NIC

— Nova Investment Club —

Newsletter

April 2022

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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, Margaux Richard de Foucaud, elaborates on fast-fashion giant Shein's USD 100 bn valuation. Moreover, in our Regional View, Nicolas Gomez, discusses whether the Chinese Tech-Crackdown is coming to and end.

Our Investment Banking Division will guide you through March's overall M&A activity. Read about Elliot Management and Brookfield Asset Management acquiring Nielsen Group, Berkshire Hathaway's takeover bid for Alleghany, and Alphabet to acquire Mandiant. Additionally, get a detailed overview on what happened to Delivery Hero SE and Twitter Inc, and read our opinion on the European Private Equity industry.

Our Financial Markets Division will present the monthly results of the NIC Fund, an active relative return fund investing across three different asset classes: Equities, Fixed Income, and Commodities. The analysts will also provide commentary on each of the four major asset classes through analysis of the past month's major market moves. The overall performance of the NIC Fund in March was slightly positive, with a cumulative return of 0.13%. A gain that can be mainly attributed to Equities.

On the Hot Topics of this month, Joao Vaz, discusses whether the US are capable of being Europe's main natural gas supplier, while Darryl Karberg, elaborates on China considering to give US full access to audits of most companies. Lastly, on our ESG review in collaboration with Nordea, Raphael Northoff, discusses how proxy voting can be a means to push corporate ESG agendas.

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Macro Overview

Monthly

April 7th, 2022

Market Moves

% change

	Last Close	-1W	-3M	YTD
S&P 500	4,530	0.23%	-4.95%	-4.95%
DJIA	34,678	-0.09%	-4.57%	-4.57%
Nasdaq	14,221	0.20%	-9.10%	-9.10%
MSCI World	3,562	0.38%	-5.70%	-5.70%
MSCI EM	4,281	-0.10%	-7.95%	-7.95%
Russell 2000	2,070	-0.26%	-7.80%	-7.80%
Euro Stoxx 50	3,903	1.01%	-9.21%	-9.21%
FTSE 100	7,516	0.65%	1.78%	1.78%
Nikkei 225	27,821	-1.03%	-3.37%	-3.37%
Hang Seng	21,997	0.23%	-5.99%	-5.99%
Dollar Index	98.31	-0.48%	2.76%	2.76%
EUR/USD	1.107	0.64%	-2.66%	-2.66%
GBP/EUR	1.187	-0.98%	-0.17%	-0.17%
GBP/USD	1.314	-0.37%	-2.91%	-2.91%
USD/JPY	121.700	-0.53%	5.75%	5.75%
USD/CHF	0.92	-0.83%	1.05%	1.05%
Brent Crude	107.910	-9.34%	38.74%	38.74%
Gold	1,949.2	-0.66%	6.60%	6.60%

Generic Bond Yields

change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	2.338%	-3.4	82.8	82.8
GER 10Y Yield	0.548%	1.6	72.5	72.5
JPY 10Y Yield	0.220%	-1.0	14.9	14.9
UK 10Y Yield	1.610%	-3.6	63.9	63.9
PT 10Y Yield	1.352%	5.7	88.7	88.7

**Source: Bloomberg, as of 2022-03-31*

In Focus

March

Eurozone inflation hits another all-time high of 7.5% as Russia-Ukraine war pushes up energy prices. Eurostat announced on April 1st, that headline inflation in March reached 7.5%, rising 1.6% MoM. This represents the largest monthly change since the beginning of the data collection in 1970. Further, core inflation stripping out food and energy, rose to 3.2% in March from 2.8% in February. Referring to ECB president, Christine Lagarde, three main factors are currently driving inflation higher: energy prices that are expected to stay high for longer, pressure on flood inflation that is likely to increase, and global manufacturing bottlenecks, which are likely to persist in certain sectors.

As US yield curve inverts and bund yield surpasses 0%, recession warning sign flashes. On Friday, 1st of April, the yield on the 10-year US treasury bond ended the day 6 basis points below the 2-year US treasury yield (2.38% vs. 2.44%), showing an inverted yield curve showing signs of a potential future recession. Further, on March 30th, the 2Y bond yield surpassed 0% and peaked at 0.04%, getting closer to a flattening bond yield curve. The last time, the 2Y bond yield had seen positive territory was eight years ago in August 2014.

Fed hikes rates 25 basis points reasoned by strong job gains, a falling unemployment rate, and "elevated" inflation. At its meeting on the 15th and 16th of March 2022, the Federal Open Market Committee (FOMC) raised the target range for the federal funds rate by 25 basis points. This first interest rate increase was in line with market expectations and will bring the rate into a range between 0.25% and 0.5%. Along with the rate hike, the committee also penciled in increases at each of the next six meetings this year, implying a consensus funds rate of 1.9% by the end of the year. Three more raises are expected in 2023, followed by none the following year, according to the committee.

Even as worries grew over Ukraine and inflation, equity markets rebounded in March. After the S&P 500 was at its lowest point this year on the 8th of March, the major index rebounded sharply and rose 3.6% in March. In consequence, the turnaround recovered more than half of its losses from its lowest point of 2022, when it was down 12.5% YTD. According to analysts, this turn resulted from the fact that equity investors recognized that their worst fears about the economy had not materialized.

Sanctions on Russia impacting Russia and the global economy. After Russia's invasion of Ukraine on the 24th of February, major Western countries including the US, the European Union, the UK, Canada, and Japan imposed sanctions on the Russian government. Bans on secondary trading in Russian government bonds, connection with important Russian banks, transfers of crucial technologies to Russia, and asset freezes and travel bans for elite Russians were among them. This has led to Russia facing a deep and prolonged recession driven by an economic contraction expected to be as high as 12%.

Germany under pressure to ban Russian natural gas. Driven by Germany's high dependency on Russia's natural gas and oil supply, the country stays at risk to face a potential recession as well. The synonym for risk would be if supplies of Russian natural gas and oil were halted. Driven by the war in Ukraine, German banks are expecting the country's GDP growth to slow to 2% in 2022 from 2.7% in 2021 according to C. Sewing, president of Germany's BDB bank lobby.

Raphael Northoff
Financial Markets Division

Deeper Dive

The Fast-Fashion Empire Shein Valued at USD 100.0 bn

Margaux Richard de Foucaud
Investment Banking Division

"Shein's potentially astonishing valuation also masks some of the adverse impacts the fast-fashion industry has on the environment. Though the closely held company hasn't commented on its carbon footprint, the sector is often blamed for its heavy reliance on petrochemicals derived from oil. Fashion accounts for up to 10% of global carbon dioxide output, according to the United Nations Environment Programme."

– Bruce Einhorn, Journalist, Bloomberg News

Shein is a Chinese fast fashion e-commerce company founded in 2012. The online-only retailer of affordably-priced clothes, produces over 6,000 new items daily with more than 600,000 items available and is weighing a funding round at a valuation of around USD 100.0 bn.

Should Shein be successful with its funding, it would make it upend the fashion industry by exceeding the combined value of H&M and Zara. But how did the firm manage to reach such a high valuation despite Covid-19? With shoppers stuck at home, Shein's sales rose to USD 10.0 bn last year. This year, it is forecast to surpass USD 20.0 bn.

Shein currently dominates the Gen Z online fashion market. Last year, it became the most downloaded shopping app in America, beating Amazon. Add a revolutionary mastery of fashion supply chains with on-demand manufacturing, and the results are spectacular. The retailer emerged as a powerful force in the e-commerce sphere by generating data-driven clothing designs, with algorithms trawling the web for the latest trends. Designs are then manufactured in small batches of around 100 items. As a result, suppliers must complete the design and production process in 10 days, way less than traditional apparel makers' average. In addition, by having no store inventory, Shein can respond immediately to shopper preferences. Shein is also digital-savvy in sales and marketing. Besides standard practices such as handing out products free of charge to influencers, it recruits hundreds of local designers and shares their social media backstories. The strategy has helped Shein collect more than 250 m followers across social media platforms.

Besides, the brand also grasped how to navigate the commercial and geopolitical tensions between China and the West. Indeed, while the firm manufactures its clothes in China, sales in this country are non-existent. Instead, it sells to American, Asian, and European consumers directly through its mobile app. Trump imposed tariffs as part of a trade war to prevent retailers from buying large quantities from China and putting them in stores for sale. However, online merchants like Shein ship duty-free small-value packages directly to end consumers. As a result, Shein managed to dodge tariffs on Chinese exports and undercuts competitors with high physical presence, particularly as consumers remain online. Moreover, not having Chinese users make it less of a target for domestic regulators, easing a potential foreign initial public offering. Last year, it apparently hired advisors such as Goldman Sachs and JPMorgan on a potential initial public offering. However, this listing plan was paused due to volatile capital markets caused by the war in Ukraine.

The backers of the fast-fashion start-up include many well-known organizations such as Sequoia, along with Tiger Global Management and IDG. For this investment round, Shein is in talks with investors such as General Atlantic to raise about USD 1.0 bn. However, no parties agreed on commenting on the situation. Without much official confirmation, the funding round is still uncertain.

With thousands of new, ultracheap outfits every day, Shein is winning the world's fiscally constrained teens and pushing the limits of fast fashion. However, critics wonder about the environmental sustainability of the company's never-ending, always-changing catalog of clothes at ultra-low prices. Shein has come under scrutiny for a heavy impact on the environment and unethical labor practices. In addition, Shein divulges almost nothing to customers about where it sources its materials. However, there is a divide at the heart of Gen Z's behavior. On one side are the trend-focused hyper-consumerists driving the success of fast-fashion giants such as Shein. On the other hand, eco-conscious shoppers prioritize their sustainable values by engaging with circular models such as rental or resale solutions.

Margaux Richard de Foucaud
Investment Banking Division

Regional View

Is the Chinese Tech Crackdown Coming to an End?

Nicolas Gomez
Financial Markets Division

"China's president is rewriting the rules for how the economy works"

– Don Weinland, China Business and Finance Editor, The Economist

In August 2020, regulators halted the IPO of Ant Group, China's leading Fintech company. At the time, the move was framed by the media as a backlash to a speech given by Ant Group's founder and largest shareholder, Jack Ma, in which he criticized China's state-owned lenders for their "pawn shop" mentality. The regulatory onslaught has since bled into other areas of the Chinese Technosphere, as well as other industries such as Education and Real Estate, and has embroiled several of the Chinese tech giants. It is now understood that these actions are part of a broad-based initiative championed by president Xi Jinping as his "Common Prosperity" policy.

The torrent of regulatory action has created fear and uncertainty in the Chinese stock market, with the Hang Seng Tech Index having fallen by more than 50% from its peak in February 2021. However, there are early signs that the tide may be turning on the regulatory front. On March 16, Liu He, a Vice-Premier and President Xi Jinping's closest economic adviser, vowed that the government will "actively release policies favorable to markets" and ensure that regulation that could have "a significant impact on capital markets" is coordinated with financial management departments. This has prompted analysts to ask themselves: "is the Chinese Tech Crackdown coming to an end?"

To set the foundation for a discussion of the matter, it is necessary to clarify a few points. First, when investors talk about the Chinese Tech Crackdown, what they generally mean is the Consumer Internet Industry Crackdown. Far from wanting to stifle technological innovation, the Chinese government has placed a significant emphasis in its 14th Five-Year Plan on the development of tech-based industries such as semiconductors and renewables. Second, as Kendra Schaeffer from Trivium argues, the Chinese Tech Crackdown can really be viewed as 3 different regulatory crackdowns in the areas of Fintech, Antitrust, and Data Security. This is important to understand because each of these will have different timelines and degrees of intervention.

As a developing country, China is far behind its Western counterparts when it comes to its regulatory framework. For instance, China's antimonopoly laws were only introduced in 2007, and the SAMR, responsible for enforcement of this legislation, was only established in 2018. There is inherent uncertainty involved in building the country's legislative foundations amid rapid development, involving a delicate balance between innovation and appropriate regulation. According to Lilian Li, author of Chinese Characteristics, this is why Chinese regulators have opted to take an "observe-then-act approach" embodied by former leader of the CRP Deng Xiaoping's slogan "crossing the river by feeling the stones".

When one looks under the surface, the more cautious and technocratic approach taken by the Chinese government becomes noticeable. For example, the Ministry of Education is reported to have surveyed about 19,000 education companies, 700,000 children, and 150,000 parents before it enacted regulation that outlawed for-profit school tutoring. Of course, the government was forced to act more quickly, and with vigor, when it was up against the clock in the DiDi and Ant Group IPOs.

Although I am by no means an expert on China, I am inclined to predict that we are not yet at the end of the road when it comes to Chinese regulation. The Chinese economic regulatory framework is still in its infancy when compared to the EU and the US. This is not to say that they are striving to replicate Western regulation – what will emerge will be a regulation with Chinese characteristics. Although I believe we are more likely to gain a greater degree of closure on areas such as Antitrust, where the rules of the game are more well-understood and less subject to change, regulation on Data Security is likely to evolve significantly over time as the sources and uses of data proliferate across our economies.

Nicolas Gomez
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

French Presidential Election

On the **10th** of April, the first round of the French presidential election will be conducted. Even though Emmanuel Macron is still leading the polls, his rival Marine Le Pen is gathering momentum, threating the Presidents chances of re-election.

China GDP Annual Growth Rate

China will announce its GDP growth rate on April **17th**. In its previous announcement, the Chinese economy reported an expansion of 4.% YoY in the fourth quarter of 2021, easing from a 4.90% growth in the previous period, but exceeding market consensus of 3%.

UK Retail Sales

The Retail Sales numbers for the UK will be announced on the **22nd** of April. In February, the retail sales reading increased 7% YoY, which was slightly below market expectations of a 7.80% increase. However, retail sales volumes were 3.70% above pre-pandemic levels.

Central Bank Decisions

India Interest Rate Decision

The Reserve Bank of India is set to meet on April **8th**. During its February meeting, the Central Bank left its benchmark repo rate at 4%, committing to keep its accommodative monetary policy stance to support economic recovery due to the Covid-19 pandemic.

Bank of Canada Interest Rate Decision

The Bank of Canada meeting will take place on the **13th** of April. Even though inflation is now projected to be higher in the near term, the expectation is that the Bank of Canada will keep rates at 0.50%, as the central bank had just hiked rates by 25 bps in March.

ECB Interest Rate Decision

On the **14th** of April, the European Central Bank will vote on where to set the interest rate. In the European Central Bank previous meeting, the ECB surprisingly sped up the asset purchase schedule, but did not hike interest rates.

Inflation and Deflation

Brazil’s Inflation

The YoY inflation reading for Brazil will be announced on the **8th** of April. In February, the annual inflation rate edged higher to 10.54%, marking its 6th consecutive month of double-digit inflation rates in Brazil.

China’s Inflation

On April **11th**, China will announce its YoY inflation reading. In its previous announcement, China reported that the inflation rate stood at 0.90% in February. Economists believe that inflation will be reported at 1.20%.

US Consumer Price Index

March inflation data for the US will be published on the **12th** of April. Core consumer prices in the US increased 6.40% in February, marking it the highest annual core inflation rate since August of 1982. Expectations are that inflation will come in at around 8.30%.

Labour Market

Canadian Labour Market

On the **8th** of April, Canada will announce its unemployment rate. In February, the unemployment rate in Canada fell from 6.50% to 5.50%, which it was much lower than the market expectations of 6.20%.

UK Unemployment Rate

On April **12th**, the UK will announce its 3-month unemployment rate. In its latest report, the UK unemployment rate declined to 3.90%, which was the lowest reading in the past 2 years and below market expectations of 4%. Economists predict a further decline to 3.80%.

Australian Unemployment Data

The Australian unemployment rate will be announced on the **13th** of April. In its previous report, Australia announced an unemployment rate of 4%, marking its lowest unemployment rate since August 2008.

Yan Afonso Souza
Financial Markets Division

Investment Banking

M&A
Overall Activity

Global

In March, monthly global M&A deal volume slightly decreased to USD 436.6 bn. However, the deal count climbed to 6197 deals, and the average deal premium reached 32.79%, the highest since November 2020. Compared to 2021, Q1 global deal volumes declined 14.74% to USD 1.3 tr from USD 1.6 tr, as market uncertainty spurred by Russia's invasion of Ukraine slowed last year's swift pace. The latter is dislocating supply chains, rising energy costs, and inflation which are key hindrances faced by companies and private equity firms today. Sector-wise in March, the financial sector slid 31.10% YoY, and composed 26.11% of the overall deal volume, signaling the ongoing prominent performance. This performance is, in part, justified by the acquisition of Alleghany Corp by Berkshire Hathaway for a total cash consideration of USD 13.7 bn. Contrarily, the Utility sector surged 51% YoY, mostly due to the largest proposed deal this month, French Republic's proposition to sell Électricité de France for USD 42.5 bn. This deal could represent the third-largest transaction this year.

Selected Regions

North America

Deal activity recorded a significant decline of 43.90% YoY, with a decrease of 42.40% and 59% in the United States and Canada respectively. The North American region continues to be the global leader, accounting for 40.60% of this month's activity. The United States market was primarily driven by Financial and Consumer Non-Cyclical, with Alleghany Corp's acquisition and the proposed sale of Blackstone's portfolio.

EMEA

Deal-making activity in Europe moderately decreased YoY by 18.90% to an overall transaction volume of USD 143.1 bn. Utility and Energy sectors performed exceptionally well increasing 111.70% and 125.70% YoY respectively. MEA region extends its strong growth to USD 12.4 bn. Most sectors improved in deal volume, notably Communications surging 545.30% YoY, driven by Emirates Telecoms.' acquisition of Etihad Etisalat (USD 2.1 bn).

Asia

March's deal volume in the Asian region fell 12.10% to USD 95.8 bn. Overall, Financial, Consumer Non-Cyclical, and Basic Materials drove the bulk of the activity, with a special mention to the latter growing 1005.60% YoY. EQT's acquisition of Baring Private Equity Asia, along with the sale of Citigroup's consumer business to Axis Bank, with total transaction values of USD 7.5 bn and USD 1.6 bn, represented the largest deals in the region.

M&A
Deals of the Month

Announced Date	Target	Buyer	Target Region	Target Business	Value (USD m)	Premium (%)
11 Mar 22	Electricite de France SA	Unnamed Buyer	FR	Electric Generation	42,484.14	-
22 Mar 22	Blackstone portfolio of 2000 EU warehouses	Prologis Inc	US	REITS	23,135.7	-
29 Mar 22	Nielsen Holdings PLC	Consortium led by Brookfield Asset Management Inc.	US	Commercial Services	15,491.58	36.11%
21 Mar 22	Alleghany Corp	Berkshire Hathaway Inc	US	Property/ Casualty Insurance	13,661.06	29.02%
20 Mar 22	Anaplan Inc	Thoma Bravo LLC	US	Internet Applications Software	9,482.74	42.69%
16 Mar 22	Baring Private Equity Asia Ltd	EQT AB	UK	Private Equity	7,469.12	-
3 Mar 22	UPL Ltd	Unnamed Buyer	IN	Agricultural Chemicals	7,179.81	-
29 Mar 22	LHC Group Inc	UnitedHealth Group Inc	US	Medical	6,153.75	18.52%
28 Mar 22	Gas Distribution Business/National Grid Plc	Consortium led by Macquarie Group Ltd,	GB	Energy	5,497.8	-
16 Mar 22	Kohl's Corp	Hudson's Bay Co	US	Retail	5,198	-

David Silva
Investment Banking Division

M&A: Top Deals

Elliot Management and Brookfield Asset Management to Acquire Nielsen Group

A private equity consortium led by Elliot Management and Brookfield Asset Management agreed to acquire the TV ratings business Nielsen Group for a total consideration of USD 16.0 bn, including debt. The purchase price was USD 27.75 per share, a 60% premium over the share price before the announcement. Acquirers will inject USD 6.0 bn in equity and USD 10.0 bn in debt.

Buyer vs Seller

Nielsen Group is a business that conducts audience measurement that seeks to tell media participants who are exposed to their content and advertisement by using a wide range of metrics that are distributed to networks and ad agencies. The buyers, Elliot Management and Brookfield Asset Management are investment firms with a wide footprint in the business services, and real estate sectors. Nielsen was advised by J.P. Morgan whilst Brookfield is being advised by Bank of America and Credit Suisse.

Industry Overview

At the peak of the Covid-19 pandemic, the business-services industry underperformed the MSCI World Index by almost 3%. However, the recovery began in the second half of 2021, driven by an M&A "deal spree" for businesses as a result of an earnings recovery, with EBITDA increasing by a 15.7% median. Companies are pursuing strategic acquisition to absorb R&D whilst also pursuing digitisation and greater IT capabilities.

Peers	Currency	Market Cap (CUR m)
Gartner Inc	USD	24,659.89
CoStar Group Inc	USD	25,089.62
Atlanticus Holdings Corp	USD	696.61
Dun & Bradstreet	USD	7,489.35
LiveRamp Inc	USD	2,602.31

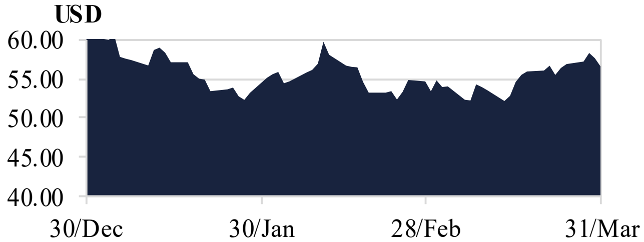
Deal Rationale

Nielsen is a business that in recent years has been struggling with the changing environment in the media industry. It has faced criticism over its inability to measure audience not just on television, but on streaming services and the internet. In addition, powerful executives have complained about its antiquated methods to measure viewers' habits. The consortium acquired Nielsen as they believe, as a private company, Nielsen will be much better positioned to deliver the best measures of consumers' changing behaviours across all channels and platforms as well as smoothly transition their offerings towards digital streaming services.

Market Reaction

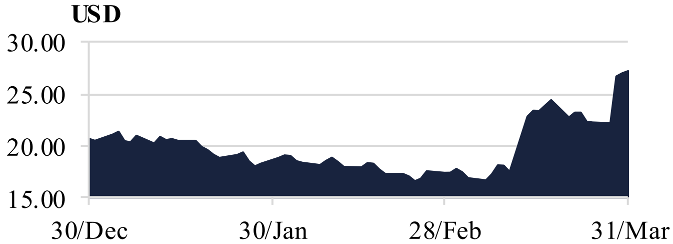
Brookfield Asset Management

The firm's stock price is down nearly 5% on a YTD basis, and currently trading at USD 58.0, with a 52-week high of USD 62.5.



Nielsen Group

The group stock is up nearly 32% on a YTD basis, currently trading at USD 27.0 post-announcement, with a 52-week high of USD 28.0, a low of USD 16.0, and a 60% premium.



Future Challenges

The deal comes with a 45-day "go-shop" period, which is a clause in place that allows the acquired business to find higher bidders for 45 days before it accepts the final offer from the consortium. In addition, since the business is a century-old, it can take time to develop audience measuring offerings that are adapted to digital streaming services and more competitive than incumbents.

Arsénio Renato Jr
Investment Banking Division

M&A: Top Deals

Berkshire Hathaway's Takeover Bid for Alleghany

On March 21st of 2022, American conglomerate Berkshire Hathaway announced to acquire US insurance to manufacturing conglomerate Alleghany for USD 11.6bn in an all-cash deal. The per-share offering of USD 848.0 constitutes a 16% premium to Alleghany's average price in the past 30 days and a multiple of 1.3 times the target's book value as of December 31st of 2021.

Buyer vs Seller

Berkshire Hathaway Inc. is a US holding company. Besides its diversified engagement in the insurance, freight rail transport, and utility industry, it holds significant minority stakes in American Express, Apple, and Bank of America. Alleghany is a US company that operates as a property-and-casualty reinsurance and investment company. Its holding portfolio comprises a range of insurance companies, hotel developers, and a toy producer and generated profits of USD 1.0 bn in 2021.

Industry Overview

The low-interest environment had inflated valuations of public companies, making it once more difficult for Berkshire to find an appropriate deal. Besides a 7% drop in the S&P 500 index, Berkshire recorded a climb by 16% YTD, lifting the conglomerate's valuation to USD 770.0 bn. At the same time, the underlying market conditions remain attractive for growth, making it even more convenient for Berkshire to increase its presence in the insurance and reinsurance segment.

Peers	Currency	Market Cap (CUR m)
Axis Capital Holdings Ltd	USD	5,003.13
RenaissanceRe Holdings Ltd	USD	6,973.64
SiriusPoint Ltd	USD	1,134.87
Greenlight Capital Re Ltd	USD	235.22
Everest Re Group Ltd	USD	11,737.57

Deal Rationale

The deal marks the largest all-cash transaction of Berkshire within the past six years. Amid low-interest rates and public overvaluations, Buffet struggled to find an appropriate target. Additionally, Berkshire had to deal with integration issues and overpaying, leading to increased scrutiny for new investments. Therefore, Alleghany constitutes a perfect fit to Berkshire`s existing insurance portfolio which is signaled by the all-cash bid. Although Alleghany will operate independently after deal closing, it adds diversification to Berkshire's portfolio with operations in the hotel segment and toy manufacturing.

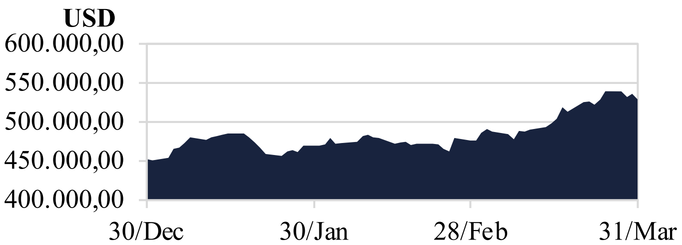
Market Reaction

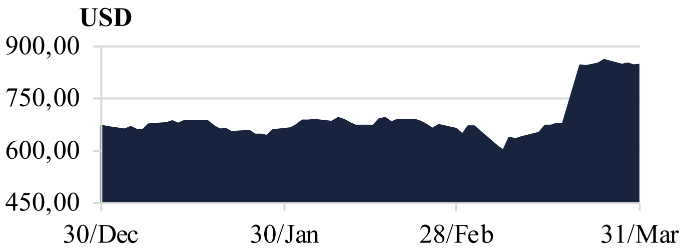
Berkshire Hathaway Inc.

Commencing the announcement, the share price increased by 2%. The surprising increase constitutes the investor's faith in converting this investment into a successful portfolio company.

Alleghany Corp.

On the day of the takeover announcement, shares of Alleghany surged by c. 25%, reflecting the terrific conditions of the all-cash offer.





Future Challenges

The deal is expected to be closed in the fourth quarter of 2022. A Go-Shop period of 25 days is now in place, giving Alleghany the opportunity to seek other bids. However, given the good strategic fit, the prospects of a successful integration, and the all-cash payment, the probability of another bidder initiating a bidding war is very rare.

Roman Bauer
Investment Banking Division

M&A: Top Deals

Alphabet to acquire Mandiant

On behalf of its major subsidiary Google, Alphabet Inc announced on 03/08/2022 the acquisition of Mandiant Inc for USD 4,256 m. The deal is expected to be closed on 12/31/2022. Alphabet will pay USD 23 per share in an all-cash transaction valuing Mandiant at USD 5.4 bn, including net debt.

Buyer vs Seller

Google's mission is to organize information and make it useful for every user worldwide. In pursuit of such a bold purpose, Google has launched many tools, including its search engine, maps software, Gmail, and YouTube. Recently, Google has been very focused on Cloud solutions. Mandiant is particularly relevant in this space. The firm offers cyber security solutions. With more than 17 years of experience, the firm has built strong threat identification and incident management capabilities.

Industry Overview

The Cloud Computing industry is booming, and big tech players, with the likes of Google, see it as an opportunity to keep fostering growth and hang on to their high multiples. The industry is expected to reach a value of US 1,949 bn by 2032, expanding at a CAGR of 15%. Cyber-security is expanding along with Cloud Computing, as with the adoption of such solutions comes a greater risk of data theft. The market is expected to grow at a CAGR of 10%.

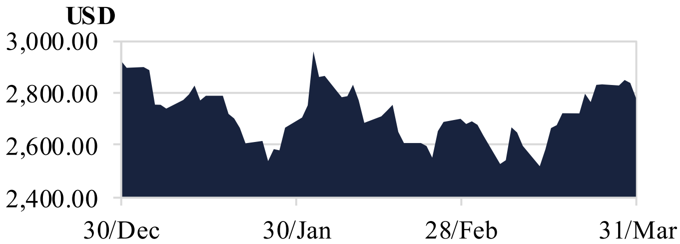
Peers	Currency	Market Cap (CUR m)
NortonLifeLock Inc	USD	15,686.48
Fortinet Inc	USD	54,518.04
Palo Alto Networks Inc	USD	60,184.80
Trend Micro Inc/Japan	JPY	1,011,950.11
Check Point Software Technologies	USD	18,489.50

Deal Rationale

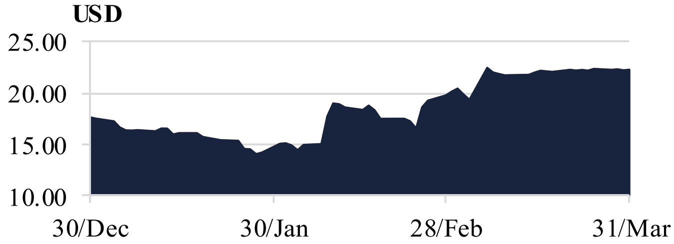
Today, organizations face ever-increasing cybersecurity challenges accelerating in frequency, severity, and diversity. At the same time, corporate adoption of cloud computing solutions is expanding tremendously. Combining the two factors means cybersecurity has become core to the former business. Accordingly, with its second-biggest transactions, Google is keen to acquire Mandiant's industry-leading cybersecurity resources and further improve its cloud value proposition. After the closing, Mandiant's people and resources, including a devoted action team, will be integrated with the cloud's business line.

Market Reaction

Alphabet
Alphabet has seen a quite bumpy last four months. With the war in Ukraine and inflation proving not transitory, Google's price chart shows how uncertain investors are currently.



Mandiant
Mandiant share price jumped to USD 23 per share upon announcement after a slight premium paid by Google. Since its low of USD 15 per share, shares have appreciated 50%.



Future Challenges

Alphabet's shareholder Shiva Stein filed a lawsuit in the Federal Court of Manhattan complaining about the accuracy of Mandiant's financial projections filed with the SEC. According to the investor, documentation prepared by Goldman Sachs includes "materially incomplete and misleading information". Therefore, the verdict will be important to the closing of the deal.

Rodrigo Baltazar
Investment Banking Division

What Happened To

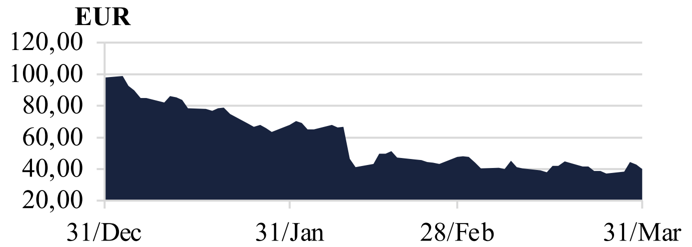
Delivery Hero SE

Delivery Hero (DHER) is a EUR 6.6 bn Berlin-based online food ordering company active in more than 40 countries with more than 500,000 restaurant partners thanks to several acquisitions in the past years. It also offers food packaging and is actively expanding into Dmarts (dark stores) and virtual kitchen businesses to gain track in the fast-growing online grocery business.

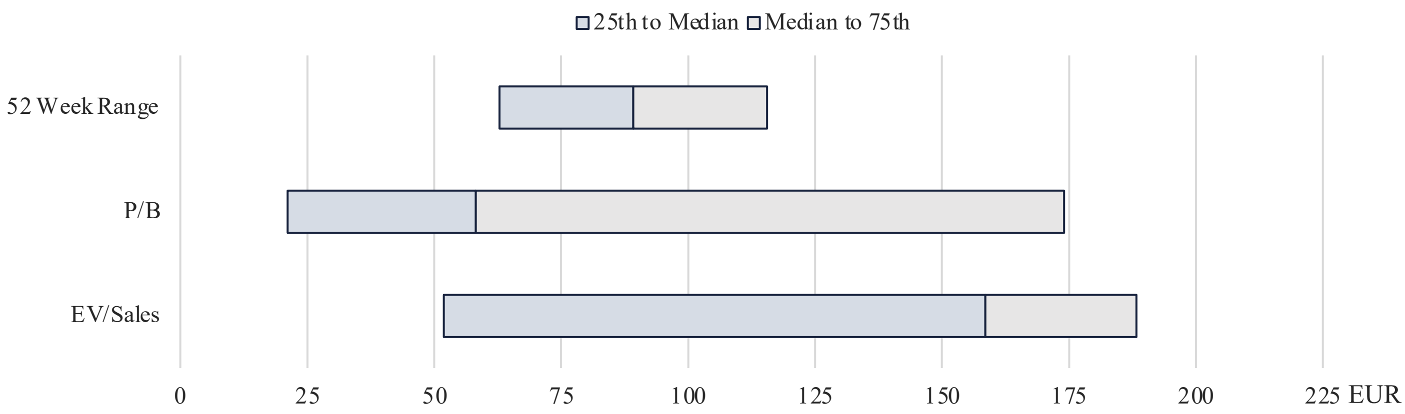
Corporate News

DHER's shares are down 59.33% YTD and 71.93% compared to the 52 weeks-high. This tumbling share price is a reaction to the disappointing profit guidance as it lags behind competitors such as Uber Eats which turned profitable on an adjusted EBIT basis more than a year ago. Nevertheless, as one of the largest food-delivery businesses globally, its operations scaled significantly during Covid-19 lockdowns. On the contrary, with its global operations in Asia, Europe, LatAm and MEA, investors pressured DHER to reduce spending on its rapid growth, in particular its recent investments in Dmarts. However, rising rider costs and increased competition with the launch and expansion of DoorDash, Gorillas, Flink or Getir, have forced DHER to exit the German market for the second time in 2021 and refocus on the growing Asian market. The current CEO announced in January that there might be adjustments in the pricing model given different customer perceptions and needs.

Price (31 Mar 22, EUR)	**44.94**
Target Price (EUR)	83.00
3M Performance	-54.14%
Market Cap (EUR m)	11,285.6
Enterprise Value (EUR m)	12,549.6
**Target Price is for 12 months*	



Valuation Analysis



By 30th of March, DHER was trading at EUR 39.86. When considering the multiple valuations, it becomes apparent that the dispersion in valuations in the gig economy is very wide. Both metrics however suggest that DHER is currently trading at the left tail, indicating significant undervaluation. Other valuation metrics are not considered as DHER's reference basis is negative. The management however has outlined a clear roadmap to improve future EBITDA and cash flows.

High competition and growth of the online food delivery industry have fueled a wave of consolidation where DHER has acquired stakes in Gorillas, Deliveroo and Glovo. To improve margins, DHER could introduce a service fee, increased delivery fees, increased delivery times or reduce marketing costs (a combined total of EUR 1.9 bn in additional EBITDA) to step towards profitability. In addition, DHER currently is approaching a refinancing of its convertible bond however has a roadmap to profitability through scale and automation.

Peers	**Currency**	**Market Cap** (Cur m)
Scout24 SE	EUR	4,226.5
New Work SE	EUR	1,004.9
Adevinta ASA	NOK	91,993.2
Auto Trader Group PLC	GBp	6,137.5
Just Eat Takeaway.com NV	EUR	7,292.7

Mats Lützenkirchen
Investment Banking Division

What Happened To

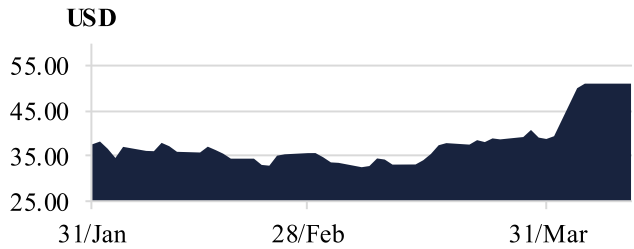
Twitter Inc.

Twitter Inc. (TWTR) is a global platform for public self-expression and conversation in real-time, notably known for its short-form text limitation (a maximum of 280 characters). It provides a network that connects users to people, information, ideas, opinions, and news. It is headquartered in San Francisco, CA, and since the end of November 2021 it is led by Parag Agrawal.

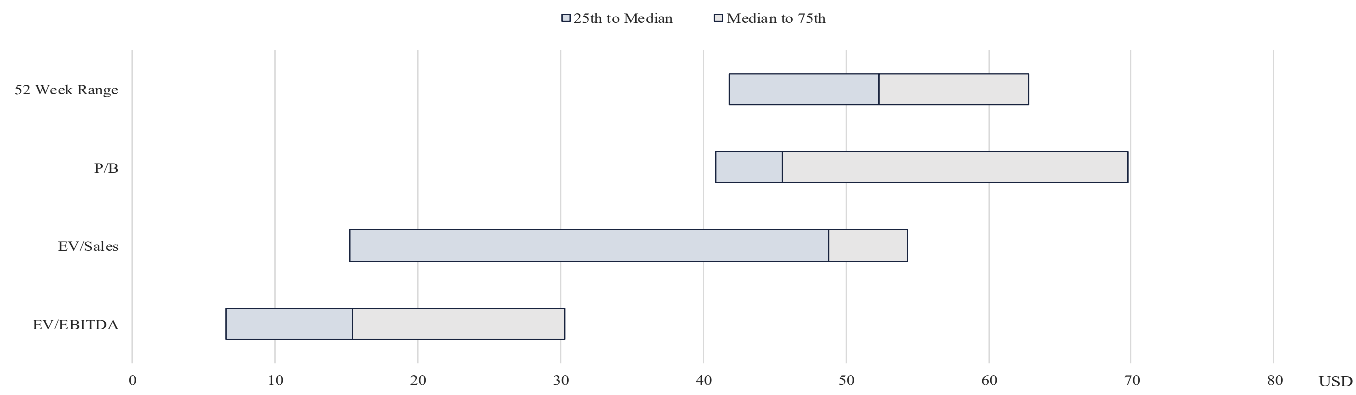
Corporate News

Since the change in leadership of the company back in November (Jack Dorsey stepping down from the CEO role and Parag Agrawal taking the role), the pressure among TWTR shareholders has significantly intensified. In fact, it has been stated that "[TWTR] can become a USD 200.0 bn company by leaning into the product roadmap and monetising [its] huge and growing user base". The ambitious growth targets are based on (1) raising its number of active daily users by half by the end of 2023, and (2) reaching a scale that matches its considerable influence on the social media world. The execution plan of such projections was, however, doubted by many – which saw a declining market positioning. Despite that, the news that Elon Musk bought a 9.2% stake in the company and will have a seat on the board has certainly revived the interest in the platform, raising its share price 27% after the announcement.

Price (6 Apr 22, USD)	**50.98**
Target Price (USD)	42.00
3M Performance	35.91%
Market Cap (USD m)	40,816.69
Enterprise Value (USD m)	39,969.58
**Target Price is for 12 months*	



Valuation Analysis



The median price of the company in the last 52 weeks is USD 52.3. The stock performed well during the pandemic but it suffered from the plunge of big tech stocks at the beginning of 2022. With the recent news, the investor buzz around TWTR is perceived as "a bit extreme given that its fundamentals and challenges remain broadly the same". Additionally, at current levels, TWTR is trading at a >100% premium to FB on an EV/EBITDA basis, which is well above the 2-year average of 86%.

The rationale behind Elon Musk's ~USD 3.7 bn investment is still unclear. Speculation over an all-out buyout was strongly rumoured when the passive stake was announced. With that being said, so far, Parag Agrawal has shown nothing but satisfaction to have Elon on board. Compared to other social media companies, TWTR has certainly lost some of its appeal but this revived interest can turn into a long-term shift in the company's proposition.

Peers	Currency	Market Cap (Cur m)
Snap Inc	USD	62,129.35
Yelp Inc	USD	2,485.11
Meta Platforms Inc	USD	631,055.02
Pinterest Inc	USD	17,197.33
fuboTV Inc	USD	1,066.46

Irina Pereira
Investment Banking Division

NIC's View On

European Private Equity Industry

Darryl Karberg
Investment Banking Division

"The ability to ask for higher prices will distinguish winners from crisis-losers. If firms have pricing power, there is no easier environment than right now to demand for higher prices for goods and services offered. "

– Saleh Panahi, Managing Director, Blackstone

The year 2021, has been an unprecedented year for Private Equity in many ways. But perhaps most surprising was that there were over USD 1 tn worth of transactions done in global buyouts. Global deal volume last year was more than twice as high as in 2020. General partners had the second-best fund-raising year in the industry's history, capping a five-year run that has netted USD 1.8 tn in new buyout capital. Funds boosted distributions to limited partners, and continued to deliver returns outpacing any other asset class. What is noteworthy is that the deal count has been lagging other buyout metrics indicating a greater size of private equity deals. Over the years, investors have increasingly begun specializing in sectors that allowed them to make bold investments in atypical buyout targets. EUR 2.1 bn CVC's capital injection in the Spanish soccer league La Liga is only one recent example of PE exploring exotic investment opportunities.

This surge in private equity volumes has been fuelled by enormous amounts of dry powder in the market and historically cheap debt capital. However, the marco-environment has changed drastically in the past months. As a result of the loose fiscal policy in past quarters, markets are now under inflationary pressures. In addition, price hikes for oil and gas resulting from supply chain shortages amidst the military conflict of Russia and Ukraine further fuel the inflationary trend. To counteract price increases, western regulators have scheduled interest rate raises that negatively affect access to cheap debt capital. Further, rising rates threaten to temper the multiple expansion that has buoyed private equity returns for a generation. Summarising, today's investment environment is characterized by a lot of uncertainty that could severely slow down European Private Equity.

Looking ahead, will the increased amount of uncertainty bring the success of the Private Equity business model to end?

Although it might seem like the Private Equity industry is running into a crisis, it is important to bear in mind that it is one of the most resilient industries there is. The leverage buyout business model underlying Private Equity has survived a technology-related crisis, a global financial recession, and massive amounts of debt on portfolio companies that seemed unlikely to be repaid. Private Equity has proven its capacity to deliver consistent, attractive returns for all stakeholders even in the most hostile external environments. Therefore, NIC is convinced that Private Equity is also going to weather this crisis.

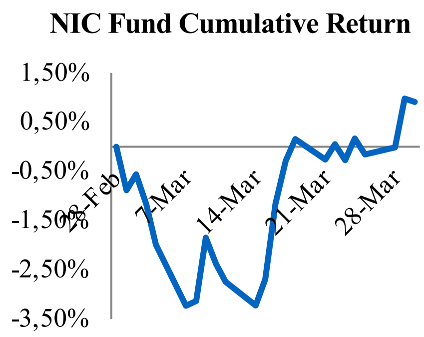
However, there are a few investment practices that will likely distinguish successful funds. Given inflationary tendencies, funds that specialised in a sector and understand companies and business models within them are likely to be winners of this crisis. These funds will have a more profound understanding of how the cost structures of their portfolio companies behave. Further, funds with strong industry expertise are more likely to identify industry champions that have the right degree of pricing power to offset those inflation-driven cost pressures. The recent crisis is also likely to present opportunities for value creation, one of them lies in ESG. Due to a business model that allows PE-investors to assume control over their portfolio companies, Private Equity is uniquely positioned to push corporate ESG agendas. In an environment with stricter access to capital, public companies that are not yet ESG-conform will suffer drops in their valuations. By delisting these companies and transforming them into ESG-conform entities, Private Equity can leverage this crisis to continue to add value to its stakeholders.

Darryl Karberg
Investment Banking Division

NIC Fund

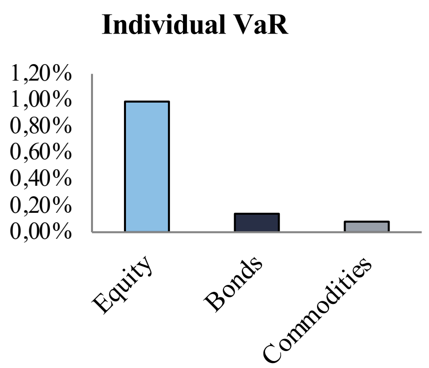
NIC Fund

Portfolio Overview



Portfolio Statistics	
Cumulative Return	0.13%
Annualized Return	1.59%
Daily St. Dev	0.75%
Period St. Dev	3.45%
Annualized St. Dev	11.96%
Info Sharpe	0.13
Skew (Daily)	0.38
Kurtosis (Daily)	-0.78

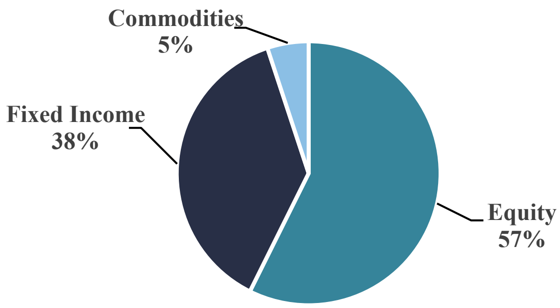
Benchmark	
iShares 3-7 Year Treasury Bonds	40%
SPDR S&P 500 ETF Trust	40%
Powershares DB Commodity Index	10%
Ishares JP Morgan USD EM Bonds	10%



Portfolio Snapshot

During March, 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 overweighted in Equities by 17% and underweighted in Fixed Income and Commodities by 12% and 5%, respectively.

March was a volatile month across financial markets due to the impact of Russia's invasion of Ukraine, enhanced by the spike in oil and gas prices. In addition, investors were worried about Federal Reserve's highest interest rate hike since late 2018.



Return Metrics

The overall performance of the portfolio was positive, with a cumulative return of 0.13%. The best asset class performer was Equity, contributing with a positive return of 0.79%, while Fixed Income contributed negatively to the portfolio with a loss of -0.84%. March was a good month for Commodities, which contributed with 0.25% return to the portfolio, with gold being the greatest contributor.

In terms of Equities, besides holding a position in the S&P500, 22% of the overall portfolio was allocated to thirty-one specific stocks from nine different industries. With a positive 0.29% return MTD, the Health Care sector was the best-performing sector of our portfolio, largely attributable to a positive MTD performance of Bayer AG. The Industrials sector performed the worst with a return of -0.05% MTD, mainly due to the bad performance of Semperit AG holding. Stocks in the Information Technology sector contributed positively to the portfolio return at 0.09%, due to the to a positive MTD performance of Nvidia Corp.

Risk Metrics

In terms of risk, our portfolio registered a relatively low daily VaR of 0.75%, taking into consideration the benefits of diversification. This metric remained significantly below the maximum established threshold of 2.5%.

Equities were the asset class with the highest individual VaR, which was around 0.99%. On the other hand, Bonds and Commodities had considerably lower VaRs of 0.14% and 0.08%, respectively.

Sara Ivackovic
Financial Markets Division

NIC Fund

Assets in Brief

Asset Class	Symbol	Comments
US Equity	**DIS**	Shares of Disney recorded a return of -7.61% MTD, contributing negatively by -0.014% to our portfolio. During March, the company has been politically involved by actively opposing Florida's Republican-led "Parental Rights in Education" bill. Some of the shareholders have been criticizing such action as it poses a risk to their returns.
US Equity	**CMG**	March was a very good month for Chipotle Mexican Grill. The shares of the American fast-food chain restaurant, returned 3.85% MTD. During Q4, the company repurchased USD 169.0 m of its stock. In addition, Chipotle started testing radio-frequency identification (RFID) technology to improve traceability and inventory systems.
EU Equity	**BAYN**	Bayer AG, a leading German pharmaceutical company, was the best preforming stock in our portfolio in March. The company returned 19.41% MTD, contributing with 0.23% to our portfolio. Bayer announced that it would invest around EUR 2.0 bn in pharmaceutical manufacturing sites over the next three years, mainly to bolster production of biotechnology drugs.
EU Equity	**VOW**	Volkswagen's stock decreased in March, returning -12.66% MTD. The decrease in value came from the company's announcement that it will have to recall more than 100,000 plug-in hybrid vehicles globally due to the risk of fire.
US Equity	**HDFCB**	HDFC Bank, our biggest position in the financial sector with an overall weight in the portfolio of 1.09%, brought a positive return of 0.03% to the portfolio. The bank reported a 20% growth in March on a YoY basis, led by over 30% growth in commercial and rural banking.
US Equity	**NOC**	Purchased at our February 1st Investment Committee Meeting, Northrop Grumman Corp. performed positively with an overall return of 1.15% MTD. The firm is specialized in developing products for the defense, space, aeronautics and cyberspace sector. Its stock has continued to perform well in the light of increased spending in those sectors during the war in Ukraine.
US Equity	**NVDA**	Nvidia Corp., the American multinational technology company, appreciated 11.92% MTD in March, contributing with 0.19% MTD to the portfolio. To enrich its game developer ecosystem, Nvidia launched a new feature in March that makes it easier for developers to collaborate and deploy AI, which was viewed positively by the market.
US Treasury Bonds	**SHY ETF**	Our benchmark bond index, IEI invests in treasuries with maturities from 3-7 years. As bond prices are negatively impacted by Fed's tapering and interest rates hikes, the ETF has contributed -0.45% 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. Due to the March interest rate hike in the US and soaring inflation, the ETF contributed positively to the fund performance. Additionally, due to the Russia's invasion of Ukraine, investors have been buying Gold as a safe heaven to mitigate uncertainty risk
Commodity	**DBC ETF**	Our primary commodities index, DBC tracks a basket of 14 commodities. The ETF had a positive performance over the month of March, mainly driven by the increasing oil prices due to the ongoing Ukraine conflict.

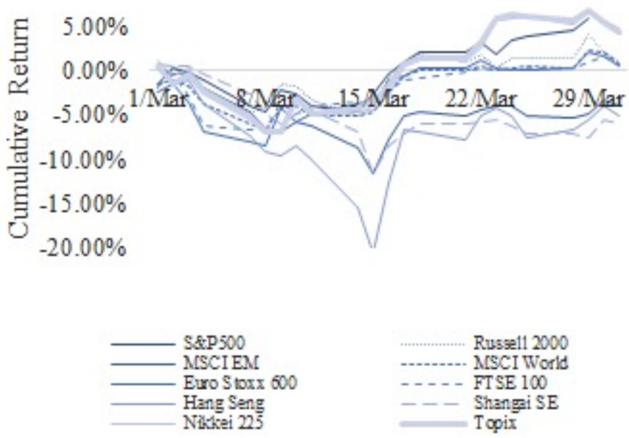
Sara Ivackovic
Investment Banking Division

NIC Fund

Equities

World Equities

In light of the ongoing war in Ukraine, global equities have closed in March with a positive monthly return of 0.71% for MSCI World. Despite this conflict and the expectations that the Fed will tighten its monetary policy faster than expected, the S&P 500 gained 5.22% in value this March. With six more rate hikes expected in 2022 and an uncertain global environment, the outperformance of the S&P 500 compared to the Russell 2000 can be explained by the strong performance of the biggest tech companies. Through the different weighting methods of those two indexes, companies such as Apple or Amazon, have a bigger impact on the index`s performance. Despite the negative performance of the Hang Seng (-5.13%) and Shanghai SE (-6.07%), it is important to note that there are positive developments regarding the delisting conflict between the US and China. In order to avoid a delisting of Chinese companies from the NYSE in 2024, China changed an important passus in the law to grant external auditors from abroad to access the financial information of certain companies. Nevertheless, there are still uncertainties about the number of companies affected by this new legislation.

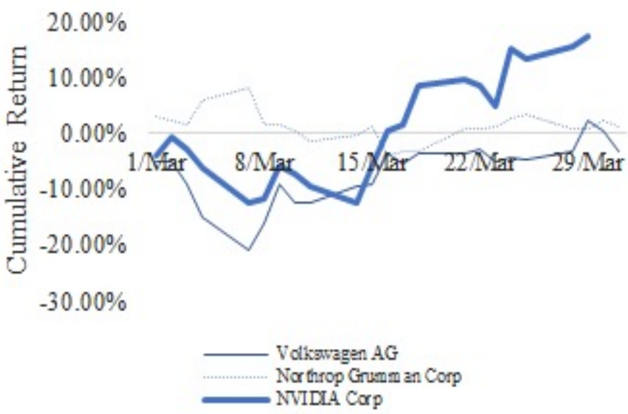


In Depth: Occidental Petroleum

Occidental Petroleum was one of the stocks with the biggest gains and attention in March. The stock rose about 30% during the previous month. There were two main factors which contributed to the strong performance of Occidental Petroleum. Firstly, the beginning of the war in the Ukraine on 24th of February resulted in surging oil prices, as major oil producers rallied. Until the end of March, the company`s stock has risen over 47%. The second contributor to that rally is the fact that the investment holding of Warren Buffett, Berkshire Hathaway, started to invest in the beginning of March. After the information became public, the stock further gained. By the end of March, Warren Buffett owned nearly 14.60% of Occidental Petroleum. Yet there was no official statement regarding the reason why Warren Buffett continued to invest even after the company shares had risen. The most plausible reasons are that he was interested in the potential higher future dividends or believed in a further hike in oil prices.

Our Performance

In March, equities' contribution to the overall portfolio performance was positive, with 0.90% cumulative return. An announcement from Volkswagen that 100,000 hybrid vehicles have to be recalled due to the risk of fire, led to an overall negative return of the stock in March. Furthermore, uncertainty surrounding the war in Ukraine impacted the stock`s performance this month. Northrop Grumman Corp.`s stock was gaining in value, especially in the beginning of March in light of the ongoing war in Ukraine and potential future need for defense equipment. Nvidia`s stock gained over 13% in value after several positive analyst opinions. Nvidia might play an important role when it comes to autonomous driving.



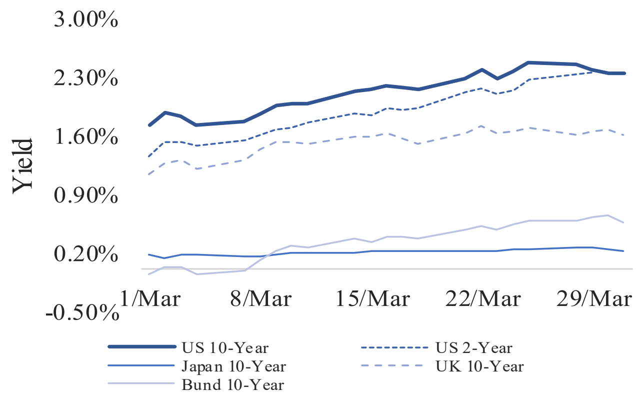
Simon Hoffmann
Financial Markets Division

NIC Fund

Fixed Income

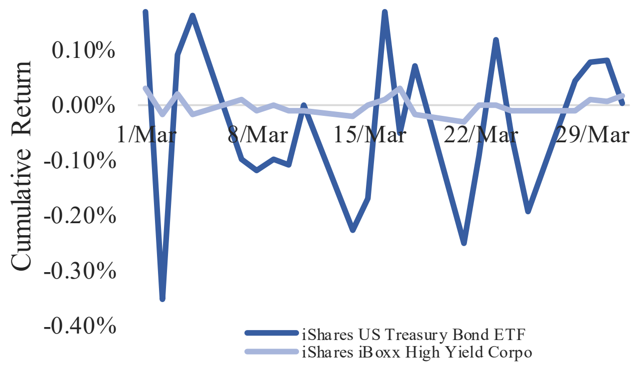
World Yields

Bond markets have suffered their deepest downturn since 1990 in March. Investors are weary about central banks interest rate rises in light of mounting inflationary pressure. At one point the US yield curve inverted as 2-year treasury bond yields rose above 10-year ones for the first time since 2019. The inversion of the yield curve is often seen as a recession indicator, investors have argued, however, that the bond purchases during the Covid-19 pandemic have skewed the yields. The inversion quickly reversed, and the yield curve turned positive again, with the 10-year yield at 2.35% and the 2-year yield slightly bellow at 2.31% at the end of March. The ECB has signaled, that it will focus on inflation, even as the eurozone is hit harder than most by the ongoing conflict in Ukraine. After their latest meeting a faster-than-expected slow-down of the bond buying program was announced. On the day of the meeting no deals were offered in the European primary markets. German denominated debt was not affected by the turmoil surrounding other markets as a result of the conflict in Ukraine. Meanwhile the BoJ has announced plans to accelerate purchases of 10-year government debt, in line with the countries yield curve control policy. The policy led to low interest rates in Japan compared to global ones, resulting in a currency depreciation.



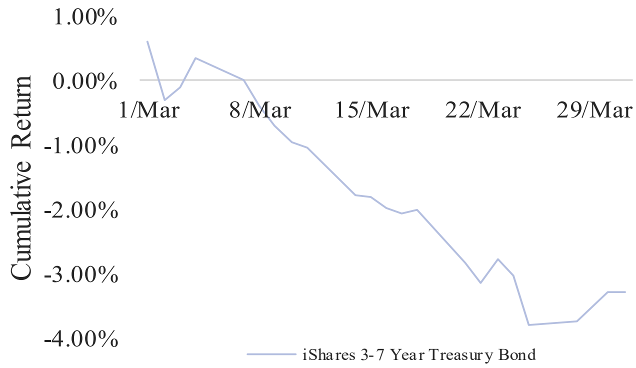
In Depth: Energy Bonds

High yield-energy bonds have outperformed non-energy bonds for the sixth straight quarter. Investors are especially interested in high-yield energy bonds. Amidst soaring oil and gas prices, energy companies with junk ratings have been blessed with higher returns, something that can not be said about the wider junk bond market. Investors are requiring less compensation for holding high-yield energy bonds. The premium for holding such debt has fallen from 4 percentage point to 3.65 percentage points during March. This has resulted in the "spread" for these bonds being below that of the rest of the high-yield market. The last time this situation has occurred was back in 2014. During the height of the Covid-19 pandemic induced sell-offs, energy bonds on average traded with around 12 percentage points more than the broader market. This has led to companies slipping from investment grade into junk territory, a trend which could be reversed in the coming months, according to predictions by JPMorgan. Analyst believe that fiscal discipline, when paying down debt as well as the general price increases are the reason for the turnaround.



Our Performance

Our benchmark fund for fixed income, the IEI ETF, tracking 3-7-Year US Treasury Bonds, had a negative return of -3.20% MTD. Fixed income contributed negatively to our portfolio in January with a -0.84% MTD return.

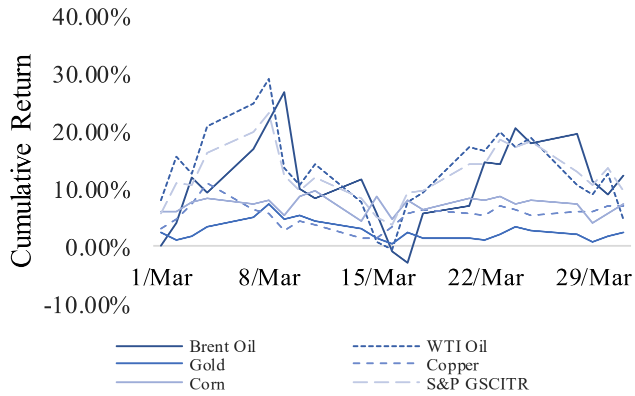


Lisa-Marie Perchtold
Financial Markets Division

NIC Fund
Commodities

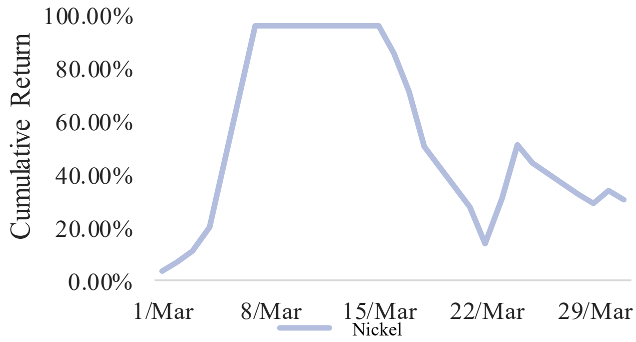
March Round-Up

The ongoing war in Ukraine has seen commodity prices skyrocket, boosting everything from oil to wheat. The war has disrupted traffic on goods coming out of the Black Sea, limiting supply and sparking sharp price swings across financial markets. According to the World Bank's Pink Sheet report energy prices have surged 24.10% in March, lead by crude oil which was up 20.20% and coal up 49.90%. In Europe natural gas prices have increased by as much as 55.70%. Non-energy prices were up 8.10% in the previous month. For March, the S&P GSCI Total return index, which is widely recognized as the leading measure of general commodity price movements in the world economy, was up 9.63%. YTD the index gained 28.37% matching its biggest gain since 1990. Overall commodities wrapped up their best quarter in 32 years. Nickel prices experienced a rally in early March, leading to the London Metal Exchange (LME) suspending the trade of the metal for eight days. The commodity rose 250% until the halt and erasure of contracts on the 8th of March. Russia's invasion sparked investors fears about shortages in nickel, which is a key metal necessary for the construction of vehicles. The LME claimed not to know about the scale of the nickel bet that was the cause of the disruption, because of large positions that were placed through private banks. This has sparked debates over OTC reporting requirements. Meanwhile purchases of gold exchange traded products hit an all-time record in March.



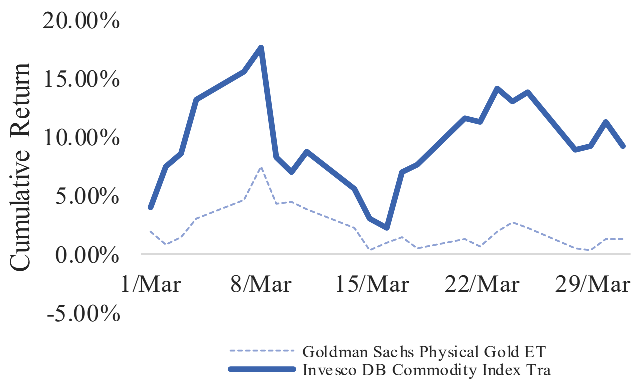
Outlook for April

Commodity prices are largely being driven by supply constraints at the moment, with no end of shortages in sight. Oil remains the commodity to focus on. Crude oil futures have remained steady with a bullish outlook on oil prices despite the US and the IAE's plans to release oil reserves. OPEC+ has failed to raise outputs despite plans to do so. Meanwhile the US is ramping up production, to satisfy demand and decrease prices. Following the LME's suspension of nickel trade, nickel market open interest has plunged to its lowest level since 2013, despite strong nickel prices. Other metals such as aluminium and zinc are also becoming more difficult to trade, as supply-chain stress has increased prices and volatility. For the first half of 2022 corn prices are expected to be at elevated levels. Reason for this is the continued conflict in Ukraine combined with a demand for the cereal to manufacture ethanol paired with high fertiliser prices.



Our Performance

During March, the Powershares DB Commodity Index returned 9.17% while the Goldman Sachs Physical Gold ETF returned 1.26%. The overall contribution of commodities to our portfolio was 0.25%.



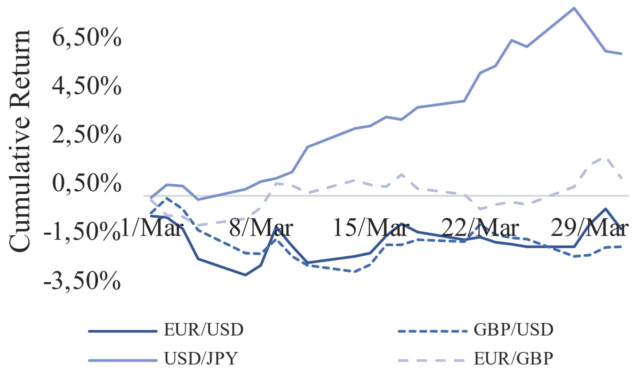
Lisa-Marie Perchtold
Financial Markets Division

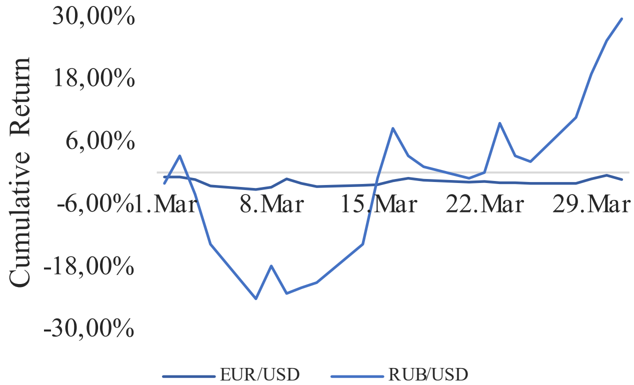
NIC Fund

Currencies

World Currencies

During March, the US Dollar showed relative strength in the currency markets, building on its safe-haven narrative in the international sphere amidst turmoil regarding the Russian invasion in Ukraine. Remarks by FED chair Jerome Powell at the end of the month, and strong job report numbers bolstered the US Dollar even more. Powell stated that the FED must move “expeditiously“ to tame the inflationary spiral in the US. Many analysts thus point out a potential greater rate hike than the anticipated 25 bps, causing the US Dollar to rise by 1.35% MoM against the EUR. After having fallen to an almost five year-low against the US Dollar in the wake of Russia’s invasion, the Euro failed to put in new highs against the US Dollar. However, talks about potential action of the ECB to reign in inflation at the end of March, caused the Euro to recover slightly with hopes for higher interest rates from the ECB. Contrary to the Euro, the Russian Ruble was able to recover in March, gaining 30% in value and reclaiming pre-invasion levels due to Russia reinstating its gold peg, strict currency controls and demands for gas payments to be made in Rubles. Up to this day Western countries haven’t adhered to the latter though. High inflation numbers in the UK at the end of March, steered hopes of the BoE accelerating monetary tightening, benefiting the GBP. This was however followed by a sell-off, causing the GBP to end the month -2.10% compared to the US Dollar, primarily due to the BoE not following up on those expectations. In response to the BoJ bucking the global trend for monetary tightening and their attempt to keep their 10-year bond yields below their yield-cap, the Yen found itself in a downward spiral this month plummeting to a 6-year low and returning -5.83% MoM against the US Dollar.





In Depth

After losing 30% of its value in the wake of the Russian invasion, the Ruble has by now reverted his losses. The Russian central bank successfully averted the collapse of their currency by raising their interest rates to 20%, thus incentivizing Russians to save their Rubles instead of spending them and prohibiting them to move more than 10,000 US Dollars into international currencies or abroad. Additionally, companies earning proceeds from oil and gas exports have been forced to convert those into Rubles. The foreign currency inflows due to Russian oil and gas exports, paired with little to no Ruble outflows, helps prop up the Ruble at the moment, according to economists. If new sanctions change this dynamic will need to be seen, however currently the Ruble is greatly benefiting from the steady inflows of foreign money into Russia, which could only accelerate if Western nations were to be obliged to pay for oil and gas in Rubles. Due to rampant inflation in the EU, the ECB is expected to raise interest rates soon in the Eurozone. Coupled with a potential truce in Ukraine, this could benefit the Euro in the short term.

Our Performance

We currently hold no currency related assets in our portfolio.

Felix Mitterer
Financial Markets Division

Extras

Hot Topic

Are the US Capable of Being Europe's Main Natural Gas Supplier?

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"Any incremental LNG cargoes sent from the US to Europe are more likely a redirection of existing US LNG cargoes — and hence will do little in terms of material price relief".

– Bank of America

On March 29th, a Russian government spokesman said "No payment, no gas", after the west imposed economic sanctions. Following retaliation of President Putin, gas prices started to rise as the market expected the Russian president to stop supplying gas to "unfriendly countries". Even though Germany assured firms that gas would continue to flow, this incident has motivated Europe to reduce its dependence from Russian gas. However, this dependency accounts for 45% of the continent's imports and around 40% of its consumption.

The question now is: Can the US step up and be Europe's new main natural gas supplier? The Trump administration made efforts in the past to persuade European countries to reduce their dependence from Russia by importing more liquefied natural gas (LNG) from the US, however this failed. Now it is Joe Biden who is trying to implement similar measures, and on March 25th he announced a breakthrough deal to wean Europe off Russian natural gas. The "groundbreaking" pact secures an additional USD 15.0 bn cubic meters of LNG for Europe this year (by comparison Russia currently exports USD 155.0 bn cubic metres a year of gas to the EU). Moreover, it ensures additional EU market demand for 50.0 bn cubic meters per year of the fuel from the US by 2030.

However, there is a lot of uncertainty regarding the feasibility of this pact. First and foremost, there are significant supply limitations since American suppliers face severe infrastructure constraints. The US has almost 100% of its liquefaction capacity already in use, according to Rystad, which means that there is no capacity for additional LNG exports. The baseline for the pledged USD 15.0 bn is not clear. But the US shipped about 22bn cubic metres of gas to Europe in 2021 and has already sent 10.0 bn in the first quarter of this year, according to Refinitiv. So for now, any extra LNG will have to be channelled to Europe through higher prices, diverting ships originally bound elsewhere.

Another concern regarding this pact, is about Europe's ability to receive these American imports. Receiving LNG and converting it into usable natural gas requires big facilities for regasification. However, most of the available LNG regasification infrastructure is in southern Europe, while Eastern Europe and Germany are the most dependent on Russian gas. The Germans have already put plans to build two LNG terminals into practice, but this will take several years. An alternative could be the use of floating LNG terminals, however these are very scarce.

Nonetheless, the long run targets seem more realistic than the short run. A few years ago the EU had discouraged long term gas contracts, as a way to promote competition in the spot market. However, this left Europe too exposed to price fluctuations, and this exposure materialized, as could be witnessed in the past months. Now the EU seems to have given up on that policy to support final investment decisions on both LNG export and import infrastructure.

The big problem is that LNG plants cost billions of dollars and take years to build, and no one expects all 12 of the announced projects to go ahead. According to Gilles Farrer of Wood Mackenzie, it would cost roughly USD 35.0 bn to meet Europe's extra demand, of which USD 25.0 bn would be in liquefaction infrastructure capacity alone.

Additionally, the US officials were clear that the longer-term aim was still to stop using fossil fuels, including LNG. As such, despite there not being much that can be done in the short term to stop the dependence on Russian energy supply, the long term looks promising. Diversification away from Russia in the long run may be possible.

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Hot Topic

China Considers Giving US Access to Audits of Most Companies

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"The fundamental principles of free trade should be upheld, the interests and concerns of all parties be accommodated, and the broadest possible consensus on reform be built up. Taking a unilateralist approach will not solve any problems."

– Li Keqiang, Chinese Premier

Chinese authorities are preparing to give U.S. regulators full access to the audit reports of most of the more than 200 companies listed in New York as early as mid-year, making a rare concession to prevent further decoupling between the world's two largest economies. The China Securities Regulatory Commission and other national regulators are in the process of drafting a framework that will allow most Chinese companies to retain their listings. However, the government is willing to accept that some state-owned enterprises and private companies that hold sensitive data will be delisted. The framework is expected to provide clarity on what data may trigger national security concerns. Regulators are debating whether companies that trade in consumer data, such as Alibaba Group Holding Ltd, would automatically fall into this category and processing large amounts of such data would not necessarily make a company a security risk.

If implemented, the plan would be an unusual reversal by Beijing and could end a decades-long dispute that escalated when the US set a 2024 deadline to expel non-compliant companies from the New York Stock Exchange and Nasdaq. The compromise would also show that China is willing to balance national security concerns with the needs of investors and businesses at a time when its economy faces numerous challenges. Shares of Chinese companies rose in pre-market trading in the US. Alibaba shares rose 5.80% in pre-market trading, JD.com Inc rose 4%, Pinduoduo Inc rose 7.90% and Didi Global Inc rose more than 18%. The Nasdaq Golden Dragon Index posted its worst first quarter since 2008 on concerns about audit disputes, regulatory crackdowns and economic growth.

The details are still being discussed and may change. In addition, the plan still needs to be approved by top leadership. However, Chinese regulators hope to reach an agreement with the US by the summer. Nevertheless, the CSRC has repeatedly expressed more optimism about the possibility of an agreement than its American counterpart. The chairman of the Securities and Exchange Commission, Gary Gensler, dampened speculation about an imminent solution, saying that only full compliance with audit controls would allow companies to continue trading in US markets. China could simply move a company to a non-US exchange if it wanted to protect its financial records, Gensler said in an interview. He also pointed out that the US law focuses on non-compliant countries, not specific companies. So if an application is blocked, it means the requirement is not met.

Washington and Beijing have been at odds for two decades over the mandate that all companies trading publicly in the US provide access to audit records. The issue sparked action on Capitol Hill at the end of the Trump administration, when US lawmakers demanded that non-compliant companies be delisted. The law is particularly threatening to companies based in China and Hong Kong, as Beijing has denied access to corporate audits, citing national security concerns. The Chinese government has allowed some US audits in recent years, but the US has remained adamant in its demand that American inspectors be able to walk into a foreign audit firm and demand audits of all companies doing business in the US.

It remains to be seen how transparent the proposed framework of the Chinese authorities will be and whether it will meet the requirements of the US authorities.

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ESG Review

Proxy voting: A Means to Push the Corporate ESG Agenda

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“Membership of nomination committees is a very efficient way to engage with the companies we have large holdings in, and it enables us to drive real change.”

– Erik Durhan, Head of Corporate Governance, Nordea Funds Ltd.

Most investors think of ESG investing in terms of removing "bad" companies from their individual portfolios. Voting, on the other hand, serves as another effective technique to influence corporate conduct.
A company’s corporate behaviour can be significantly impacted by asset managers’ use of their votes. Many asset managers miss out on those opportunities to facilitate meaningful change by not voting, according to ShareAction's 2021 Voting Matters research, which examined significant asset managers' voting performance on environmental and social resolutions. The fact that the world’s most influential and powerful asset managers recently stymied efforts to tackle environmental and social challenges indicates the lack in proactiveness in terms of active voting.

Every shareholder has the capability to support corporations in better managing their environmental, social, and governance risks. According to Nordea Asset Management (NAM), this is essential in protecting the long-term interests of shareholders and society. As part of its objective to provide investors with responsible returns, NAM has a long history of promoting change through activities including fieldtrips, engagement, and voting. Through its Active Ownership activities, NAM is capable of addressing material sustainability concerns and opportunities. In 2021,at over 4,200 General Meetings on thousands of proposals, covering ESG topics including climate change, NAM voted to make a change. This reflects NAM’s goal of voting in the majority of its portfolio companies' General Meetings, which is backed by an internal cross-departmental framework that is strengthening its voting power.

In comparison to the rest of the market, this endeavour stands apart. Overall voting performance throughout the asset management industry shows poor results, according to the ShareAction report for 2021. Even in the area of ESG and climate issues, which is gaining investor interest, the industry's performance is dismal. In 2021, only 21% (30 of 146) of environmental and social resolutions reviewed achieved more than 50% support, showing only slight changes relative to the previous year.

The 2021 ShareAction report breaks down the proportion of 'for' votes on climate resolutions by each asset manager, including those who are members of Climate Action 100+ or the Net Zero Asset Managers movement. Even though many of their peers have pledged to support green agenda efforts, NAM is one of only three managers with a perfect score in this category. "Although the voting performance of the industry as a whole remains flat," the research continues, "some individual managers have shown tremendous progress." In 2021, Nordea was one of these companies, supporting 91% of environmental and social resolutions. In terms of voting activity, Nordea is recognized among the best in the sector, ranking 8th in Europe and first in the Nordics as its Corporate Governance and Active Ownership teams' long-term efforts are paying off. The fact that voting and engagement can overlap is becoming increasingly obvious. Engaging with its investee companies not only impacts outcomes but also allows Nordea to address material sustainability risks, which can have a significant impact.

Overall, climate change and other important concerns require the asset management business to play a critical role. Proxy voting is a powerful and transparent tool for influencing organizations and bringing about real-world change.

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Thank you!

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