NIC

— Nova Investment Club —

Newsletter

November 2022

NIC
—Nova Investment Club—

Table of Contents

Foreword

This Month:

In our Macro Overview section, analysts from both divisions will cover broad macro themes while reviewing major economic news from the past month. In our Deeper Dive section, Yutong Wang, elaborates on the timeline of Elon Musk's Twitter acquisition. Moreover, in our Regional View, Tomás Forte Vaz, discusses the UK's negative economic outlook.

Our Investment Banking Division will guide you through October's overall M&A activity. Read about Alexion, AstraZeneca Rare Disease acquiring LogicBio Therapeutics, Adobe Systems Inc. acquiring Figma Inc, and UnitedHealth Group taking over Change Healthcare Inc. Additionally, get a detailed overview on what happened to Meta Platforms Inc and Porsche AG, and read our opinion on Patagonia's transfer of ownership to a non-profit organization.

Our Financial Markets Division will present the monthly results of the NIC Fund, an active relative return fund investing across three different asset classes: Equities, Fixed Income, and Commodities. The analysts will also provide commentary on each of the four major asset classes through analysis of the past month's major market moves. The overall performance of the NIC Fund in October was positive, with a cumulative return of 1.85%. A gain that can be mainly attributed to Equities.

On the Hot Topic of this month, Karolin Koralik, discusses Credit Suisse's restructuring plan and its echo's. Lastly, on our ESG review in collaboration with Nordea, Francisca Bombas, discusses the role of infrastructure in the ESG revolution.

Macro Overview

Monthly

November 9th, 2022

Deeper Dive

The bird is finally freed: A Timeline of Elon Musk's Twitter Acquisition

— p.2

Regional View

Overturning the UK's Negative Economic Outlook

— p.3

Market Moves

Market Moves

% change

	Last Close	-1W	-3M	YTD
S&P 500	3,872	1.97%	-6.25%	-18.76%
DJIA	32,733	3.92%	-0.34%	-9.92%
Nasdaq	10,988	0.32%	-11.32%	-29.77%
MSCI World	2,906	3.05%	-8.65%	-23.06%
MSCI EM	3,312	-0.01%	-13.82%	-28.77%
Russell 2000	1,847	5.63%	-2.04%	-17.75%
Euro Stoxx 50	3,618	2.54%	-2.44%	-15.84%
FTSE 100	7,095	1.15%	-4.43%	-3.93%
Nikkei 225	27,587	2.27%	-0.77%	-4.18%
Hang Seng	14,687	-3.25%	-27.14%	-37.23%
Dollar Index	111.53	-0.41%	5.31%	16.57%
EUR/USD	0.988	0.08%	-3.31%	-13.09%
GBP/EUR	1.160	1.57%	-2.63%	-2.46%
GBP/USD	1.147	1.69%	-5.77%	-15.25%
USD/JPY	148.710	-0.13%	11.59%	29.22%
USD/CHF	1.00	0.04%	5.13%	9.68%
Brent Crude	94.830	1.68%	-13.80%	21.92%
Gold	1,640.7	-0.49%	-6.93%	-10.28%

Generic Bond Yields

change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	4.048%	-19.5	139.9	253.8
GER 10Y Yield	2.142%	-18.8	132.5	231.9
JPY 10Y Yield	0.248%	-0.7	6.3	17.7
UK 10Y Yield	3.516%	-23.0	165.2	254.5
PT 10Y Yield	3.148%	-18.4	130.5	268.3

**Source: Bloomberg, as of 2022-10-31*

In Focus

October

Investors price ever higher interest rate adjustment due to rising inflation. With US consumer prices continuing to rise at an alarmingly high level in September, up 8.20% YoY, investors are expecting the Fed to raise interest rates to above 5% next May to ease inflation.

Xi Jinping secures third term as head of Communist Party. China's current president was re-elected chairman of the Communist Party for another 5 years, paving the way for a virtually certain re-election as president in March 2023. Xi Jinping has led China's rise to the world's second-largest economy and is held up as the second greatest Chinese statesman since Mao Zedong.

Rishi Sunak becomes new British Prime Minister. Rishi Sunak succeeds Liz Truss as new British Prime Minister after she announces her resignation after just 6 weeks. A planned tax reduction program, which has caused turmoil in the financial markets, is being blamed for this. The former hedge fund manager, Sunak, faces a number of economic problems in his new post, including a GBP 30 bn hole in the government's current budget.

Turkish Central Bank cuts key interest rate further. The Turkish Central Bank lowers the key interest rate from 12% to 10.50% in mid-October despite inflation rising above 83% in September. President Erdogan seeks to prioritize economic growth ahead of an important parliamentary election. The driver of the interest rate cuts is Turkey's President Erdoğan, who has ordered the Turkish Central Bank to lower interest rates. He also plans to lower the interest rate to below 10% in 2022. The plan is to boost economic growth in view of the upcoming elections next June.

Elon Musk closes USD 44 bn deal to acquire Twitter. After months of uncertainties, the closing of the purchase of Twitter by Elon Musk was announced on 26/10/2022. Elon Musk, who is himself an active Twitter users, continues to expand his corporate empire and becomes one of the most powerful media moguls in the world. With the closing of the acquisitions many expect a radical changes in the way Twitter is run after Elon Musk has been announcing big plans for the last few months.

German benchmark index DAX loses its largest company. The world's largest industrial gases group, Linde, wants to withdraw from the Frankfurt Stock Exchange. This would mean that Germany's leading index, the Dax, would lose its most valuable company. Linde states investors have been 'negatively impacted' by dual listing in Germany and US.

Luiz Inácio Lula da Silva wins Brazil presidential election. In the runoff election for the highest office in Brazil, the left-wing former president Luiz Inácio Lula da Silva has narrowly won against the incumbent Jair Bolsonaro. Lula thus returns to the office he held from 2003 to 2010. During his time in office, Lula was able to help millions of people rise into the middle class, but his name is often associated with corruption scandals.

USD reaches its strongest level in 20 years. The USD maintains its strength against the other developed currencies in October 2022 even though it did not gain further in October. Investors expect currency losses in company earnings of up to USD 10.0 bn for Q3. A weakening of the currency is not expected until an interest rate cut by the Fed.

Philipp Hauswurz
Financial Markets Division

Deeper Dive

The bird is finally freed: A Timeline of Elon Musk's Twitter Acquisition

Yutong Wang
Investment Banking Division

*"A beautiful thing about Twitter is how it empowers citizen journalism – people are able to disseminate news without an establishment bias…
I didn't do it because it would be easy. I didn't do it to make more money. I did it to try to help humanity, whom I love. And I do so with humility, recognizing that failure in pursuing this goal, despite our best efforts, is a very real possibility"*

– Elon Musk, "Chief Twit", Twitter, Inc.

"Let that sink in": When Elon Musk walked into Twitter's San Francisco headquarters with a sink on Wednesday, October 26th, the month-long saga of drama and legal fights took an unexpected turn after all. The world's richest person and self-styled "memelord" completed a take-to-private deal of acquiring Twitter, Inc. at his original offer price of USD 54.20 per share at a total cost of c. USD 44.0 bn.

Musk's bid for Twitter could not have been more public. In March, Musk posted several tweets and polls, questioning Twitter's contribution to free speech as well as a functioning democracy. At the same time, he kept building his ownership in Twitter and announced his position as the largest shareholder of Twitter with a 9.20% stake, tweeting, "Oh hello lol.".

Within a day of disclosing his stake, Musk was offered – and accepted – a seat on Twitter's board, which he rejected after a week and publicly made a hostile, "best and final" offer of USD 54.2 per share, representing a 38% premium to Twitter's share price on April 1st and valuing the company at USD 43.4 bn. One day later, Twitter launched a "poison pill" takeover defence – a strategy developed in the 1980s to protect companies from corporate raiders – to fend off Musk's bid. Under Twitter's plan, existing shareholders would have been able to buy shares at a discount if anyone acquired more than 15% without board approval, preventing Musk from building a greater than 15% stake in the open market.

On April 21st, Musk unveiled a USD 46.5 bn financing package as he pushes ahead with a deal that would be one of the largest leveraged buyouts in history, placing him personally on the hook for USD 33.5 bn, i.e., more than 70% of the total financing. The billionaire CEO said he would provide USD 21.0 bn of equity and lined up USD 25.5 bn in debt for the deal – including a margin loan of USD 12.5 bn against USD 62.5 bn worth of his Tesla shares – from a consortium including Morgan Stanley, Bank of America, and Barclays. Whereas Twitter hired JPMorgan Chase and Goldman Sachs to advise it on the hostile bid. On April 25th, Twitter accepts Musk's takeover offer. Co-founder & former CEO of Twitter and long year friend of Musk, Jack Dorsey publicly backs the transaction, calling Musk the "singular solution" to the tech giant's problems.

To fund one of the biggest tech deal in history, Musk decided to bring more equity investors on board, including Oracle co-founder Larry Ellison, crypto exchange Binance, as well as asset management groups Fidelity, Brookfield, and Sequoia Capital. With the new financing commitments, Musk cut the margin loan he took by half to USD 6.25 bn and increased the equity portion to USD 27.25 bn. The remainder of the purchase price would have been paid with debt raised from global banks. When everyone thought the deal would go smoothly off the stage now, a months-long dispute began, on Twitter and in the courts. On May 13th, Musk put Twitter deal "on hold", claiming that over 20% of Twitter's users being fake or spam accounts, and called on Twitter's CEO to "prove" metrics on spam and bot accounts.

On July 12nd, Twitter filed a lawsuit in the Delaware Court of Chancery to hold Musk accountable to his contractual obligations, forcing him to close the deal. In return, Musk countersues Twitter as a former head of security at Twitter alleges the company misled regulators about its poor cybersecurity defences and its negligence in attempting to root out fake accounts that spread misinformation. In a stunning about-face, Musk sends a letter to Twitter on October 4th, saying the original offer is still on in order to realize his vision of creating a new "everything app" called "X". On October 26th, Musk changed his Twitter profile to "Chief Twit" as he became the new owner of Twitter and fired its CEO and CFO, ending this Musk-Twitter saga with the tweet, "The bird is freed".

Yutong Wang
Investment Banking Division

Regional View

Overturning the UK's Negative Economic Outlook

Tomás Forte Vaz
Financial Markets Division

"Flying blind is not a way to achieve sustainability (...) my best guess is that inflationary pressures will require a stronger response than we perhaps thought in August"

– Andrew Bailey,
Governor, Bank of England

On the 24th of October, Rishi Sunak was appointed Prime Minister of the United Kingdom following ex-Prime Minister Liz Truss's resignation, and with it, inheriting an economy suffering from inflationary pressures, an extensive fiscal deficit, a depreciating British Pound and on the brink of an economic recession. The ability to overturn this downturn will hinder mainly on the policy stance the leader of the Conservative Party takes in coordination with that of the Bank of England, to stabilise price levels and resolve the structural issues within the British economy.

Inflation has eroded much of the economic recovery made post-pandemic, as the UK's Consumer Price Index rose 10.10% in September, based on the Office of National Statistics' estimates, matching its 40-year high and sending the GBP down with respect to the USD, from USD 1.1330 to USD 1.1289. This is mainly characterized by supply-led factors, namely rises in energy, food, and transport prices, as the 2% inflation target has become a mirage, prompting swift action from the BoE.

The intervention of the BoE, through rises in interest rates, has remained hawkish and firm, with an attempt to stabilise prices through higher borrowing costs. Interest rates currently stand at 2.25%, after the 7th consecutive rise made by the Monetary Policy Committee, this time by 50 bps. As a consequence of the attempt at reducing inflation, real economic growth will likely pay the price, will a potential spill-on effect, in the housing market through higher mortgages and in the fiscal deficit through higher interest rate payments and lower tax revenues. The most recent predictions made by the IMF, downgraded expected real economic growth for the UK in 2023 to -0.10%, reflecting a sharper-than-expected slowdown with high inflation being a prominent factor.

With the goal of contradicting this potential downturn, came the proposal of the "mini-budget", presented by the at the time Prime Minister, Liz Truss and Chancellor Kwasi Kwarteng, pushing for tax cuts totalling GBP 45 bn, arguing that the fiscal stimulus would be sufficient to drive demand and the subsequent higher economic activity would compensate the increased budget deficit in the long-run. Unconvinced with the economic soundness of the policy, the British Pound fell to a 37-year low, furthermore, after an unprecedented surge in yields of the gilt, driven by a Pension Fund sell-off, the BoE had to intervene in the bond market pledging to buy up to GBP 65 bn of long-dates gilts to stabilise their price. The mini-budget proposal was seen by many as "casino economics", an extremely risky policy that lacked empirical support, failed to solve the issue of inflation, was incoherent with the stance of the BoE and would only lead to a widening of the fiscal deficit.

The uncertainty regarding the UK's political leadership has also taken a toll on its prospects and Rishi Sunak will likely have his hands full to overcome this. A proposal of tax cuts and public spending cuts amounting to GBP 50 bn, equivalent to 2% of GDP, to help control inflation and heal public finances, is expected. If the BoE can convince financial markets that the government's fiscal plans allow it to raise interest rates by a lower amount than previously expected, the value of the tax cuts may be lower than originally predicted. Furthermore, an extension on the 25% "energy levy" implemented this year is also expected, including the current 30% corporation tax plus an additional 10% on UK oil and gas profits is also anticipated. All in all, markets have reacted positively to the change of leadership and the proposed fiscal stance taken by the British government, as the FTSE 100 is up 0.48% since the announcement, nonetheless, with a Debt-to-GDP of 95% and inflation remaining high, the obstacles that lay ahead have many doubting the success of the new Prime Minister in solving the country's bearish economic outlook.

Tomás Forte Vaz
Financial Markets Division

Macro Overview
Economic Calendar

Economic and Political Events

EU's Energy Crisis Measures
Energy ministers have set a new deadline for **24th** November to reach an agreement on the latest proposals to tame energy prices. The Commission will discuss the deployment of a dynamic price mechanism, which would impose a cap on gas prices.

US-EU Trade Relationship
The **first week** of November will mark the first meeting of the US-EU task force on the Inflation Reduction Act to address Europe's concerns about Joe Biden's discriminatory subsidies threatens part of the European industrial base.

COP 27 in Sharm El- Sheikh, Egypt
The 27th session of the Conference of the Parties (COP 27) will take place from the **7th to the 18th** of November to limit climate change. Overall the agenda is broad, tackling topics such as biodiversity, water age, gender, and decarbonization.

Central Bank Decisions

Fed Interest Rate Decision
The next FOMC meeting is scheduled for the **13th – 14th** December. On the **2nd** of November the Fed raised interest rates by 0.75 percentage points during its FOMC meeting – the fourth consecutive time the Fed has hiked rates at this scale to tackle inflation.

Bank of England Interest Rate Measures
On the **3rd** of November the Bank of England will meet. The monetary policy committee voted to increase the key base rate by 0.5 percentage points to 2.25% to combat the worst wave of inflation in 40 years. The British economy is in a recession, according to the BoE.

ECB Monetary Policy Decision
The ECB's next monetary policy meeting will be held in Frankfurt on the **15th** of December**.** The Governing Council has decided to further increase the ECB's three key interest rates (main refinancing operations, marginal lending facility, deposit facility) by 75 basis points each.

Inflation and Deflation

US Inflation Update
The October inflation data for the US will be updated on the **10th** of November. Inflation of 8.20% was recorded in September, as expected. Though, inflation is expected to fall substantially over the next year to meet the 2% goal at the end of 2023.

Euro Area's Inflation Rate
Europe's inflation data for October will be released on the **17th** of November. The annual inflation rate was 9.90% in September 2022 (vs. 9.1% in August). An expected decline to 2.30% in 2024 mainly reflects a sharp decline in energy and food price inflation.

China's Inflation
China's next inflation update will be released on the **9th** of November**.** It's annual inflation rose to 2.80% in September 2022 (vs. 2.50% in August), matching market consensus. This was the highest rate since April 2020, mainly due to a sharp jump in cost of food.

Labour Market

US Employment Report
On the **4th** of November, the US will release its next payrolls report for the October 2022 reporting month. In September, 263,000 new jobs were posted, exceeding the 250,000 projected by economists. The unemployment rate fell to 3.5% from 3.7% in August.

German Labour Market
The monthly labour market statistics for October 2022 will be issued on the **30th** November. The seasonally adjusted employment number decreased slightly by 4,000 (overall equals 0% change) from the previous month, following an increase of 12,000 in August.

UK Unemployment
The next labour market update will be published on the **15th** of November. The latest unemployment rate for July-August was 3.5%, 0.3 percentage points lower than in the previous period and 0.5 percentage points below the pre-pandemic level.

Pauline Schüller
Financial Markets Division

Investment Banking

M&A

Overall Activity

Global

After an all-time high in M&A deal activity in 2021, the global M&A market reached a plateau during the first quarters of 2022. Activity levels are slowing down, though they remained above pre-pandemic levels. Early in 2022, particularly megadeals (worth more than USD 25.0 m) suffered a 24% decline in deal value compared to previous year and 12% drop in terms of deal volume. Despite slight YoY declines, Q2 2022 M&A activity showed resilience regardless of global macroeconomic concerns, including geopolitical uncertainty, rising inflation, supply-chain issues, volatile capital markets as well as liquidity tightening across central banks. Contrary, Q3 2022 hit a 2-year deal count low dropping 40% compared to the previous quarter and 48% compared to Q3 2022 – reflecting a clear downtrend in both, deal volume and deal value. The Technology, Media and Telecom (TMT) sector continued to dominate M&A activity in the last quarter, accounting for eight of the top 20 global M&A deals in Q3 2022. However, major deals still occurred during Q2 2022 and Q3 2022, including Broadom's acquisition of VMware as well as Adobe System's purchase of Figma.

Selected Regions

North America

M&A activity in America, both in terms of deal count and deal value, was higher than EMEA and Asia Pacific during Q2 2022 and Q3 2022. Nevertheless, deal volumes and values have declined by 18% and 22%, respectively, mainly driven by inflation concerns and rising interest rates. America accounts for the largest recent M&A deal, the acquisition of WMware by Broadcom.

EMEA

As EMEA countries are facing significantly higher energy costs given Europe's strong dependence of Russian gas, investor's confidence has decreased – driving down M&A deal volumes and values by 12% and 33%, respectively, compared to previous year.
Notably, the Public Investment Fund and Saudi National Bank have bought a ca. 13% stake in Credit Suisse AG.

Asia

Asia Pacific has suffered major decreases in M&A activity, with both deal volumes and values falling by more than 30%, compared to previous years. This is primarily due to current macroeconomic issues and recent pandemic-related restrictions imposed across several major cities in China. For the first time since 2019, no megadeals were closed in Asia during the last quarter.

M&A

Deals of the Month

Announced Date	Target	Buyer	Target Region	Target Business	Value (USD m)	Premium (%)
11 Oct 22	Braskem S.A.	Apollo Capital Partners GmbH	BR	Chemicals	15,697.5	59.75%
01 Oct 22	Con Edison Clean Energy Businesses Inc	RWE AG E. ON Climate and Renewables North America	DE	Energy & Utilities	6,939.5	-
27 Oct 22	Aegon Nederland NV	ASR Nederland N.V.	NL	Insurance	4,921.9	-
17 Oct 22	Archaea Energy Inc.	BP Plc	US	Energy & Utilities	4,144.5	54.03%
11 Oct 22	ForgeRock Inc.	Thoma Bravo, LLC.	US	Technology	2,461.9	53.36%
14 Oct 22	Avito	Kismet Capital Group	MA	e-Commerce	2,452.3	-
01 Oct 22	RWE AG	Qatar Investment Authority	DE	Energy	2,427.6	(5%)
27 Oct 22	Credit Suisse Group AG	Public Investment Fund Saudi National Bank	CH	Financial Services	1,876.8	0%
03 Oct 22	Villaris Therapeutics	Incyte Corporation	US	Healthcare	1,458.6	-
07 Oct 22	A2Mac1	Providence Equity Partners L.L.C.	FR	Automotive	1,400.0	-

Ignacio Klimowitz
Investment Banking Division

M&A: Top Deals

Alexion, AstraZeneca Rare Disease to Acquire LogicBio Therapeutics

On 03/10/2022 it was announced that AstraZeneca is going to acquire gene editing and therapy forerunner LogicBio Therapeutics with its subsidiary Alexion. The transaction is structured as a cash deal and amounts to a total of USD 68.0 m. This implies a price per outstanding share of USD 2.07, representing a premium of more than 600% on LogicBio's 30/09/2022 closing share price.

Buyer vs Seller

Based in Cambridge, AstraZeneca acts as one of the largest pharmaceutical suppliers in the world. The firm focuses its operations on the disease areas Oncology, BioPharmaceuticals and Rare Disease. Alexion, which was purchased by AstraZeneca in 2021, concentrates on the development of the latter business unit and has been acting in the rare disease research area for nearly 30 years. LogicBio is a genetic medicine and therapy pioneer investigating the two platforms, gene delivery and gene editing.

Industry Overview

The rare disease market was estimated to be worth USD 119.6 bn in 2021 and is expected to grow to USD 128.4 bn in 2022. The therapeutical field of the industry was dominated by treatments of cancer, accounting for a revenue share of more than 25% in 2021. Market growth is estimated to amount to 12.80% until 2030 and expected to be driven by a growing number of product launches due to the increasing incidences of rare diseases and expanded research into corresponding cures.

Peers	Currency	Market Cap (CUR m)
Vaxart Inc	USD	200.51
Oyster Point Pharma Inc	USD	208.48
Omeros Corp	USD	213.91
Fennec Pharmaceuticals Inc	CAD	303.09
Annexon Inc	USD	222.37

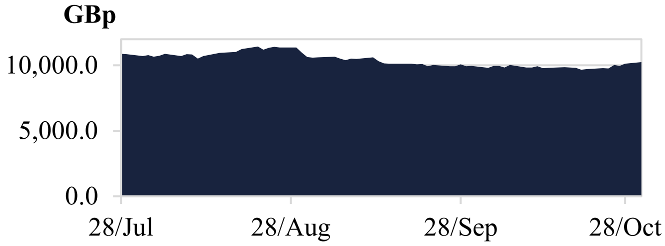
Deal Rationale

By performing this deal, AstraZeneca is combining Alexion's established rare disease research base with LogicBio's experienced R&D team as well as its unique and innovative technology platforms GeneRide and sAAVy. AstraZeneca hereby expands its rare disease portfolio and pursues its strategic plans to accelerate its growth in the genomic medicine market, compensating for declining revenues from other business units. The merger of the two companies will enable AstraZeneca to stimulate and advance its future R&D activities and launch targeted medicine as well as treatments to effectively deal with rare disease pathologies.

Market Reaction

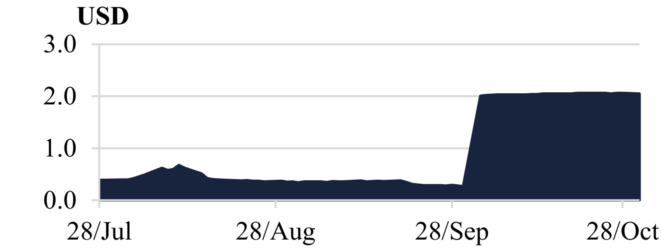
AstraZeneca

The stock price of AstraZeneca declined by 1.39% after deal announcement. At the end of October, the share recorded a slight upturn and is currently trading at GBP 10,452.



LogicBio Therapeutics

After going public in 2018 with a share price of USD 10.0, the firm's stock almost constantly declined. With the deal being confirmed, the stock price jumped from USD 0.27 to 2.01.



Future Challenges

The transaction has already been concordantly approved by both boards and is expected to be closed in November. According to Alexion, employees at LogicBio will not be transferred to other business locations. However, the deal is still subject to the official tender of at least a majority of the outstanding shares of LogicBio's common stock and the fulfilment of other closing conditions.

Charlotte Mayr
Investment Banking Division

M&A: Top Deals

Adobe Systems Inc. to Acquire Figma Inc.

On the 15/09/2022, Adobe Systems Inc. announced the acquisition of Figma Inc. for a consideration of approximately USD 20.0 bn in cash and stock. Adobe finances the transaction with cash on hand and, eventually, a term loan. The transaction is expected to close in 2023 and is subject to closing conditions, including the approval of Figma's shareholders.

Buyer vs Seller

Adobe is a provider of software for digital imaging, design and document technology based in the US. The company offers well known products such as Photoshop, Lightroom, Acrobat as well as further B2B and B2C products and functionalities. Figma, a US based company, provides a web-based platform, facilitating collaboration within teams for all stages of product design. Allen & Company LLC acted as financial advisor to the buyer, Qatalyst Partners Ltd as financial advisor to the seller.

Industry Overview

The global cloud collaboration market reached a value of USD 37.4 bn in 2021. The market is expected to grow at a CAGR of 11.20% between 2022 and 2027, reaching a value of USD 73.0 bn. Aspects driving market expansion include significant growth in the IT industry, increasing automation trends, and the advancing working from home trend, facilitated by the Covid-19 crisis. The acquisition of Figma marks the most influential acquisition in the cloud collaboration market to date.

Peers	Currency	Market Cap (CUR m)
Wix.com Ltd	USD	4,846.8
Monday.com Ltd	USD	4,841.3
Asana Inc	USD	4,326.4
Channel Advisor Corp	USD	666.2
Hybrid Systems Group Plc	EUR	137.9

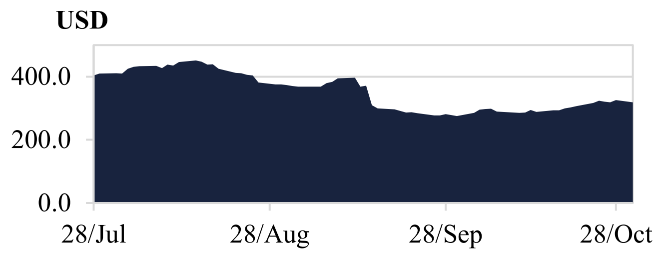
Deal Rationale

The deal is expected to be dilutive to the shares of Adobe due to the deal limiting EPS growth over the next three years (company estimates), suggesting limited revenue synergies in the short term. However, the acquisition allows Adobe to enter the web collaboration segment, extending its product offering by integrating the ability to collaborate within workstreams while simultaneously adding functionalities into the acquired platform. Figma will accelerate the delivery of Adobe's creative cloud technologies on the web, making the product design process more productive as well as extending Adobe's customer base.

Market Reaction

Adobe Systems Inc.

Following the announcement of the merger, the stock of Adobe fell by more than 20% within one month after the announcement. Adobe is currently trading at USD 318.7.



Figma Inc.

Figma, currently employing more than 850 employees, was founded in 2012 by Dylan Field (current CEO) and Evan Wallace. Since incorporation, the company has built an efficient business with a gross margin of approximately 90% and annual recurring revenues of USD 400.0 m in 2022. Figma has an estimated customer base of 4 m customers, including tech giants such as Dropbox, Rakuten, Slack, and Twitter.

The company received several fundings from a prominent investor base, including Greylock Partners, Sequoia Capital, and Index Ventures SA. The latest financing was a Series E funding of USD 200.0 m on 24/06/2021 with an implied pre-money valuation of USD 9.8 m.

Future Challenges

Besides the mentioned potential for Adobe, Analysts consider the transaction, with a value of USD 20.0 bn, as overvalued and that the high transaction value could be driven out of a need to acquire a growing competitor. Looking forward, Adobe is under pressure to leverage synergies from the acquisition in order to make the deal beneficial to shareholders.

Marie Klingsporn
Investment Banking Division

M&A: Top Deals

UnitedHealth Group to Acquire Change Healthcare Inc.

The acquisition was completed on the 03/10/2022 and amounted to USD 13.4 bn, including debt. The deal was originally announced on the 06/01/2021 and closing was postponed due to anti-competitive concerns. UnitedHealth offered USD 25.7 in cash for each Change Healthcare share, a 41% premium to the closing price.

Buyer vs Seller

UnitedHealth Group is a healthcare and insurance company that provides an array of insurance plans for customers and, under one of its health brands, Optum, delivers technology as well as contracting solutions. Change Healthcare Inc. provides data-driven services for the healthcare industry, including solutions to improve financial, and patient engagement outcomes. Bank of America served as advisor to UnitedHealth Group and Barclays and Goldman Sachs provided advisory services to Change Healthcare Inc.

Industry Overview

Despite current and past volatility in the markets the healthcare sector has been growing immensely. One of its key drivers are innovation in treatment solutions and the further digitization. EBITDA in the healthcare industry grew 5% between 2017 and 2019 but remained relatively flat through 2020 and 2021. Projected EBITDA growth is expected to be 6% from 2019-2025, with payer and services segments growing fastest. However, although being a non-cyclical industry, inflation and volatility will most likely slightly dampen the positive outlook.

Peers	Currency	Market Cap (CUR m)
Computer Programs & Systems	USD	458.81
Evolent	USD	3,035.18
Omnicell Inc.	USD	3,379.67
Tabula Rasa Inc.	USD	92.40
UnitedHealth Group	USD	506,790.35

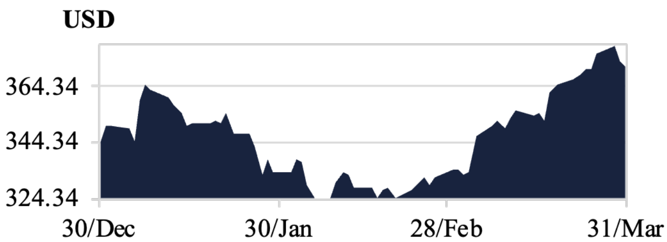
Deal Rationale

The purpose of the transaction for UnitedHealth Group was to strengthen its operations and to offer new services for its healthcare technology practice Optum, which provides data analytics, pharmacy care, and healthcare services. As a result of the acquisition, synergies are expected to be accretive to UnitedHealth Group's net and adjusted earnings per share by approximately USD 0.20 and USD 0.50 respectively in 2022. Furthermore, the deal helps both companies in reaching their shared vision for making the healthcare system simpler and more adaptive to the needs of payers, providers, and patients.

Market Reaction

UnitedHealth Group

After the announcement in January 2021, the stock price decreased by approximately 9%, but strongly recovered, trading at a 55% premium (as of closing date) to January 2021.



Change Healthcare Inc.

Change Healthcare Inc., formerly known as Emdeon, provides revenue and patient engagement as well as clinical and imaging solutions for the healthcare industry. Products include, among others, network platforms and an intelligent healthcare network, giving customers access to thousands of physicians, dentists, pharmacies and hospitals. Furthermore, the company has the largest financial and administrative information exchange in the United States. Change Healthcare started trading on the Nasdaq on 27/06/2019 and raised more than USD 640.0 m in its IPO. Upon closing of the merger on 03/10/2022 with UnitedHealth, Change Healthcare has informed Nasdaq to suspend and withdraw the stock for further trading.

Future Challenges

Regulatory challenges have been successfully overcome after defeating the Department of Justice in federal court over the attempt to block the acquisition. However, it remains questionable how UnitedHealth Group will incorporate the software solutions of Change Healthcare Inc. in its existing Optum portfolio and whether there will be costs and risks associated with the integration.

Marlin Egbuna
Investment Banking Division

What Happened To

Meta Platforms Inc.

Meta Platforms is a leading social technology company, known worldwide for its groundbreaking social media platform Facebook. Other notable companies owned by Meta include Instagram and WhatsApp. It divides its businesses into two segments: Family of Apps (FoA), such as Facebook and Instagram, and Reality Labs (RL), its foray into virtual reality products.

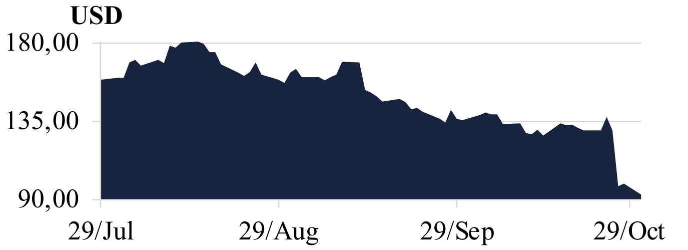
Corporate News

Meta has been on a consistent descent for some time now, and is down 72.12% YTD as operating costs increased, advertising revenue significantly decreased, and performance of its RL segment slowed below Meta's own projections.

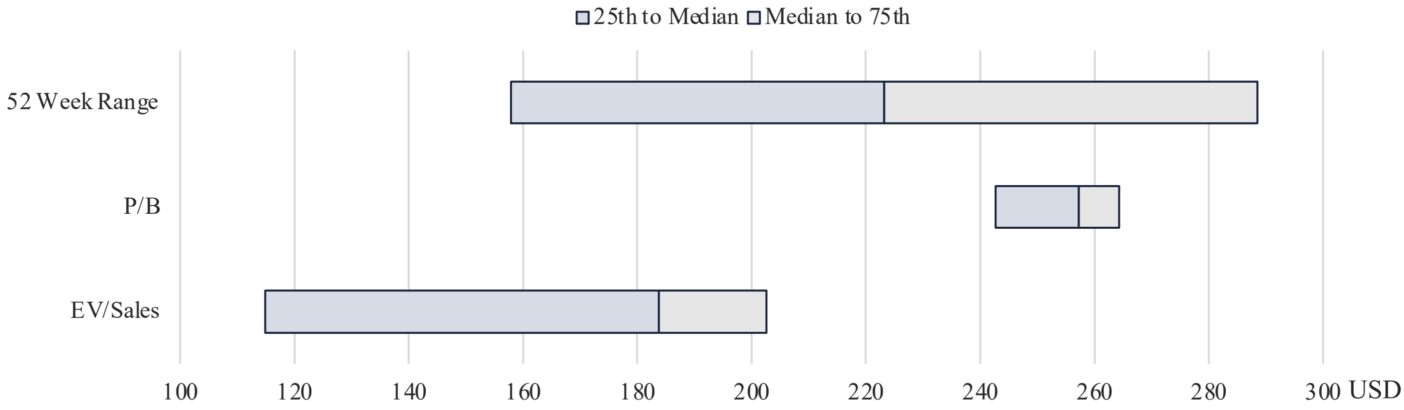
In general, technology stocks took a hit at the end of October as they reported lower than expected earnings. Amazon's forecast of weakening advertising revenue going forwards hit the largest technology stocks hard with Microsoft, Apple, Alphabet and Meta losing a combined USD 950.0 bn in market value. Meta also shared bad news by indicating that it was negatively revising its profit margin expectations, leading to an immediate downgrade in Meta's stock rating from "overweight" to "equal weight" from Morgan Stanley. This is a notable break from protocol from the bank which does not usually issue immediate downgrades, thereby reinforcing the market's negative outlook on Meta and its peers.

Price (31 Oct 22, USD)	**95.20**
Target Price (USD)	140.00
3M Performance	-40.16%
Market Cap (USD m)	252,427.43
Enterprise Value (USD m)	237,132.43

**Target Price is for 12 months*



Valuation Analysis



Meta's stock has been highly volatile in the 52-week period, but to a comparable level to its peers as they all experience the effects of slowing consumption and lower disposable income, both direct drivers of advertising revenue. The market is currently significantly underpricing Meta, indicating an unfavorable market sentiment with analysts predicting further losses following FY financials. Other valuation metrics are not considered as Meta's peers are loss making companies, and thus do not report P/E data.

Meta's continued bet on the "Metaverse", an immersive online world that aims to build a network of 3D virtual worlds focused on social connections and interaction, has "angered" investors in recent meetings with Zuckerberg, reported the FT.

Investors and analysts point to the failure of "Second Life", a similar otherworldly concept that launched in 2003 and has failed to grasp significant attention, as an example of the Metaverse's flawed concept and bloated investment.

Peers	Currency	Market Cap (USD m)
Snap Inc	USD	16,534.29
Pinterest Inc	USD	16,413.19
Uber Technologies Inc	USD	58,902.57
DoorDash Inc	USD	17,412.21
Lyft Inc	USD	5,334.07

Guilherme Capinha Lopes
Investment Banking Division

What Happened To
Porsche AG

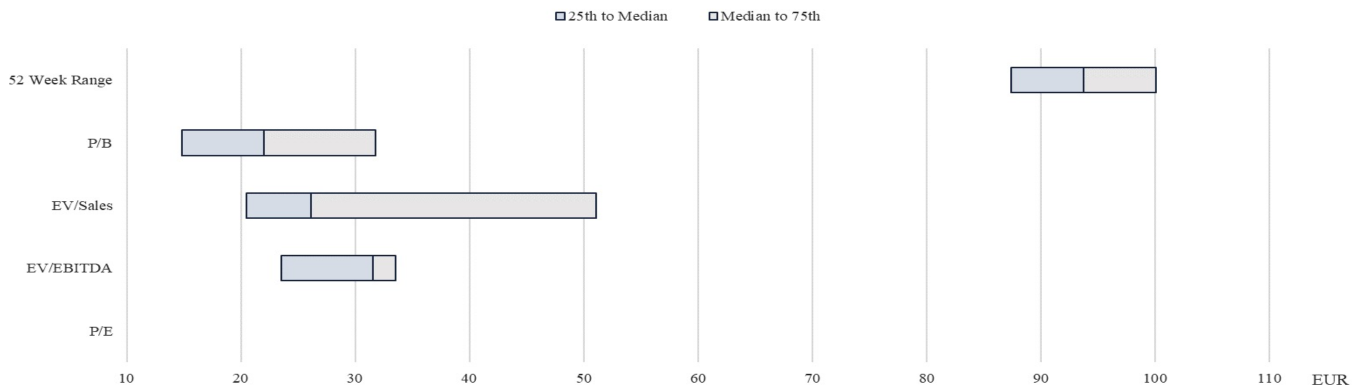
Porsche, one of the most well-renowned sportscar manufacturers, has been listed on the Frankfurt Stock Exchange on 29th September 2022. The initial public offering is the largest listing ever occurred in Europe. Based on the initial offering price of EUR 82.50 per share, Porsche raised a total of EUR 19.5 bn and its total equity has been valued at EUR 78.0 bn.

Corporate News

Ahead of the IPO, Volkswagen, the owner of Porsche, equally divided the stock of Porsche AG's ordinary and preferred shares. The offering constitutes 25% of Porsche's preferred shares, hence, amounting to 12.50% of the total firm's shares.
As a result, the new shareholders will not have voting rights, which are fully retained by the Porsche and Piëch families, owners of Volkswagen through the holding Porsche SE.
Relevant institutional investors include Qatar Investment Authority, T. Rowe Price, Norway's and Abu Dhabi's sovereign fund which combine for 40% of the share offering.
Out of the EUR 19.5 bn raised, EUR 9.6 bn will be used by Volkswagen, while the rest will be distributed to shareholders through a special dividend. The equity raised is going to finance Volkswagen's ambitious transition to electric vehicles that is aimed at transforming Porsche itself into the market leader of such segment.

Price (31 Oct 22, EUR)	**102.65**
Target Price (EUR)	97.40
3M Performance	N/A
Market Cap (EUR m)	93,514.15
Enterprise Value (EUR m)	90,202.15
**Target Price is for 12 months*	

Valuation Analysis



Despite skepticism about its initial offering price, Porsche stock rallied from EUR 81.78 (3rd Oct.) to EUR 103.75 (31st Oct.) registering a mighty 26.86% growth MoM. The range at which the stock has been trading at yields a much higher valuation that other valuation metrics. Based on market capitalization alone, the current ranges makes the firm more valuable than competitors BMW, Mercedes, and even VW, while presenting much lower volumes sold and revenues.

The discrepancies are mainly based on three factors. Firstly, Porsche is a highly profitable firm as it contributes to 1/3 of Volkswagen's profits despite selling only 3% of the total group's vehicles. Secondly, high equity commitments by institutional investors show trust in Porsche's ambitious EV conversion plan. Lastly, comparables are not as niche-focused as Porsche, hence, suffering from conglomerate discount.

Peers	Currency	Market Cap (Cur m)
Renault SA	EUR	9,353.70
Porsche Automobil Holding SE	EUR	17,493.00
Polestar Automotive Holding UK	USD	9,787.52
Mercedes-Benz Group AG	EUR	62,938.54
Volkswagen AG	EUR	77,733.27

Filippo Marchesin
Investment Banking Division

NIC's View On

Patagonia's Transfer of Ownership to a Non-Profit Organization

Karolin Kolarik
Investment Banking Division

"I don't respect the stock market at all. Once you're public, you've lost control over the company, and you have to maximize profits for the shareholder, and then you become one of these irresponsible companies."

– Yvon Chouinard, Founder, Patagonia

Patagonia Inc. operates as an apparel store, offering clothing suitable for alpine climbing, hiking, and surfing, as well as other outdoor activities. Founded by Yvon Chouinard in 1973, it is based in Ventura, California, and has hundreds of stores across five continents.

On the 15th of September, Patagonia took an uncommon step in changing the organizational structure of the firm. Yvon Chouinard and his family, the owners of the firm valued at USD 3.0 bn, transferred their ownership to a trust fund and a non-profit organization. The trust fund, named Patagonia Purpose Trust, contains the prior 2% voting stocks of the company and is overseen by the family and advisors. The transfer of the shares, legally understood as gift, results in a tax obligation of USD 17.5 m. The other 98% of the company was donated to the non-profit organization Holdfast Collective. This donation makes the Chouinard family one of the most charitable families in the US, as it is not as common to lay off assets to lifetime. The Holdfast Collective will focus on nature-based climate solutions such as preserving wild lands.

This operation is possible in the US only since 2018, when new tax legislation passed allowing charitable organizations to hold 100% of voting rights in a corporation. In Europe, instead, shareholder foundations are more common, such as Carlsberg and Maersk. This structure is particularly popular in Denmark, with 25% of the country's 100 largest companies and 70% of its total market capitalization made up of foundation-owned firms. One of the most common points of criticism on foundation-owned firms refers to the market discipline and puts into question whether the company can keep its profits equally high when the owners don't have any financial incentives anymore. Interestingly, a study investigating the benefits of foundation-owned firms found that they have more stable growth, are less volatile during crises, invest more in R&D, and have a longer lifespan compared with conventionally owned firms.

"Hopefully this will influence a new form of capitalism that doesn't end up with a few rich people and a bunch of poor people," Yvon Chouinard said in an interview with the New York Times. This statement implicates the key reason for the uncommon move. Instead of selling the company or getting listed in the stock market, Chouinard took on an approach that fits his aversion of capitalist business practices. The main reasons for not deciding to take the company public was that Chouinard saw a risk of easing up in company culture and climate action. Chouinard takes on the view that Patagonia as a public company would not have been able to stick to those values due to the pressure of fulfilling the shareholder expectations to maximize profits. In the current uncertain times characterized by market volatility, rising inequality, and ecological crises, Patagonia's move will hopefully inspire more business owners to consider foundation ownership. Instead of extracting value from nature and transforming it into wealth for investors, the company will use the wealth Patagonia creates to protect the source of all wealth.

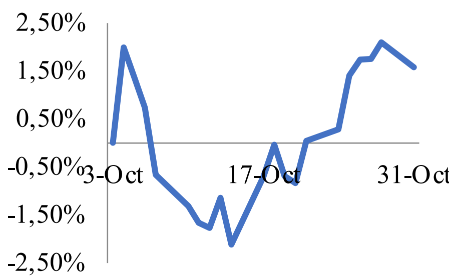
Date	Recent News
10 Oct 22	What Happens When a Company Transfers Ownership to a Nonprofit? ***Source:*** *hbr.org*
21 Sep 22	Billionaire No More: Patagonia Founder Gives Away the Company. ***Source:*** *nytimes.com*
15 Sep 22	Patagonia founder hands company to trust to tackle climate crisis. ***Source:*** *ft.com*
14 Sep 22	Earth is now our only shareholder. ***Source:*** *patagonia.com*

Karolin Kolarik
Investment Banking Division

NIC Fund

NIC Fund
Portfolio Overview

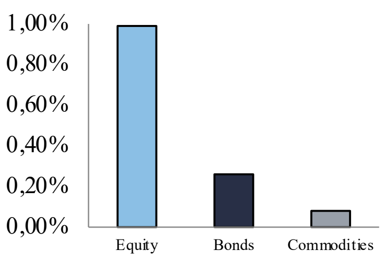
NIC Fund Cumulative Return



Portfolio Statistics	
Cumulative Return	1.85%
Annualized Return	18.90%
Daily St. Dev	0.91%
Period St. Dev	4.18%
Annualized St. Dev	14.48%
Info Sharpe	1.31
Skew (Daily)	0.34
Kurtosis (Daily)	-0.89

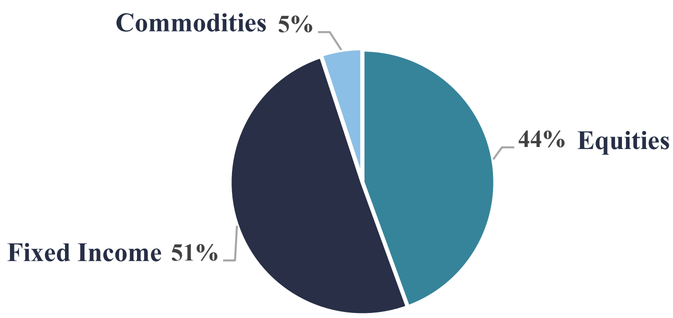
Benchmark	
iShares 3-7 Year Treasury Bonds	40%
SPDR S&P 500 ETF Trust	40%
Powershares DB Commodity Index	10%
iShares JP Morgan USD EM Bonds	10%

Individual VaR



Portfolio Snapshot

In the last month, the NIC Fund remained invested in Equities, Fixed Income and Commodities with very similar allocations to our benchmark fund. Overall, 44% of our fund remained devoted to Equities, 51% to Fixed Income and 5% Commodities. In comparison to the benchmark, the portfolio is overweighted in Equities by 4% and underweighted in Fixed Income and Commodities by 9% and 5%, respectively.
In October, markets soared despite inflation data coming in hotter than anticipated. Moreover, Bond volatility remained near record highs.



Return Metrics

The overall performance of the portfolio was positive, with a cumulative return of 1.85%. The positive return comes mainly from Equities accounting for 1.65%, Commodities and Fixed Income only accounted for 0,05% and 0,07%, respectively.
In terms of Equities, besides being invested in the S&P500, 20.46% of the overall portfolio was allocated to thirty-three specific stocks from nine different industries. The worst sector was the Materials sector that did not contribute to the overall return of the portfolio. On the other hand, the best performing sector was the Energy sector with a return of 22.95% MoM, as EOG Resources was the only Energy stock in the portfolio. All the other industries also contributed positively to the return of Equities. After Energy, the sectors that contributed the most were Communication Services (21.90% MoM), Consumer Staples (19.10% MoM) and Industrials (18.66% MoM).

Risk Metrics

In terms of risk, our portfolio registered a relatively low daily VaR of 0.58%, taking into consideration the benefits of diversification. As a result, this metric remained significantly lower than the maximum established threshold of 2.50%.

Equities were the asset class with the highest individual VaR, which was around 0.99%. On the other hand, Bonds and Commodities have a slightly lower VaRs of 0.26% and 0.08% respectively.

Francisca Bombas
Financial Markets Division

NIC Fund

Assets in Brief

Asset Class	Symbol	Comments
US Equity	**AMZN**	Amazon share returned -29.65%, which can be explained by their struggle this year due to a slumping economy, soaring inflation and rising interest rates. On top of that, Amazon has been forced to scale back after expanding dramatically during the pandemic, now that consumers have returned to stores.
US Equity	**EOG**	EOG shares returned 22.95% in October. EOG Resources has been beneficiating of higher gas and oil prices, which helped to improve their Earnings in Q3. The increase in earnings also contributed for the higher return when compared to the last month.
US Equity	**DIS**	In October, the shares of Disney returned 23.97% MoM, disrupting the negative trend from the previous months. This can be explained by the fact that October is one of the months that delivers the highest gains to Disney.
US Equity	**MCPHY**	Omcphy Energy SA returned 22.24% in the month of October and increased the return when compared to the previous month, mainly due to an EUR 180 m capital increase from strategic investors.
EU Equity	**AMD**	Advanced Micro Devices returned -5.21% in October, which has been in line with the previous months. This can be attributed to preliminary results that indicate a significant revenue decline during the company's third quarter.
US Equity	**KER**	The Kering Group returned 2.01% MoM in the month of October, mainly due to a very solid revenue growth in 3Q 2022. Revenue was up 23% YTD and up 14% compared to the third quarter of 2021.
US Equity	**IVE**	The iShares S&P 500 Value ETF had a positive return of 11.52% MoM in October. This can be explained by a market pullback in August and September, combined with better-than-expected quarterly earnings from many companies, helped put investors in a buying mood in October.
US Treasury Bonds	**IEI ETF**	The benchmark bond index, IEI, invests in treasuries with maturities from 3-7 years. Since bond prices are negatively affected by the Fed's increase of interest rates, this ETF returned -0.57% MoM to the portfolio.
Commodity	**AAAU**	Goldman Sachs Physical Gold seeks to reflect the performance of the price of gold less the expenses of the Trust's Operations. Gold had a negative performance in the month of October, mainly due to the raise of inflation and interest rates.
Commodity	**DBC ETF**	Our primary commodities index, DBC tracks a basket of 14 commodities. The ETF had a positive performance over the last month, because of the increase in oil prices. In October, the portfolio returned 5.06%.

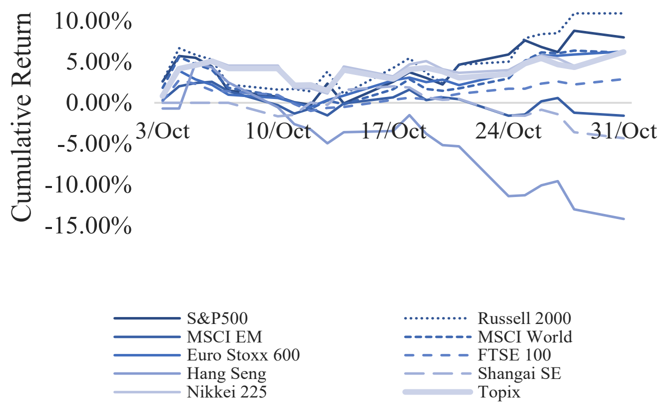
Francisca Bombas
Financial Markets Division

NIC Fund

Equities

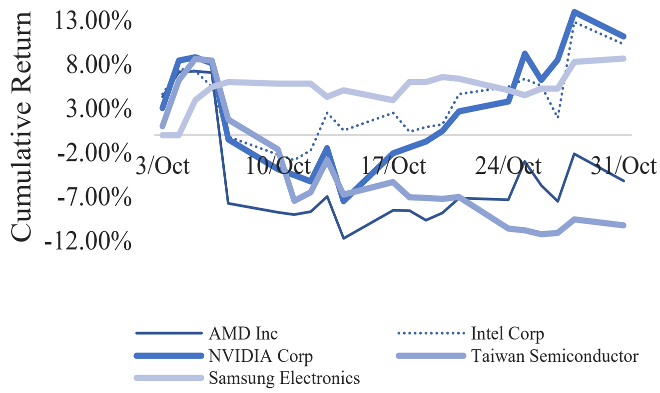
World Equities

Despite the continuing Ukraine conflict and interest rate hikes, the MSCI World index closed MoM with a positive return of 6.12%. The S&P 500 ended up 8.80% MoM, and the last two weeks of October have seen substantial gains as many companies in the S&P 500 have exceeded estimates for earnings per share. The Russell 2000 is also experiencing an increase, rising 10.94% MoM, and Dow Jones is having its best month since 1976. Following US equities, the European STOXX 600 rose 6.28% MoM, while the MSCI Index for emerging markets decreased by 1.57%. The FTSE 100 Index in the UK returned a 2.91% increase, despite a challenging month for the country with the lowest British Pound against US Dollars since 1985 and an increase in government debt. The Japanese Topix index returned 6.22% after the central bank retained negative interest rates and spent USD 200 bn on stimulus packages. Hong Kong's Hang Seng fell drastically with a negative return of -14.20%, and China's Shanghai SE index returned a negative return of -4.33% .



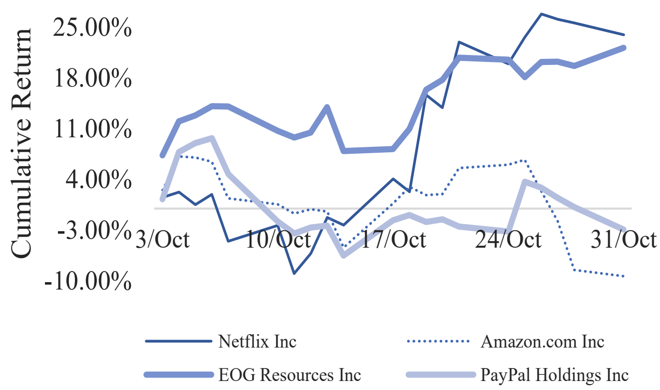
In Depth: Controls on Semiconductor Exports to China

At the start of October, the US imposed wide-ranging restrictions on how American citizens and semiconductor firms can conduct business with Chinese tech firms. The chip export control is an effort to slow China's progress in artificial intelligence and supercomputers and make it more challenging to manufacture advanced semiconductors. The move was not unexpected, but it is bad news for an industry already experiencing slow demand. AMD warned of a 14% drop in third-quarter revenue compared to previous estimates, owing primarily to lower client segment revenue. Nvidia has already stated that it will lose USD 400 m, 7% of its third-quarter sales, due to its inability to export advanced GPUs used in machine learning systems to China, while Intel appears to be less exposed. Not only would US companies be affected, but so could the semiconductor ecosystem that does business with US companies, such as Taiwan Semiconductor, Samsung Electronics in South Korea, and ASML in the Netherlands.



Our Performance

In October, equities positively contributed to the portfolio's overall performance with a 1.65% cumulative return. The bull market in October was driven by the earnings season being stronger than expected. The best performing stock in our portfolio was Netflix, with a monthly return of 23.97% due to an addition of 2.41 m net global subscribers and more than double the ads a quarter ago. The worst performing equity was Amazon with a negative monthly return of 9.35% after delivering a disappointing Q4 prediction and missed revenue estimates. After a month with high oil and gas prices and the OPEC cutback to stabilize market sentiment, EOG Resources delivered a return of 19.65%, and the rally seems to continue in the energy sector. PayPal delivered a negative return of 2.89% after policy change issues that would fine users.



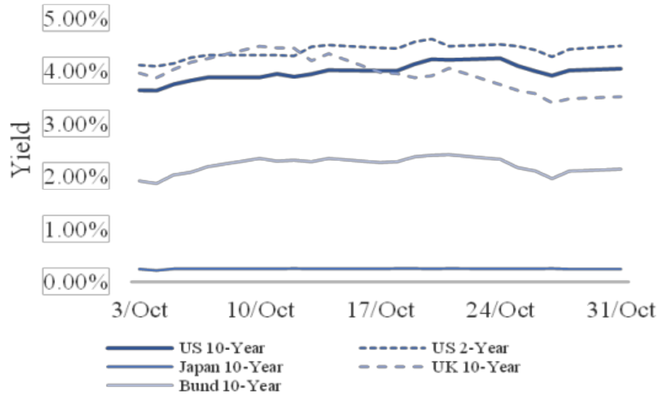
Lars Dahle
Financial Markets Division

NIC Fund

Fixed Income

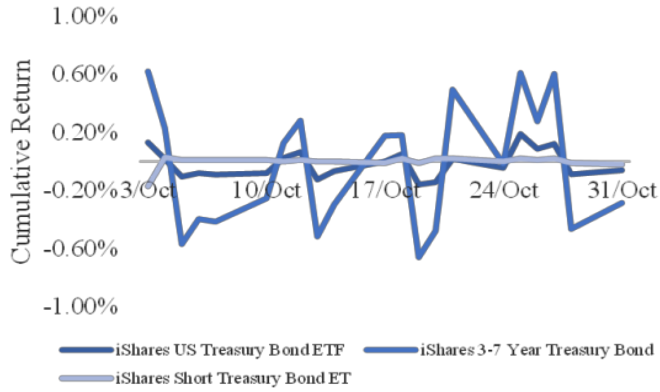
World Yields

October was an interesting month for the bond market as the US 10-Year rates hit the high of 4.25% which was last seen in 2008 after the Fed decided on another rate hike of 75 basis points in October. However, equities performed strongly last month. The Dow Jones showed the best monthly performance since 1976 and the most significant October gain since the start of reporting in 1900. The positive equity performance can be explained by growing expectations that the Fed will change its aggressive monetary policy and slow down. The CME FedWatch tool shows a probability of 87.5% of a hike of 75 basis points in November. Despite the Fed announcing another hike, probabilities of a decision regarding ease rate hikes or even an end of rate hikes might be discussed in the next meeting. The US bond market is signaling a recession, as last month, the term spread between the 10-Year yield and the 2-Year yield stayed negative for over one quarter. Further, the Bank of England hiked rates again and decided to begin with the sale of bonds to extend quantitative tightening. While most of the governments raise interest rates aggressively, the Bank of Japan keeps its monetary policy without interest rate hikes which are reflected in the weak performance of the Yen. The 10-Year bunds remained relatively stable in October with a peak in the middle of the month. However, the European markets are undergoing significant turmoil, which could lead to rising short-term yields.



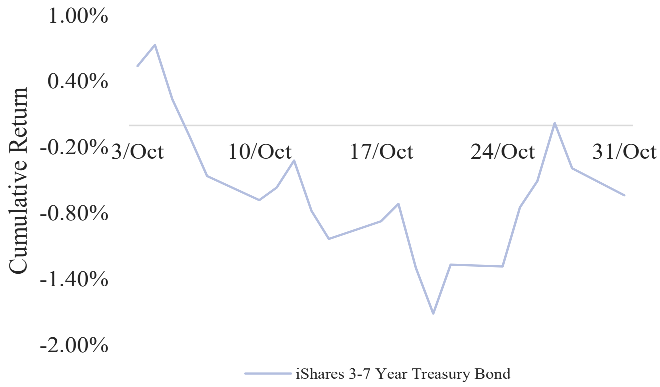
In Depth: European Markets

Short-term bonds are currently more attractive since the yields are higher. However, European government bonds tend to be riskier since the ECB did not price in a coming recession by hiking short-term interest rates on the current level. Therefore, the European yield curve did not invert yet, even though the risk of a recession in Europe is even higher than in the US considering the energy crisis and the weak Euro. Therefore, an inverted ETF reflecting the performance of short-term European bonds could perform well in the coming months. On the other hand, short-term US treasury bonds could perform well if the Fed decides to step away from their aggressive rate hikes. The Fed and ECB meetings in November could become a key moment for the further monetary policy due to these possibilities. Further escalations in the Ukraine war could fuel the European equity downturn as companies could be forced to ramp down their production due to high energy prices. Further, a supply surplus could result from shrinking buying power, leading to a revenue decrease for many companies.



Our Performance

Notice that IEI ETF, tracking 3-7-Year US Treasury Bonds, our benchmark fund for fixed income, reported a cumulative return of -0.510% and contributes 15.910% to our portfolio.



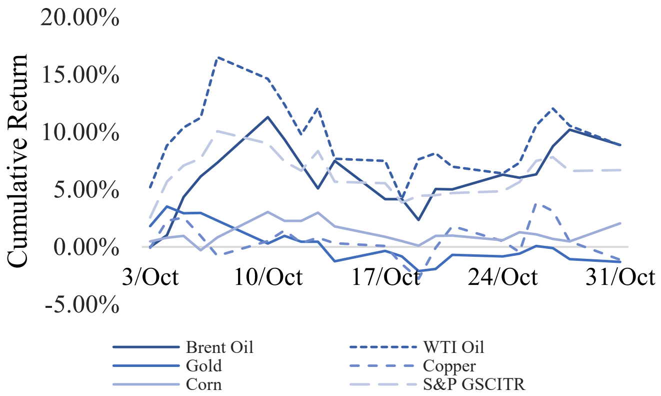
David Biewald
Financial Markets Division

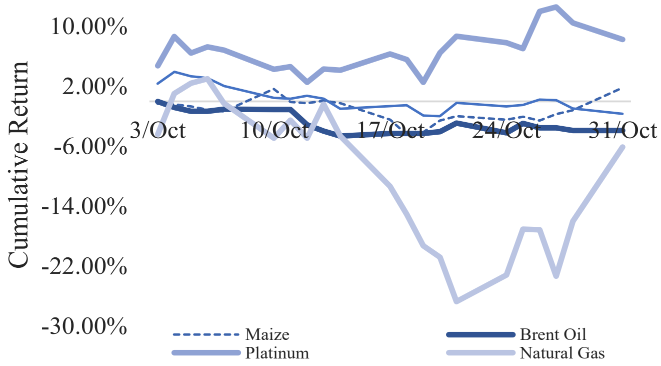
NIC Fund
Commodities

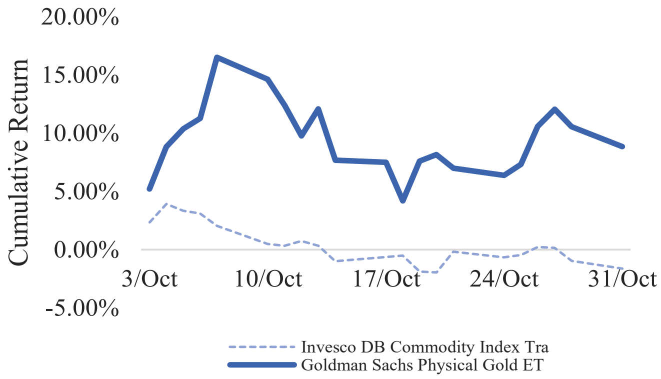
October Round-Up
In October, the S&P GSCI Total return index, which tracks 24 commodities, increased by 2.18%. This is followed by a decrease of 6.33% in September and nearly 0.86% in August. Nonetheless, year-to-date, the index gained 14.30%. Top gainers this month were palm oil, soybean oil, milk, platinum, and oil (brent), while coal and natural gas contributed the most to index losses. Regarding food markets, high energy and fertilizer costs, poor and adverse weather conditions in key producing countries, and risks amidst the war in Ukraine have led to persistently high food prices, with most countries experiencing YoY increases between 10% and 30%. However, exports from Ukraine restarted and inventories of key crops remain above historical levels, thereby providing a buffer for the ongoing season. On the energy markets side, US President Biden announced in mid-October that he would authorize the release of more oil from the Strategic Petroleum Reserve in December, as a way to lower gas prices. Further, EU countries must diversify their crude oil imports away from Russia by more than half of their pre-war import levels within the next month. Despite the fact that many European buyers have turned their backs on Moscow, Russian oil exports have largely held up since the invasion, with India and China increasing imports. Considering metals, Russia's invasion and the Federal Reserve's aggressive rate hikes have extended the wild swings in metal markets.

Outlook for November
Considering supply shortages, prices of commodities such as, for instance, maize are expected to stay at an elevated level. Oil markets are expected to tighten further as additional sanctions restrict exports from Russia. Further, releases of oil from strategic reserves in several countries come to an end, and OPEC+ members cut production. This will more than offset the effect of rising production in a few countries, primarily the US. Regarding natural gas and coal prices, the near-term outlook will depend heavily on the severity of the winter in Europe. Metal prices will most likely remain volatile as the energy transition unfolds and as global commodity demand shifts from fossil fuels to renewables. This conversion demands large quantities of metals. Top banks such as Morgan Stanley and Bank of America are reinforcing their metals divisions to cash in on the volatility that has lifted trading profits over the past three years.

Our Performance
During October, the Goldman Sachs Physical Gold index returned 10.92% while the Invesco DB Commodity Index T returned 20.89%, leading to an overall return of 0.0517%.







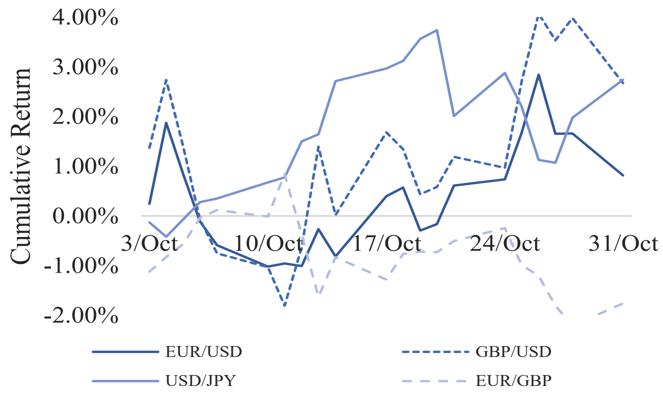
Matilde Costa
Financial Markets Division

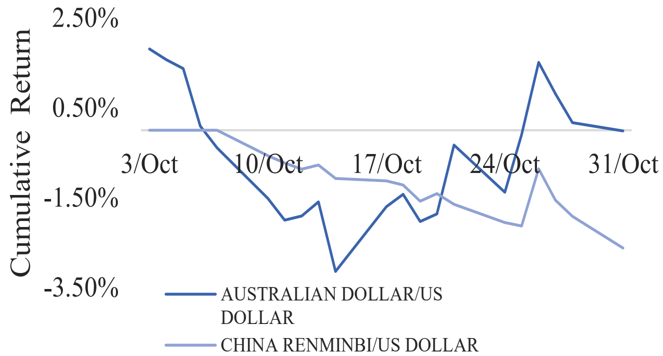
NIC Fund

Currencies

World Currencies

Since the beginning of the year, the Dollar has gained over 15% against the Euro. However, October was the first month since May in which the currency did not record any significant gains. October volatility and the breaking of the upward trend may be explained by investor speculation about the next moves of the Fed. The Euro remains slightly below parity against the Dollar. In spite of its efforts, the European Central Bank is unable to halt the accelerating inflation, which in the Eurozone reached its all time high, exceeding 10% in September. One of the main factors creating the current economic situation, thereby weakening the euro is the developing conflict between Russia and Ukraine and the associated uncertainty regarding the future of the energy market and food prices. For the British Pound in particular, the month was marked by heightened volatility caused by political uncertainty. Despite the turbulence, the pound closed the month 2.70% higher against the US Dollar. It is difficult not to pay attention to the Japanese Yen, one of the worst performing currencies this year, which has depreciated significantly by more than 20% against the US Dollar over the past twelve months. In September, Japan's annual inflation reading was at 3%, the highest in eight years. Despite this, the Central Bank of Japan, during its meetings in October, once again decided to maintain its loose monetary policy, leaving the benchmark rate at -0.1%. Japan is taking other steps to stabilize its currency. The Japanese finance ministry reported that in order to counter the Yen's sharp slide against the dollar, just in October Japan spent a record 42.4 billion dollars to intervene in the market.





In Depth

The early November may turn crucial for AUD/USD. We are likely to see the US Dollar strengthening against the Australian dollar at the beginning of the month. As of today, most analysts are unanimous on the fact the Federal Open Market Committee is likely going to raise interest rates by another 75bps for the fourth straight meeting. The action of Reserve Bank of Australia, that also has to contend with record high inflation, also seem to point to an increase. Arguably, however, the move by the Australian bank will be much smaller than the Fed's. Much also depends on the price of Australia's exports which recently dropped by 3.60% on quarter in Q3 2022, reversing sharply from a 10.10% rise in Q2. Worth paying attention is also China's covid-19 policy and its impact on its currency. In the recent months despite investors' hopes, Xi Jinping had no intention of abandoning the zero policy. Another significant event was the US blocking the import of semiconductors into China, though at the moment we have not yet seen a response from the Chinese republic. There is no doubt that both of these issues are crucial both for the Chinese economy and for the situation on the currency market.

Our Performance

We currently hold no currency related assets in our portfolio.

Jakub Nasiłowski
Financial Markets Division

Extras

Hot Topic

Credit Suisse's Restructuring Plan and its Echo

Karolin Kolarik
Investment Banking Division

"We are going to thrive again, so we don't have any takeover discussions. We want to stay independent. […] We are very happy that we have an investor like the Saudi National Bank. It's a private institution, and I think this is also a region that is growing."

– Axel Lehmann,
Chairman, Credit Suisse

Following a loss of market share a few years ago, and a sequence of scandals over the past months, the Credit Suisse's third quarter was less successful than anticipated. A significant list of legal issues, weak profitability and an exodus of senior staff limit the bank's attractiveness to potential suitors and capital market investors. Especially the leading wealth management business proved less resilient than previously expected, demonstrated by client money outflows and an inflexible cost base. Rumours about takeover discussions that have been circulating, have been denied in a public statement by Credit Suisse's Chairman Axel Lehmann.

The bank laid out a plan on restructuring last week, indicating how to overcome the recent challenges. This restructuring plan to streamline the business again can be considered rather radical and includes asset sales, rights issue, lowering trading activities, and capital raising. Until now, a capital increase was not supported by all of the company's executives, as the stock is trading very low at the moment. Still, the recent outflows of assets and deposits from wealthy clients made the decision for raising new capital unavoidable. For the raise in capital new investors will be introduced. Saudi National Bank, Qatar Investment Authority, and Olayan, an investment company, owned by a wealthy Saudi family, will own between 20%-25% of the bank. Credit Suisse's largest investor, Harris Associates, will not take part in the share placement but is expected to buy more stock as part of the rights issue. Other measures taken as part of the restructuring include selling parts of its Securitized Products Group to Apollo Global Management Inc. and Pacific Investment Management Co..

The bank also wants to cut its workforce by 9,000 to 43,000 employees by 2025. Directly after publicly announcing the capital increase, Axel Lehmann himself bought USD 1.0 m worth of shares to underline his trust in the bank's new strategy.

The restructuring plan was immediately echoed by the rating agencies cutting the bank's long term ratings to BBB. This is mostly based on the insecurities the restructuring introduces, such as the material execution risks, especially in this volatile economic and market environment. This new rating positions Credit Suisse as the investment bank with the lowest issuer credit rating from S&P among the all the major banks. This has of course implications on Credit Suisse's operations, resulting among others in higher funding costs.

Finally, looking at the implications Credit Suisse's situation might have on the macro environment, some concerns have been raised regarding the impact of further downward developments on the overall economic stability, drawing parallels to the 2008 financial crisis. The severity of these concerns still can be put into relativity, as Mohamed El-Erian, an adviser to Allianz, says: "I do not think this is a 'Lehman moment'". Wild swings have been more common in the stock market, and changes in stock value, as well as market capitalization, can also be observed at financially healthy companies, such as Meta Platforms Inc..

For now, Credit Suisse claims to be financially stable and to be able to implement its plans to recover. Indeed, the bank still has high amounts of capital to withstand losses. Additionally, general consensus regard an economic crash as "unlikely", due to the preventive regulatory measures introduced in 2008.

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Extras

ESG Review

ESG Revolution and the Contribution of Infrastructure

Francisca Bombas
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"When we examine the sustainable investment market, and consider what investors care about most, we see global listed infrastructure as an essential, and under-represented, asset class for ESG portfolios"

– Jeremy Anagos, portfolio manager at Nordea

The world is facing increasing challenges as populations age and urbanise, wealth and consumption increases, and environmental tensions grow. The global community has agreed that there is now more than ever a need for a transition to a net-zero economy. It is evident that infrastructure plays an important role in building a greener future.

Infrastructure is an essential part of the growth and prosperity of economies, creating jobs and delivering services to local communities. Some infrastructure, like transportation systems, energy generation and healthcare facilities, will play an important role in advancing sustainability, inclusive development and enhancing societal resilience. The UN Environment Programme (UNEP) defines sustainable infrastructures as "infrastructures that are planned, designed, constructed, operated, and decommissioned in a manner that ensures economic and financial, social, environmental, and institutional sustainability over the entire lifecycle".

Approaches to ESG incorporation vary across infrastructure investing. All infrastructure investments should have good Governance practices since this is a bare minimum requirement for successful private operation of public-interest assets. But how investors respond to Environmental and Social issues are far better indicators of leading practice. The Environment is particularly relevant as infrastructure projects have such a direct impact on biodiversity, resource use and the local environment, as well as potential significant impacts on the energy transition.

Renewable energy is one obvious area for sustainable infrastructure investors. However, the ESG fund universe currently has limited exposure to infrastructure investments, . This lack of investment may be due to the lack of legal frameworks, data inconsistences, and the lack of comparable ESG criteria and assessment methodologies. The G20 recognise this and are trying to improve this situation with clear strategies. For instance, in 2018 they published "Roadmap to Infrastructure as an asset class" with the aim of improving the investment environment for infrastructures. Initiatives like the FAST-Infra Sustainable Infrastructure (SI), a labelling system designed to identify and evaluate sustainable infrastructure assets, will help make sustainable infrastructures a more liquid asset class.

And, with the growth of ESG in the past few years, one can hope for the increase in investment in sustainable infrastructure.
There might be some interest in sustainable infrastructure debt, for example green bonds with proceeds allocated to building climate-resilient infrastructure, as investors seek exposure in sustainable infrastructures. Equity investors can benefit from a total return built on secure cash-flows that are expected to grow in the long-run.

Sustainable infrastructures are imperial for a greener future and a net-zero economy. However, this asset-class is underappreciated in ESG portfolios. Underpinned by secular growth trends, the sustainable infrastructure sub-category could make an interesting investment opportunity for private and fund investors alike.

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