflict.

Porsche Automobil Holding SE is a listed holding company founded in 2007, though most of its shares remain family-owned by the Porsche-Piech families. With a stake of 53.30% in the ordinary shares and 31.40% in the subscribed capital of Volkswagen AG, PAM is the largest single shareholder of the Wolfsburg-based automotive company. Volkswagen is one of the world's leading automobile manufacturers. The Group offers 12 brands, each having its own style, segmentation, and character, ranging from motorcycles to small cars and luxury or even commercial vehicles. Porsche AG became one of its most profitable departments. Indeed, Porsche accounts for a quarter of the Group's profits.

Volkswagen's primary rationale for the IPO is to fund the USD 100.0 bn plan to electrify its fleet of cars and accompany the energy transition by selling more than 50.00% of electric vehicles by 2030. Moreover, Volkswagen aims at raising its stock value, which has underperformed the European sector over the past 12 months and falls behind Tesla. Indeed, Volkswagen's extended structure of brands is seen as weighing on its valuation.

Arno Antlitz, CFO of Volkswagen Group, explains that this IPO would "increase agility and allow for more entrepreneurial freedom while the iconic brand continues to benefit from the synergies with Volkswagen AG in terms of industrial cooperation."

Assuming a Porsche valuation of EUR 90.0 bn, a current framework unveiled the possibility of splitting the brand's share capital into ordinary voting and non-voting preference shares. Hence, n of Porsche AG would be listed as preferred stock. Qatar's sovereign wealth fund already indicated its intention to become a strategic investor. Additionally, Porsche SE will acquire a further 25% of shares at a 7.50% premium on the flotation price plus one ordinary share, allowing the holding to take a direct stake in the luxury brand.

As Volkswagen expects proceeds of around EUR 23.0 bn, this would represent one of the largest IPOs in recent German history. Moreover, given Porsche's consistent high-profit margins, owning a direct stake in Porsche is appealing.

Goldman Sachs advised on the structure of the transaction. Nonetheless, a final decision is yet to be taken on whether to proceed with the IPO and remains subject to approval. Indeed, VW indicated that the actual feasibility of an IPO depends on "several different parameters as well as general market conditions." Russia's invasion of Ukraine represents a serious thread to this IPO. Indeed, this conflict sparks concerns of higher energy prices and shakes the DAX.

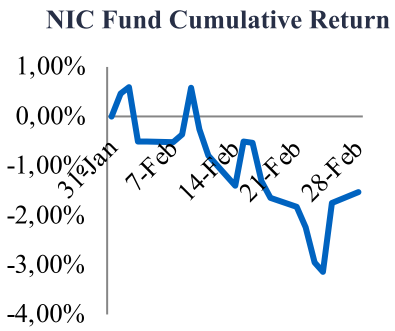
Date	Recent News
25 Feb 22	Porsche: on a winding road to its IPO. ***Source:*** *Ft.com*
25 Feb 22	VW to offer only non-voting shares to public. ***Source:*** *Ft.com*
25 Feb 22	Top shareholder strike framework deal for Porsche IPO. ***Source:*** *reuters.com*
22 Feb 22	The complex route to VW's planned Porsche IPO. ***Source:*** *Ft.com*

Margaux Richard de Foucaud
Investment Banking Division

NIC Fund

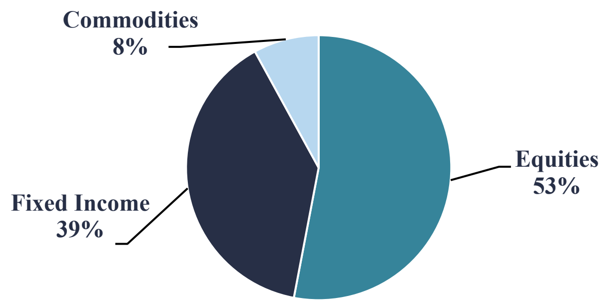
NIC Fund

Portfolio Overview



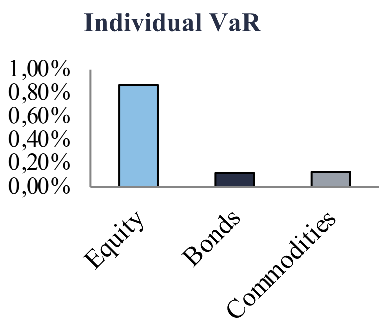
Portfolio Snapshot

During February, the NIC Fund remained invested in Equities, Fixed Income, and Commodities. Overall, 53% of our fund remained devoted to Equities, 39% to Fixed Income, and 8% to Commodities. In comparison to the benchmark, the portfolio is overweighted in Equities by 13% and underweighted in Fixed Income and Commodities by 1% and 2%, respectively.
Markets were volatile in February as investors still fear interest rate hikes. Moreover, the conflict between Russia and Ukraine led to higher volatility.



Portfolio Statistics	
Cumulative Return	-1.52%
Annualized Return	-18.28%
Daily St. Dev	0.70%
Period St. Dev	3.23%
Annualized St. Dev	11.19%
Info Sharpe	-1.63
Skew (Daily)	0.52
Kurtosis (Daily)	-0.73

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%



Return Metrics

The overall performance of the portfolio was negative, with a cumulative return of -1.52%. The best performers were Fixed Income and Commodities, contributing with positive returns of 0.22% and 0.15%, respectively. On the contrary, Equities contributed negatively to the portfolio, with a loss of -0.72%. In terms of equities, besides being invested in the S&P500, 21.42% of the overall portfolio was allocated to specific stocks from eight industries. With a negative -4.80% return MTD, the Information Technology sector was the worst-performing sector of in portfolio, while the Energy sector performed the best with a return of 1.30% MTD.
Although Industrials contributed negatively with -4.80% to the portfolio return, Northrop Grumman Corp. which we added in the last month, contributed positively with 3.16%. By selling Umicore, we are no longer exposed to the Materials sector. We decided to add Semperit AG, a leading manufacturer of user-specific molded and extrusion products made of rubber and plastic, and CompuGroup Medical, a leading provider of software for the healthcare sector.

Risk Metrics

In terms of risk, our portfolio registered a daily VaR of 0.85%, taking into consideration the benefits of diversification. This metric is significantly below the maximum established threshold of 2.5%.

Equities were the asset class with the highest individual VaR, which was around 0.87%. On the other hand, Bonds and Commodities had considerably lower VaRs of 0.12% and 0.13% respectively.

Simon Hoffmann
Financial Markets Division

NIC Fund
Assets in Brief

Asset Class	Symbol	Comments
US Equity	**NOC**	Purchased at our February 1st Investment Committee Meeting, Northrop Grumman Corp. performed positively with an overall return of 3.16% MTD. The firm is specialized in developing products for the defense, space, aeronautics and cyberspace sector. In light of increased spending in those sectors due to the Russia Ukraine conflict, the stock increased in value.
EU Equity	**CMPVF**	CompuGroup Medical was purchased at our Investment Committee Meeting on February 14th. The company is market leader in Europe for developing software solutions in the healthcare sector. It operates worldwide, with most of the revenues coming from Europe and the US. In light of massive outflows out of healthcare funds, the stock lost in value with a negative return of -2.81% MTD.
EU Equity	**BNPQF**	BNP Paribas, our biggest position in the Financial sector, with an overall weight in the portfolio of 0.96%, suffered under recently imposed sanction from the EU on Russian banks. Several Russian banks were banned from the SWIFT system due to the escalated conflict between Russia and Ukraine. BNP Paribas is one of the European banks with a high exposure to the Russian economy.
EU Equity	**LVMHF**	Louis Vuitton Moet Hennessy is one of our long positions in the Consumer Discretionary sector. It lost -5.91% in value this month as investors fear negative ramifications from the conflict between Russia and Ukraine. Russia is an important end market for luxury goods. An economic downturn in Russia and Europe in general could harm the luxury goods sector.
US Equity	**NFLX**	Netflix Inc performed poorly this year with a return of -35.89% YTD. At the end of January, the company shocked the market with an outlook below the expectations of Wall Street. Netflix announced that the company only expects 2.5 million new subscribers in Q1 2022, after an increase in Q4 2021 of 8.3 m due to the series "Squid-Game".
Equity	**NDUEEGF**	The iShares MSCI Emerging Markets ETF provides the NIC fund with exposure to the Emerging Markets. As the main positions of the ETF are mainly Chinese companies, the ETF suffered this year under the ongoing restrictions imposed by the Chinese government. Especially the main holdings, such as Tencent Holdings Ltd., Alibaba Group Holding Ltd. and Meituan are highly exposed to those business restrictions within the technological sector.
US Treasury Bonds	**SHY ETF**	Our benchmark bond index, IEI invests in treasuries with maturities ranging from 3-7 years. As inflation is picking up and expectations for up to seven rate hikes in 2022 were priced into the market, the yield curve has increased lately. The ETF has contributed 0.23% MTD to the funds return.
Commodity	**AAAU**	AAAU seeks to reflect the performance of the price of gold less the expenses of the Trust's operations. Despite increasing inflation concerns and likely interst hikes in the US, the ETF contributed positively to the funds performance. This is due to the latest developments around the conflict between Russia and Ukraine, as investors see Gold as a „safe heaven" in times of major uncertainty.
Commodity	**DBC ETF**	Our primary commodities index, DBC tracks a basket of 14 commodities. The ETF had positive performance over the last month, mainly driven by a sharp increase of the oil price. The above-mentioned conflict between Russia and Ukraine could lead to a bottleneck with less oil produced and sold by Russia.

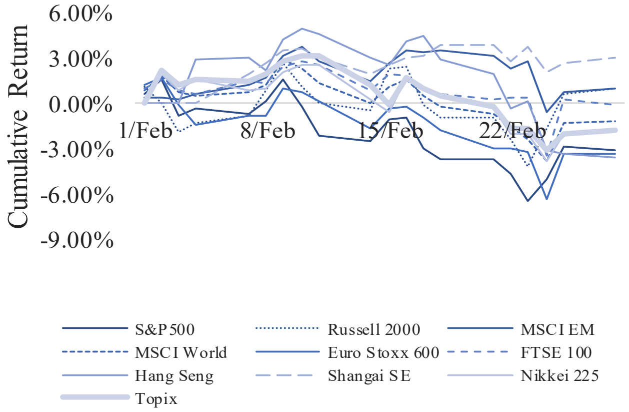
Simon Hoffmann
Investment Banking Division

NIC Fund

Equities

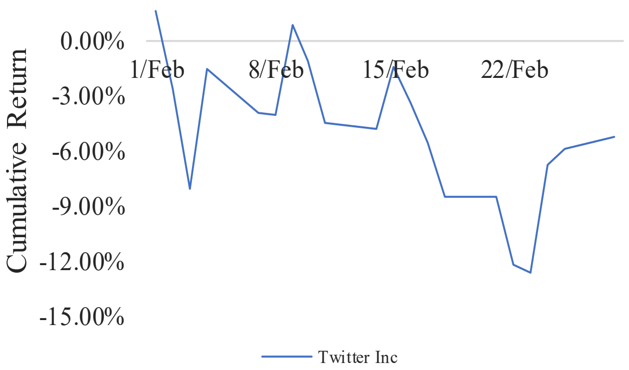
World Equities

Global equities reacted strongly to the news of Russia's invasion of Ukraine and the sanctions imposed following the event. Investors reconsidered their positions and evaluated the effects of a long war on their portfolio. The NYSE and the NASDAQ halted trading in Russian securities. European and US stocks were hit particularly hard by the events in late February. The Euro Stoxx 600 fell -3.55% and the S&P 500 declined by -2.90% MTD. The FTSE 100 reported a MTD loss of -0.08% with British banks and companies with strong connections to Russia amongst the biggest fallers in the London Stock Exchange. Asian equity markets had mixed reactions to the war. While the Shanghai SE was up 3% MTD, the Hang Seng, Topix and Nikkei 225 lost -3.55%, -1.78% and 1.76% respectively. While direct damage to the Asian region resulting from Russia's invasion in Ukraine is unlikely, oil-importing countries could be adversely impacted by rising energy prices.



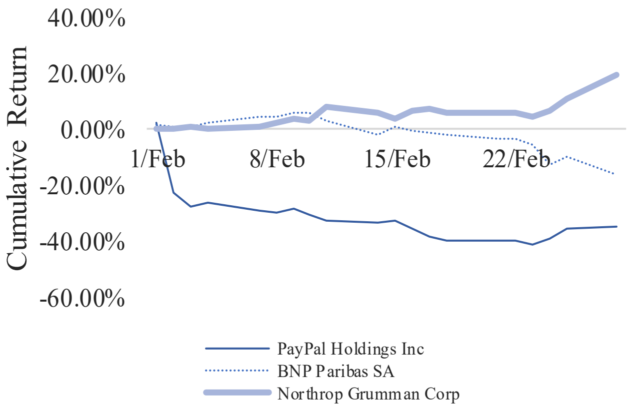
In Depth: Twitter

Twitter's stock price is down -5.23% MTD. The company announced 4th quarter earnings on the 10th of February, missing expectations for growth, in revenue, earnings and users count. The earnings announcement was the first since a major change in leadership in November 2021. While Twitter is confident that it will be able to reach its target of 315 million users by the end of 2023 analysts point out that the company would need to add around 12 million users per quarter in order to reach this goal. In the last quarter of 2021, the number only corresponded to 6 million. Twitter was reportedly less affected by Apple's privacy update on iOS than its competitor Meta, claiming the impact on the company was "modest". Twitter recently announced that it would replace its previous USD 2.0 bn billion share repurchase program, by a USD 4.0 bn program. Analyst believe the share repurchase program is meant to sway investors to overlook the relatively weak 4th quarter results and outlook.



Our Performance

In February, equities' contribution to the overall portfolio performance was negative, with -0.72% cumulative return. PayPal returned -34.90% MTD. New competition in the market and a slowing down growth momentum have made institutional investors bearish on the stock. The sanctions against Russian banks have hit European banks particularly hard with BNP Paribas returning -16.51% MTD. In February we added Northrop Grumman Corp. and CompuGroup Medical to our portfolio. The rising geopolitical tensions lead to an increase in demand for stocks in the aerospace and defense sector leading to Northrop Grumman Corp. recording a performance of 19.77% MTD.



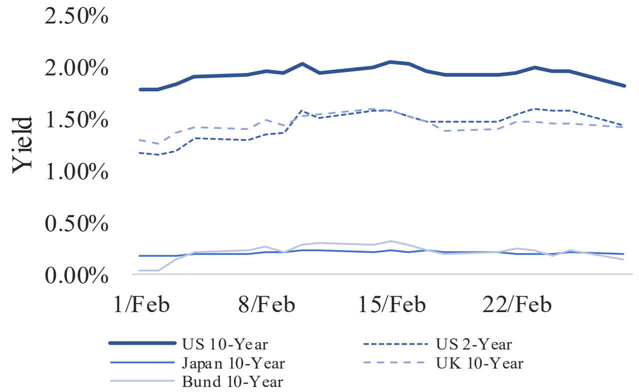
Lisa-Marie Perchtold
Financial Markets Division

NIC Fund

Fixed Income

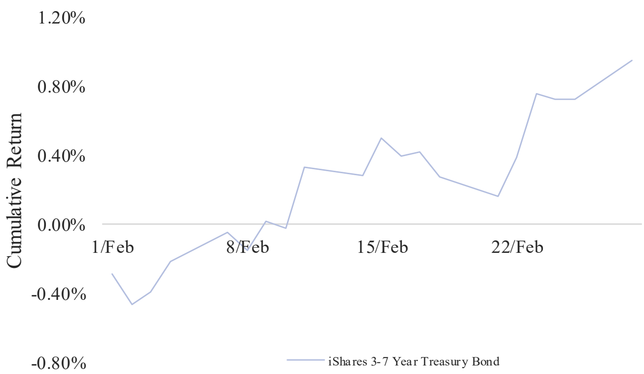
World Yields

As for every other asset class, February was a very volatile month for fixed income. Just when central banks started worrying that inflation is not transitory and considered raising interest rates, the new risk of the Russia-Ukraine war hit the world economy. The US 10-year yield hit the highest point in almost two years in the middle of the month as investors are concerned that the Fed will move too rapidly to tighten monetary policy. However, the yield fell to a 1.85% level on the day Russia entered Ukraine, as traders rushed to protect their portfolios by buying safe haven assets such as US Treasuries. Short-term debt has been selling sharply as weak results of US Consumer Price Index for January were released. The price fall of the 2-Year US Treasury, which is highly sensitive bond to monetary policy expectations, has increased its yield to a 1.60 % level. Such high volatility of bond markets may hinder the Fed's ability to continue tapering. Weekly global corporate bond issuance fell from USD 125 bn to USD 60 bn in the week of the Russian invasion, down from the YTD weekly average of USD 100 bn. The European bond market is already pricing in a recession. The UK 10-year bond yield decreased to 1.10% and Germany's 10-year yield became negative again, as war pushed investors towards safe assets. The market now anticipates that central banks will abandon plans to tighten policy as the UK and German 2-year bonds fall even more than long-term bonds.



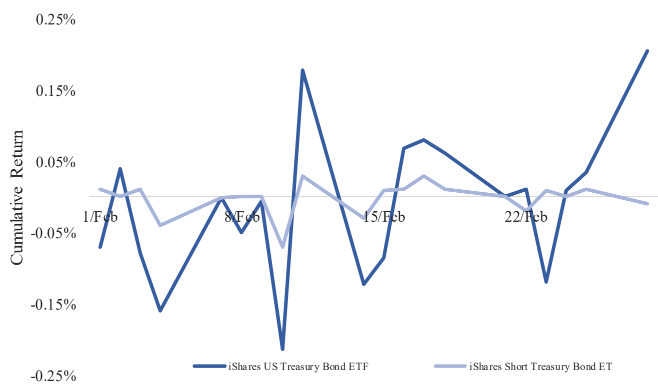
In Depth: Russia's Default

Russian bonds markets collapsed as a result of the Western economic sanctions, depreciating the Russian Ruble by more than 30% against the US Dollar. The country biggest foreign bond worth USD 7 bn, maturing in 2047, lost more than half of its value. The Bank of Russia responded with an emergency decision to increase its rates from 9.5% to 20% to attract capital and stabilize the country's financial markets. In addition, foreign holders of Russian debt will not receive interest or principal payments. The Central Bank banned coupon payments for foreign investors who are holding OFZs, Ruble-denominated sovereign debt. S&P lowered Russia's credit rating from 'BBB-' to 'BB+', lowering its status from 'investment grade' to 'speculative'. Although Russia's debt accounts only for 20% of its GDP, in comparison the to around 130% figure of the US, the market is seriously considering the possibility that the country could fail to repay its lenders.



Our Performance

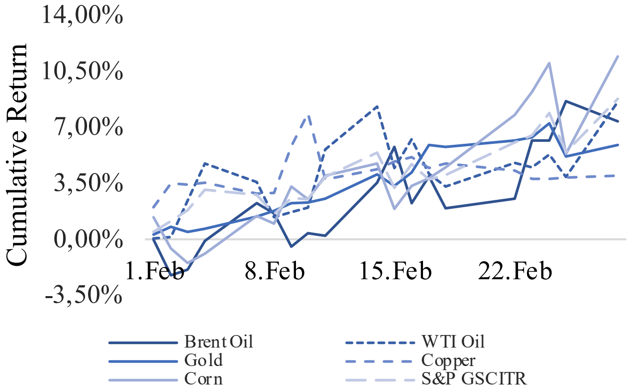
Our benchmark fund for fixed income, the IEI ETF, performed quite well during the month of February. Tracking 3-7-Year US Treasury Bonds, it earned a cumulative return of 0.72%, which contributed with a return of 0.23% in our portfolio.



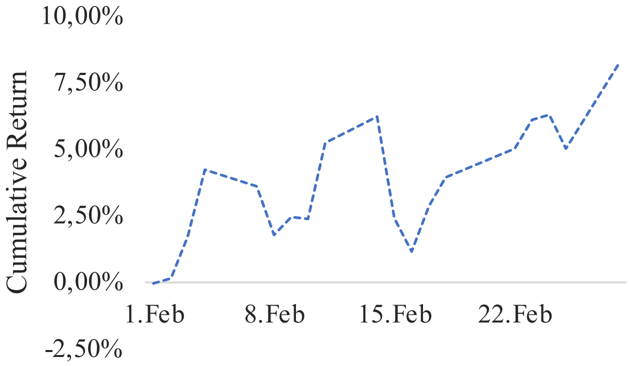
Sara Ivackovic
Financial Markets Division

NIC Fund
Commodities

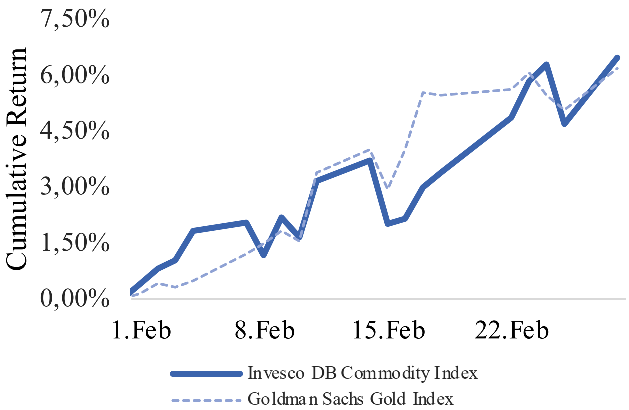
February Round-Up
In the month of February oil prices have toppled 100 dollars for the first time since 2014 due to the Russian invasion of Ukraine and its ripple effects on the market. The Brent Oil, the WTI Oil and the S&P GSCI Total return index, which tracks 24 energy-heavy-commodities, had cumulative returns of 10.72%, 8.59% and 8.77% respectively. The Russian invasion has not just led Europe into one of the worst conflicts since the second world war, it also exacerbated the unfolding energy crisis on the continent. However, despite the Russian offensive having triggered the Brent's leap above USD 100, deeper supply and demand fundamentals are significant for more than doubling oil price in the past 15 months. As global crude demand was shattered due to Covid-19 lockdowns two years ago, the US oil production remains 11% below its pre-pandemic high. Despite resurgent demand, OPEC has balked at upping the pace of supply additions and according to some analysts even struggles to meet production goals. These longer-term developments, coupled with western sanctions after the Russian invasion were the driving forces behind the increase in oil prices. Alongside oil, corn also rose by 3.97% in February, caused by the fact that Ukraine plays a crucial importance in Europe's agricultural setting. This puts corn prices at 10-year highs, up 15% from the beginning of the year. As a safe-haven asset, investors fled to Gold, which performed strongly with a 5.89% MTD return. Copper also rose by 3.97%.



Outlook for March
Oil has surged in recent months, with no reversal in sight. Goldman Sachs has increased its price target per barrel crude to USD 115. This upward revision is motivated by the fear that western sanctions on Russia might exacerbate the commodity supply shock in the market. Additionally, western logistics companies have already halted shipments from Russia, which does not help lower oil prices either. To offset the loss of Russian oil supplies in the global market, demand would need to decrease by 4 million barrels worldwide. Despite requests from the US to do so, OPEC, as the largest supplier of global oil, has not signaled a desire to increase their production beyond the current 400,000 barrels per day in April. OPEC stated that they see no physical shortage of supply in the market, rationalizing their actions which will lead to higher oil prices in the future. The iPath Pure Beta Crude Oil ETN provides exposure to oil and similarly, to the underlying commodity, had an attractive return of 8.14% in the last month.



Our Performance
During February, the Powershares DB Commodity Index returned 6.47% and the SPDR Gold Shares Index returned 6.18%, leading to a contribution of 0.15% to the NIC Fund.



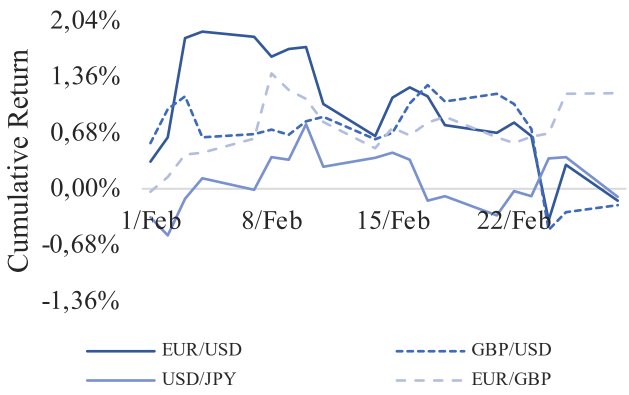
Felix Mitterer
Financial Markets Division

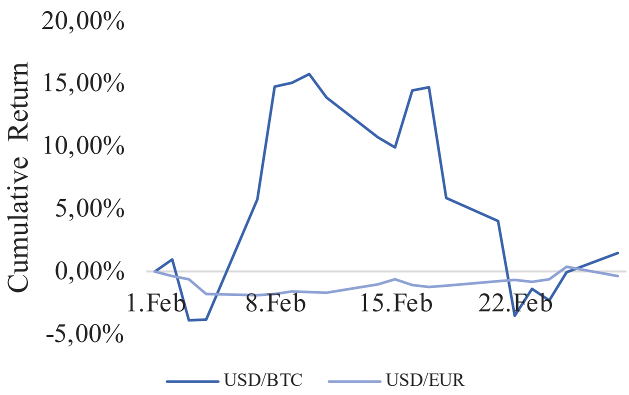
NIC Fund

Currencies

World Currencies

The uncertainty around the Russia-Ukraine crisis as well as the instability that it brings to Forex markets has made currencies fluctuate significantly. During the last week of February, Russia invaded Ukraine and Western countries ramped up sanctions on Russia so far. The two major sanctions applied by the US and EU so far were the restrictions imposed to several Russian banks on the use of the SWIFT system and the freeze of Russian reserves both in the Federal Reserve and the ECB. Thus, as the demand for Rubble decreased and it was harder for the Russian Central Bank to back up the currency, it depreciated more than 30% against the Dollar. Nonetheless, this crisis has also hit the Euro, as many EU countries are highly dependent on the Russian natural gas. In fact, the Euro plunged 0.14% against the Dollar to its weakest level since May 2020 as investors worry about the impact of an escalating conflict in Ukraine on the region's economic prospects. Additionally, the Pound to Dollar exchange rate has registered a new 2022 low, yielding a return of -0,20% against the Dollar, as the Russian invasion of Ukraine pummels expectations for the number of interest rate hikes the Bank of England can institute in 2022. Meanwhile, demand for the Dollar rose as nervous traders looked for safety. Contrary to European currencies, the Yen has appreciated 0.01% against the dollar.





In Depth

There is much talk about how the sanctions being imposed on Russia will hasten the demise of the dollar's role in the world economy, but today the Dollar rides high. Moreover, the Fed funds market has gone from an 80% chance of a 50 bp hike in March to slightly less than 100% chance of a 25 bp increase. There is no sign of its abandonment as its safe haven appeal shines, and it seems to be keeping relatively unharmed with the Russia-Ukraine crisis so far.

While the inflation hedge narrative for cryptocurrencies has not fared well over the past few months, crypto did see a boost as new sanctions were imposed on Russia, including the removal of some banks from the SWIFT network and limiting payments from Russia to foreigners. As Russians were struggling to remove their plunging Rubles from their banks, speculators assumed the demand for crypto assets would surge as Russians looked for alternatives. Although there has been some discussion about using crypto to avoid sanctions, it would likely be difficult to disguise the sheer size of the transactions that would have to take place on a public blockchain. As the Russia-Ukraine tensions escalate and more sanctions are imposed by each side, the move to cryptocurrencies is likely to increase, thus possibly yielding high returns during March.

Our Performance

We currently hold no currency related assets in our portfolio.

João Vaz
Financial Markets Division

Hot Topic

Potential Stagflation in Times of Geopolitical Tensions

Raphael Northoff
Financial Markets Division

"We have the real risk of something we have avoided so far, which is stagflationary concerns."

– Gita Gopinath, International Monetary Fund Chief Economist

The Russo-Ukrainian war comes at an already difficult time for the global economy. While the recovery from the Covid-19 pandemic is still in its final phase, central banks are concerned that temporary and pandemic-related supply chain-driven obstacles could lead to persistently higher inflation in the medium run. Russia's significant influence on global commodity prices and its invasion of Ukraine will put additional pressure on the future inflation outlook and global economic growth prospects.

Prior to Russia's invasion of Ukraine, many major Western countries have already been fighting "boomflation", indicating strong economic growth and noticeably high inflation during the pandemic recovery. With additional pressure through supply-chain disruptions and rising commodity prices due to Russia's invasion, a slowdown of economic growth and further inflation hikes are expected.

While inflation can generally be influenced by central banks and governments through monetary and fiscal policy, supply chain-driven inflation puts central banks in front of more severe challenges. Particularly, Europe is affected by the geopolitical situation as its ties with Ukraine and Russia are the deepest when it comes to the trade of essential commodities. Financial sanctions on Russia, damage to Ukraine's export sectors and high risk of additional ripple effects from physical and cyberattacks will drive the productive capacity of the world economy lower, creating further negative supply shocks and leading to rising and stickier inflation figures.

The *Society for Worldwide Interbank Financial Telecommunication (Swift)* represents another potential driver of inflation. The global payments messaging system that banks use to securely send and receive transfer requests, announced it was ready to remove Russian banks once it receives legal instructions from governments to do so. In recent days, *Swift* had become a crucial part of the West's sanctions against Russia as it aims to cripple Russia's ability to finance its war machine. However, removing Russian banks from *Swift* may come with costly complications for other economies since the nation would be severed from most of the global financial system. As many countries, particularly in Europe, are reliant on Russia's energy, wheat and other commodities, blocking the country from *Swift* would curb their ability to conduct international financial transactions by forcing importers, exporters and banks to find new ways to transmit payment instructions. As a consequence, this would make costs of doing business with Russia skyrocket and would lead to more complicated transaction processes overall and potentially higher inflation.

Another direct driver of global inflation was Russia's major currency, the ruble, dropping by more than 30% in value against the dollar last week after further western sanctions. As a result, Russia's central bank doubled its key policy rate to 20% on Monday to fight inflation risk.

After the pandemic has already led to long-lasting and major economic issues, rising uncertainty and high market volatility, Russia's invasion will make the decision-making process of global central banks even more difficult. Tightening too quickly would slow the economy too far. On the other hand, tightening too slowly would increase the risk of losing control of even faster increasing medium-term inflation. Further, resolving supply-chain issues and continued economic growth will be critical to avoid the additional risk of potential global stagflation effects.

Raphael Northoff
Financial Markets Division

Extras

Hot Topic

Private Equity's ESG Paradigm Shift

Mats Lützenkirchen
Investment Banking Division

"Private Equity firms, along with the investment community, have a pivotal role in addressing climate change, not just from a moral perspective, but also from an economic one, ensuring sustainability is at the centre of any investment strategies"

– Andy Pitts-Tucker, Managing Director, Apex ESG Ratings & Advisory

Millennials, politicians and also NGOs ensure that climate change remains on the forefront of media globally. The Paris agreement, which was reaffirmed at the COP26 back in November last year, pursues efforts to limit the increase in global average temperature to 1.5°C compared to 2010 levels. To reach this goal, GHG emissions have to be reduced rapidly and significantly, including a reduction in CO_2 by 45% by 2030 relative to 2010's figures to reach net-zero by 2050.

The financial sector itself plays a pivotal role in addressing the Environmental, Social and Governance (ESG) issues by directing the capital flows instead of just polishing its own GHG emission. With global private equity (PE) activity more than doubling 2020 figures and totalling ~8,600 deals worth USD 2.1 tn in 2021, ESG gained momentum as more than 70% of investors recognized it as both a lever for value creation and a tool for risk mitigation. In particular, PE firms have launched numerous impact funds dedicated towards ESG-oriented investments, e.g. TPG's USD 5.4 bn Rise Climate Fund or Brookfield's USD 7.0 bn Global transition Fund.

Only 19% of respondents of a PwC survey stated that they are not already and will not consider taking measures in the future to mitigate the exposure of their portfolio to climate risk. In addition, it predicts that European ESG related assets under management would hit EUR 292.0 bn by 2025.

It was the major institutional investors such as BlackRock, State Street and Vanguard Group who initiated this trend by addressing corporates to commit to climate protection. Thus, PE has to follow, given its portfolio company customers, employees and Limited Partners (LPs) requirements to ESG-linked corporate behaviour.

A key challenging factor remains the availability and homogeneity of ESG data as it lacks a globally unified reporting scheme. The International Sustain-ability Standards Board (ISSB) is anticipated to release the global disclosure guidance later this year, which could potentially improve consistency of ESG metrics combined with financial, given its ties to the IFRS standards. In Europe, the rollout of the Sustainable Financial Disclosure Regulation automatically results in disclosure requirements for financial sponsors.

Besides using ESG for value creation, investors such as KKR, EQT and Investindustrial have already signed ESG-linked subscription credit facilities or similar financing vehicles back in 2020 with interest rates declining if the portfolio company performs better against predefined ESG criteria. At the beginning of last February, Carlyle pledged to a 2050 net-zero target of their portfolio companies, while Apollo is expected to avoid fossil-fuel investments as part of its next USD 25.0 bn buyout fund.

Nevertheless, GPs also have realized, that exiting a portfolio through e.g. an IPO, is tough if the companies are lacking a strong ESG or sustainability story. Therefore, most of the funds are hiring ESG heads at senior levels to monitor and steer portfolio operations. However, also consultancies, advisory firms and real estate companies are vying for the best and rate talents as demand far outstrips the supply.

With Unilever's tea business now in the hands of CVC, it is becoming a test for the PE industry on how to consciously treat ESG. With an estimated and accumulated USD 2.3 tn in cash reserves in the hands of GPs globally, they regained high buying power and pressure from LPs to deliver returns while implementing ESG lenses.

Mats Lützenkirchen
Investment Banking Division

Extras

ESG Review

ESG Investors Must Not Exclude Climate Crucial Miners

Eric Pedersen
Head of Responsible Investment,
Nordea Asset Management

" If you really want to increase the companies' focus on sustainability, then the best strategy is to engage with some of the companies that don't do enough. Start a dialogue with them instead of leaving it to investors who may not be that interested in sustainability"

– Kerstin Lysholm,
Head of Investments
Nordea

After years of being considered niche, sustainability has become a mainstream consideration for most investors. However, while investors are now acutely aware of the numerous benefits of ESG, philosophies and approaches still vary widely. Nowhere is this more evident than in the debate between engagement and exclusion.

At Nordea, we are not afraid to exclude companies when we find it necessary, for example because of breaches of international norms, or of the specific ESG standards of individual portfolios. At the same time, we believe engagement can be a powerful tool to foster positive change.

Even though we have for a number of years excluded companies with heavy exposures to, for example, coal mining and oil sands extraction, we believe a blanket exclusion of the mining sector would be extremely damaging for the planet's path to net zero. Rather, engagement with companies that have a visible pathway and a willingness to adapt to the requirements of tomorrow, can create positive outcomes both financially and environmentally.

Copper, for example, is an essential metal for the clean energy transition, due to its thermal and electrical conductivity and corrosion resistance. Copper is critical for solar panels, wind turbines, electric vehicles and battery storage.

As record quantities of copper will need to be mined in order to enable the large-scale decarbonisation of the global economy in the years ahead, is it possible for ESG investors to positively impact the sustainability characteristics of companies operating in this space? We certainly believe this to be the case, as evidenced by our continuous engagement efforts with Chilean private mining group Antofagasta, one of the largest copper producers in the world.

We have repeatedly engaged with Antofagasta in recent years on topics related to labour rights and worker safety, water management, and climate risk. Over the course of these engagements, we have seen Antofagasta implement numerous positive initiatives – such as a commitment to develop climate risk reporting in line with the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD). Here, the company mentioned our dialogue as a key factor in their decision.

Antofagasta has recently exceeded short-term targets related to greenhouse gas emissions and renewable energy deployment, while its board added climate risk to its list of its prioritised risk areas for the first time.

Our ESG team recently followed up with Antofagasta to continue the dialogue on its efforts to reduce greenhouse gas emissions – particularly as the company has announced it is adopting new, longer-term carbon reduction targets and strategies. As Antofagasta has recently entered the bond market, we also had an exploratory dialogue around the relevance of green or sustainability-linked bond structures for future issuances.

While positive dialogue is constructive, ultimately all engagement efforts must result in more ambitious commitments and action. Encouragingly, Antofagasta continues to take positive steps forward, such as recently announcing its goal to be carbon neutral by 2050. Importantly, the company is aiming to reduce total emissions by 30% by 2025.

In response to our earlier efforts, Antofagasta informed us it will shortly be releasing reporting in line with TCFD recommendations, which will highlight how its operations are aligned with various climate scenarios. We also remain in dialogue about its ongoing climate strategy and will continue to press on its decarbonisation progress. Overall, the advancements Antofagasta has made in relation to climate risks and other ESG elements recently led us to upgrade our internal ESG score on the company.

Nordea Asset Management
Engagement Story

Thank you!

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

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