NIC

— Nova Investment Club —

Newsletter

February 2023

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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, Guilherme Lopes reviews the current actions of central banks and interest rates. Moreover, in our Regional View, David Biewald sheds light on China’s economy and its current impact on global markets.

Our Investment Banking Division will guide you through January’s overall M&A activity. Read about Emerson Electric acquiring National Instruments, Thoma Bravo purchasing Magnet Forensics, and Xylem taking over Evoqua Water Technologies. Additionally, get a detailed overview of what happened to BuzzFeed and Netflix, and read our opinion on Kim Kardashian launching her first private equity firm, SKKY Partners.

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 three major asset classes through an analysis of the past month’s major market moves. The overall performance of the NIC Fund in January was positive, with a cumulative return of 5.65%.

On the Hot Topic of this month, David Biewald discusses the current outlook of the Travel and Leisure industry. Lastly, in our ESG Review in collaboration with Nordea, Yutong Wang discusses sustainable real assets, their current challenges, and investment opportunities.

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Macro Overview

Monthly
February 8th, 2023

Market Moves

% change

	Last Close	-1W	-3M	YTD
S&P 500	4,077	1.48%	5.28%	6.18%
DJIA	34,086	1.04%	4.13%	2.83%
Nasdaq	11,585	2.21%	5.43%	10.68%
MSCI World	3,330	0.89%	14.56%	8.09%
MSCI EM	3,980	-0.62%	20.18%	6.82%
Russell 2000	1,932	2.46%	4.61%	9.69%
Euro Stoxx 50	4,163	0.25%	15.09%	9.75%
FTSE 100	7,772	0.18%	9.54%	4.29%
Nikkei 225	27,327	0.10%	-0.94%	4.72%
Hang Seng	21,842	-0.92%	48.72%	10.42%
Dollar Index	102.10	0.18%	-8.46%	-1.38%
EUR/USD	1.086	-0.22%	9.93%	1.48%
GBP/EUR	1.134	0.14%	-2.22%	0.43%
GBP/USD	1.232	-0.11%	7.42%	1.96%
USD/JPY	130.090	-0.06%	-12.52%	-0.79%
USD/CHF	0.92	-0.69%	-8.50%	-0.90%
Brent Crude	84.490	-1.90%	-10.90%	-1.65%
Gold	1,929.5	-0.30%	17.60%	5.66%

Generic Bond Yields

change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	3.507%	5.4	-54.1	-36.8
GER 10Y Yield	2.286%	13.1	14.4	-28.5
JPY 10Y Yield	0.496%	7.7	24.8	7.4
UK 10Y Yield	3.332%	5.5	-18.4	-34.0
PT 10Y Yield	3.190%	17.6	4.2	-39.6

**Source: Bloomberg, as of 2023-01-31*

In Focus

January

The US stock market had a solid start to 2023 as the S&P 500 rose 6% in January. This is the fastest growth since October, and US stocks rallied as the Federal Reserve slowed the pace of interest rate hikes and inflation eased.

The Eurozone's GDP grew unexpectedly in the fourth quarter. With a 0.10% increase, down from the previous three months at 0.30%, it exceeded market expectations of a 0.10% contraction. It was the slowest growth rate since the first three months of 2021. Among the EU's largest economies, GDP increased by 0.20% in Spain and 0.10% in France but contracted by 0.20% in Germany and 0.20% in Italy.

Brazil and Argentina will begin planning for a common currency. The two largest South American economies started discussing a plan to create the world's second-largest currency bloc to reduce reliance on the US dollar and improve regional trade. The project has been discussed in the past, but now that the left-wing lead both countries, there is more political support.

Brent crude prices began the year on the decline. In the first two trading sessions of 2023, oil fell from USD 85 per barrel to just over USD 77 per barrel. Oil prices then turned around, regained losses and traded above USD 87 per barrel before ending the month at USD 78 per barrel. An OPEC+ committee recommended keeping crude production steady, citing uncertainty about the latest sanctions on Russian supply and China's economic reopening.

China's manufacturing sector contracts for the sixth month in a row. Slower operations caused a drop in activity due to a shift in Covid-19 policy. Purchasing activity fell at the slowest rate in three months, while foreign demand fell for the sixth month.

Germany has recorded its highest annual inflation in more than 70 years, as of preliminary data released by the country's Federal Statistical Office. Rising energy and food prices because of Russia's invasion of Ukraine resulted in a full-year average inflation of 7.9% in 2022.

Microsoft is laying off tens of thousands of employees. In a regulatory filing, the tech company stated that it intends to reduce its overall workforce by 10,000 employees by the end of the third fiscal quarter of 2023. Microsoft joins the other major US tech companies, including Amazon, Meta Platforms Inc., and Twitter, in announcing job cuts or hiring freezes.

For the first time in 60 years, China's population is shrinking. 2022 marks a new milestone in the country's deepening demographic crisis, with significant implications for the country's slowing economy, where GDP growth was 3%, the second lowest rate in 40 years.

The International Monetary Fund raised its growth forecast for the first time in a year. The IMF believes the global economy has reached a breaking point. The risk of a global recession remains, but it is decreasing. According to the IMF, the fight against inflation is not yet over, monetary policy must remain contractionary, and some countries must tighten even more.

Green investments tie fossil fuels for the first time. This is the first time renewable energy, electrified transport, and green tech tied global investment in climate-warning fossil fuels after reaching USD 1.1 trn in 2022.

Lars Dahle
Financial Markets Division

Deeper Dive

The Tightrope Walk of Central Bankers: Trying to Do "Just Enough"

Guilherme Capinha Lopes
Investment Banking Division

"Inflation—it's just harder to forecast inflation. It may come down faster. It may take longer to come down. And, you know, our job is to deliver inflation back to target, and we will do that, but I think we—we're going to be cautious about declaring victory and, you know, sending signals that we think that the game is won, because, you know, we've got a long way to go. It's the early stages of disinflation and it's most welcome to be able to say that, that we are now in disinflation."

– Jerome Powell,
U.S. Federal Reserve Chairman

"The Fed has raised rates again today by X basis points and has made clear that further increases are planned". This has become a regular piece of news in the past year, for good reason. Central bankers are at war, under fire from both unfavorable economic indicators and consistent public outcry over the effects that their interest rate hikes are having on the average family, who has a mortgage to pay and keeps seeing their payments increase month-on-month. To be clear, the difficulties that recent actions by the European Central Bank (ECB) and the Federal Reserve (Fed) have brought upon normal families should not be downplayed, no matter how critical these rate hikes may be for future economic prosperity, stability and security. And yet, in the middle of this hardship an interesting situation is developing: Under mounting public pressure, some central banks are toning down and perhaps becoming slightly more dovish in their approach, both in terms of public relations management and in their economic policy.

This past week the ECB and the Fed announced their latest rate hikes with the ECB opting for a 50 bps increase accompanied by the now normal "further increases to be expected" message, while the Fed took an unexpected turn and decided to only increase rates by 25 bps, the first time since March 2022 that such a small step was approved. This was followed by Jerome Powell going on to say "it's most welcome to be able to say that, that we are now in disinflation". The significance of such a statement is not lost on those who understand the behavioral economics behind interest rate hikes: Such hikes are historically most effective at slowing down an economy when the market and consumers continue to believe that there is no end in sight for them, that they will continue to increase for the foreseeable future. This is why we see Christine Lagarde being adamant in her press conference of the ECB's commitment to continue increasing rates, which makes such a statement by Mr. Powell intriguing.

The Bank of England (BoE) also increased rates this past week by 50 bps and promised to "forcefully" bring down inflation to the 2% target by 2024. Yet it also issued meeting notes that made no attempt to correct market expectations of interest rate cuts later this year, even going on to highlight "that the risks to inflation are skewed significantly to the upside".

This attempt at playing both sides of the issue points to either an attempt by central banks to quell public outcry while still raising rates or an internal struggle within central banks when it comes to which path to take. Back in September, a disagreement within the BoE's Monetary Policy Committee became front page news as members wildly disagreed on how much to hike rates, with proposals varying from 25 bps all the way up to 75 bps. There is no clear path forward, and even within the central banker community there are renegades that go against the *status quo*: The Bank of Japan is the prime example for that. Having steadfastly refused to increase rates, they will surely become a case study going forward on what was the right decision for the uncertain times we face. And yet in every single jurisdiction, whether with a hawkish 50 bps hike, a semi-dovish 25 bps increase or with steadfast commitment to maintain rates, all central banks face mounting public pressure and are portrayed as the evil part of this story.

This is the tightrope that central bankers around the world are eternally doomed to: Do too much, and you risk plunging entire economic zones into recession. Do too little and you risk inflation levels that will take decades to normalize. Central banks can often times seem like almost mythical entities, the ones who from up in the clouds pull the economy's strings with almost godlike power to keep it all in check. But at the end of the day, one can easily forget that central bankers are people too, who do not want to be responsible for decades of economic hardship. It is not an enviable job, but a necessary one for a prosperous future.

Guilherme Capinha Lopes
Investment Banking Division

Regional View

Might China Be The Fertilizer for a Thriving Market?

David Biewald
Financial Markets Division

"A bad year in China is going to be a great year in any other country."

– Ray Dalio, CEO, Bridgewater Associates

China, one of the future-largest economies in the world, has reopened and lightened the grim outlook of the world economy after exploding inflation rates, aggressive interest rate hikes and supply chain shortages caused by a global pandemic. The Purchasing Manager Index (PMI) data in January was up 4.90 points to 52.90, which surpassed market expectations and shows expansion tendencies of the second-largest economy in the world since the value is above 50 points. The PMI is usually a good indicator for the growth of an economy and showed weak data during the last months. The consensus, that a global recession might be avoided, is therefore supported by the underlying data. The PMI also shows that China is most likely expanding after three years of the zero-covid policy, potentially having a positive impact on commodities since China is the largest consumer of many industrial metals like copper, whose demand is currently driven by the shift to renewable energy solutions and electric vehicles.

Additionally, China's oil demand is already rising and could have a positive impact on the oil price if the economy prospers and Prince Abdulaziz bin Salman, the key decision-maker at OPEC, increases oil production only to a certain level. Chinese stocks rallied since the reopening was announced and a huge portion of risk was taken from investors. However, as seen in the past years, circumstances in China could change abruptly, which means that stocks from China carry elevated risk. Nevertheless, the market seems relatively cheap compared to other markets and could therefore be an attractive investment opportunity. Especially, big tech companies could rise in value, so it is worth keeping an eye on companies like Alibaba.

Another result of China's reopening is the positive effect on its currency. Since the announcement of the reopening, the Renminbi has significantly increased in value and shows a lot of space for further positive development, especially in the long-term. The recovery can be seen in travel bookings, hinting Macao to prosper particularly in 2023. Moreover, Covid-19 cases have already peaked, which surprised market watchers who calculated a longer-lasting state of emergency due to exploding Covid-19 cases.

The reality in China draws a different picture. Streets and malls are crowded, bankrupt stores are getting renovated and serve people as new business locations and families are planning their vacations. China's tourism outlook could positively impact the whole Asian continent by attracting foreigners again. Overall, it seems the reopening was the missing piece of the puzzle for a recession avoidance and could be the tailwind for the next recovery. But could this potential recovery be the reason for the next recession when commodity demand increases again, consumers spend more money and economies expand, while central banks try to slow down economy? Only time will tell. Despite the mid-term effects, a market pullback is likely but could also be used by institutional investors to engage and profit from another potential market rally. What can be stated for sure is that uncertainty will accompany the markets during 2023 and hopes of a fast recovery could burst from one day to the other.

Nevertheless, one should focus on the positive effects on the economy and attractive investment opportunities in the Asian market. If the situation remains at ease regarding Covid-19 restrictions, the positive effects on the world economy will be reflected in most companies' financial statements this year.

David Biewald
Financial Markets Division

Macro Overview
Economic Calendar

Economic and Political Events

European Council Meeting
On the **9th** and **10th of February**, the European Council of EU leaders will meet in Brussels to discuss important topics of migration and competitiveness between China and the United States.

G20 Financial Meeting
On the **23rd of February**, Finance Ministers and Central Bank Governors of G20 countries will gather in India to discuss global financial issues such as energy prices and inflation.

Nigerian General Election
On the **25th February**, Nigeria will elect their President and Vice President. The current President Muhammadu Buhari is ineligible to run, having already served a maximum of two terms. Each of every 18 political parties in Nigeria has a candidate on the ballot.

Central Bank Decisions

RBA Interest Rate Decision
The Reserve Bank of Australia's board meeting will take place on **7th of February**. At its final meeting of 2022, the RBA raised the cash rate by 25 bps to 3.10%, a level not seen since 2012. The board is flagging more hikes ahead as inflation in Australia remains well above the target.

RBI Interest Rate Decision
The Governing Council of the Reserve Bank of India holds its monetary policy meeting on the **8th of February**. RBI recently raised its key repo rate by 35 bps to 6.25%. Despite slowing inflation, we will likely see another 25 bps rate hike.

Banxico Interest Rate Decision
On the **9th of February**, the Bank of Mexico will meet. During the last meeting in December, Banxico raised its benchmark policy rate by 50 bps. Analysts predict that the policy will no longer be tightened and expect the benchmark rate to remain at 10.50%

Inflation and Deflation

Germany Inflation Rate
January inflation data for Germany will be published on the **10th of February**. In December, the annual inflation rate was 8.60%, the lowest in four months but still way above the Central Bank's target rate of around 2%.

Argentina Inflation Rate
Argentina's inflation rate will be announced on the **14th of February**. Argentina registered an inflation of 94.80% in December. Latin America's third largest economy has one of the highest inflation rates in the world, which is still expected to increase further.

UK Inflation Rate
YoY figures on consumer prices in the UK will be published on the **15th of February**. The annual inflation rate in the UK fell to 10.50% in December from 10.70% in November and is expected to ease further slightly.

Labour Market

US Initial Jobless Claims
On the **9th of February**, the weekly US initial jobless claims data will be released. Last week the number of Americans filling for unemployment benefits fell by 3,000, giving evidence of a tight labour market, despite elevated tech layoffs.

Turkey Unemployment Rate
On the **10th of February**, Turkey announces its unemployment rate data for December. The previously reported figure of 10.20% was the same as in the previous month, this time, however, it is expected to increase slightly to around 10.50%.

UK Employment Change
The change in employment for the United Kingdom will be made public on the **14th of February.** The number of jobs created grew by 27,000 in the past three months and is expected to grow at a similar pace.

Jakub Nasiłowski
Financial Markets Division

Investment Banking

M&A

Overall Activity

Global

With a reported overall deal value in January of c. USD 141 bn, a 74% decline compared to last year and the worst first-month performance since 2003, global M&A experienced the slowest start to a year in two decades. January continued the negative trend of the end of 2022 as economic and financing headwinds continue to impact dealmaking. The high interest rate environment, ongoing geopolitical tensions, and more risk-averse traditional lenders led both strategic acquirers and buyout firms, to maintaining high dry powder levels hoping for a loosening of current macroeconomic hurdles. Such caution in M&A activity is particularly evident in the monthly deal size rank, which shows only 5 deals valued at more than USD 3.0 bn. In January 2022, deals above such threshold amounted to 25. Additionally, deal count fell from of 3,982 to 2,042 deals, compared to January 2022. The two largest transactions of the month were Xylem Inc's agreement to buy Evoqua Water Technologies Corp in a USD 7.5 bn all-stock deal and Emerson Electric Co.'s acquisition of National Instruments Corp for USD 7.1 bn.

Selected Regions

North America

North America led dealmaking in both deal count (37% of total) and disclosed deal value (45%) as the two largest deals occurred in the region. In line with the global trend, figures reflect that deal number halved, while deal value fell by 72%, with respect to the same period last year. Noticeably, January 2022's top 4 deals (including Blizzard-Microsoft megadeal currently under scrutiny) already surpass total dealmaking in 2023.

EMEA

EMEA suffered the most in terms of dealmaking with the lowest deal value (20% of total) among the regions. Uncertainty related to the proximity of the Ukrainian war led to an impressive -86% deal value with respect to January 2022, as the largest deal at the time (Haleon-Unilever) more than doubles total dealmaking in the past month. EMEA's largest deal is Russia's Lukoil sale of a USD 2 bn refinery to Trafigura.

Asia

Asia has been the least active in terms of deal count (25% of total), whilst still showing a higher disclosed deal value with respect to Europe (35% vs. 20%). As deal count decreased by 45% and deal value declined by 40%, the region suffered slightly less than the other areas compared to the same period of 2022. The largest deals in the region were PE firm L Catterton and car maker Lotus Tech SPAC, worth USD 5.5 bn.

M&A

Deals of the Month

Announced Date	Target	Buyer	Target Region	Target Business	Value (USD m)	Premium (%)
23/01/2023	Evoqua Water Technologies Corp.	Xylem Inc.	US	Water Technology	7,527.7	29.00%
17/01/2023	National Instruments Corporation	Emerson Electric Co.	US	Technology (Software)	7,148.1	32.00%
31/01/2023	Lotus Tech	L Catterton Asia Acquisition Corp.	CN	Automotive	5,500.0	-
03/01/2023	Blackstone Real Estate Income Trust, Inc.	The Regents of the University of California	US	Real Estate	4,000.0	-
17/01/2023	Fortune COFCO Co Ltd	Cosco Shipping Holdings Co., Ltd.	CN	Consumer Staples	3,101.7	-
09/01/2023	Duck Creek Technologies Inc	Vista Equity Partners Management, LLC	US	Technology (Insurance)	2,524.9	46.00%
11/01/2023	WM Motor Global Investment Limited	Apollo Future Mobility Group Limited	CN	Automotive (EV)	2,029.3	-
17/01/2023	Whistler Pipeline LLC	Whitewater Whistler Holdings LLC	US	Oil & Gas	2,000.0	-
09/01/2023	ISAB S.r.l.	Trafigura Beheer BV	IT	Oil & Gas	2,000.0	-
20/01/2023	Japan Tobacco Inc.	Japan Tobacco Inc.	JP	Tobacco	1,925.0	-

Filippo Marchesin
Investment Banking Division

M&A: Top Deals

Emerson Electric to Acquire National Instruments

Emerson Electric announced in an all-cash hostile bid to acquire National Instruments (NI) for USD 53.0 per share, implying a premium of c. 13%. After having tried to buy NI unsuccessfully for several months, and a continuous back-and forth, the nearly USD 7 bn offer for NI has been disclosed. Hence, NI created a working group of its board to examine the offer.

Buyer vs Seller

Emerson manufactures products and provides engineering services for industrial, commercial, and consumer markets and generated USD 19.6 bn in revenue in 2022. NI is specialized in automated testing and measurement tools to aid in research and validation of new technologies for the semiconductor, transportation and aerospace industries. In 2022, the company generated sales of USD 1.5 bn. The former and the latter were advised by Goldman Sachs and Centerview Partners, and BofA, respectively.

Industry Overview

The global engineering software market was valued at USD 32.6 bn in 2022 and is expected to reach USD 50.2 bn by 2026, growing at 9.7% CAGR. Since 2020, Covid-19 has boosted the engineering software market significantly, as companies across the globe were compelled to reconsider their production and construction strategies. Although the construction sector has been generally slower to embrace new technologies, technological innovations paved the way for quicker adoption.

Peers	Currency	Market Cap (CUR m)
Vaisala Oyj	EUR	1,461.11
Vontier Corp	USD	3,711.27
Badger Meter Inc	USD	3,538.35
Itron Inc	USD	2,623.94
Mirion Technologies Inc	USD	1,688.13

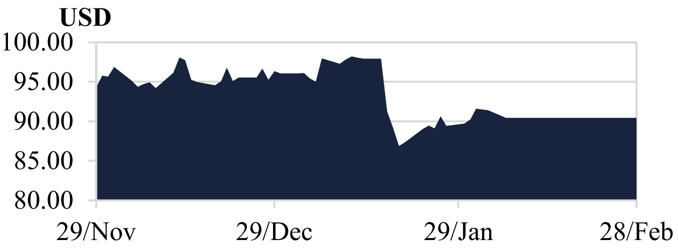
Deal Rationale

Emerson has been involved in a string of deals over the past few years to pivot itself as a leading provider of automation products and services. The offer to buy NI is another step in this direction. In October 2022, Emerson sold a majority stake in its climate technologies unit to Blackstone Inc - valuing the business at USD 14.0 bn. Emerson said it would use the proceeds from the deal for strategic M&A to diversify its automation portfolio. Last year, Emerson also sold its waste disposal equipment and hot water dispensers division to Whirlpool Corp and merged its software units with smaller rival Aspen Technology.

Market Reaction

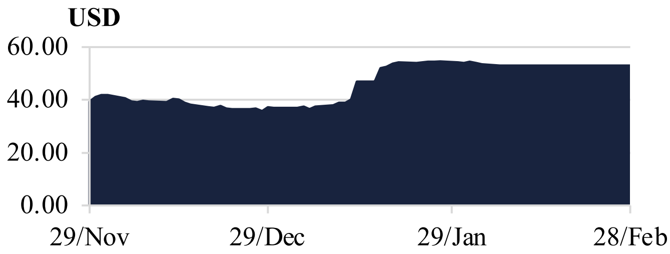
Emerson Electric

Emerson's shareholders reacted negatively to the transaction announcement, as the stock price fell c. 5% right after. However, the share price has gained 23.2% since October.



National Instruments

Compared to the price in November 2022, the share price of National Instruments jumped by 35% after Emerson Electric's proposal was disclosed on the 23rd of January.



Future Challenges

Citi Research expects a good strategic fit for Emerson, given it has indicated test and measurement markets as an area of focus for the company. For Emerson shareholders, the deal is aligned with Emerson's strategy, but the price seems to assume Emerson can reduce NI's costs accordingly. If it is unsuccessful, management is likely to turn to other targets.

Karolin Kolarik
Investment Banking Division

M&A: Top Deals

Thoma Bravo to Acquire Magnet Forensics Inc

On the 20th of January 2023, Magnet Forensics Inc. (TSX: MAGT) agreed to be taken private by buyout firm Thoma Bravo in an all-cash deal, that values the digital investigation solutions developer at USD 1.3 bn. A special committee, appointed by Magnet's board, tapped Morgan Stanley and CIBC Capital Markets to serve as its financial adviser and independent appraiser, respectively.

Buyer vs Seller

Thoma Bravo, LP, is an American private equity and growth capital firm with over USD 120 bn in assets under management. The buyout firm focuses on the application, infrastructure, and cybersecurity software as well as technology-enabled business service sectors. Founded in 2009, Magnet Forensics develops software solutions to assist forensic professionals in investigating cyberattacks and digital crimes. The company's services include case management, incident response, digital forensics and human resources investigations.

Industry Overview

As the digital economy grows, digital crime grows with it. Soaring numbers of online and mobile interactions are creating millions of attack opportunities. Many lead to data breaches that threaten both people and businesses. At the current rate of growth, damage from cyberattacks will amount to about USD 10.5 tn annually by 2025 – a 300% increase from 2015 levels. At approximately 10% penetration of security solutions today, the total opportunity amounts to a staggering USD 1.5 – 2.0 tn addressable market.

Peers	Currency	Market Cap (CUR m)
Docebo Inc	CAD	1,708.23
Enghouse Systems Ltd	CAD	2,231.00
Kinaxis Inc	CAD	4,380.42
Descartes Systems Group Inc/Th	CAD	8,427.65
Open Text Corp	CAD	11,844.41

Deal Rationale

After several billion-dollar buyouts including Ping Identity, SailPoint, Anaplan, and ForgeRock, Thoma Bravo continues its buying mood in 2023, as software stocks have been clobbered since the market peak in November 2021, with the Nasdaq Composite down about 30%, and many stocks off 50% or more. Post-acquisition, Magnet Forensics will be combined with digital forensic solutions provider Grayshift LLC. Thoma Bravo acquired a majority stake in Grayshift in July 2022. The offering from both companies is expected to create a new end-to-end digital investigations platform empowering public safety agencies around the world.

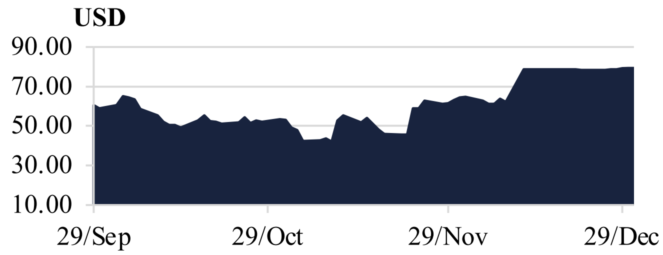
Market Reaction

Thoma Bravo

Magnet Forensics will be purchased by a newly created corporation controlled by Thoma Bravo, Morpheus Purchaser Inc, which will pay Magnet Forensics' shareholders CAD 44.25 per share. This value represent an 87% premium to the closing price on the 5th of October 2022, the last day prior to Thoma Bravo's submission of its initial non-binding proposal for an acquisition. Thoma Bravo's plans to combine Magnet Forensics' digital investigation suite with Grayshift's mobile device digital forensics, specializing in lawful access and extraction, will deliver customers a platform to extract, process, examine, collaborate on and manage digital forensic evidence.

Magnet Forensics Inc.

Magnet's shareholders will receive CAD 44.25 per share in cash. The deal represents a 15% premium to Magnet's closing stock price on the 19th of January 2023.



Future Challenges

It will be interesting to keep an eye on whether Thoma Bravo will be able to leverage its deep industry, operational and investment expertise in order to bring together the complementary capabilities of Magnet and Grayshift, creating a leader in the digital forensics and cyber security space. Transaction closing is expected in Q2 2023 and is subject to shareholder and other customary approvals.

Yutong Wang
Investment Banking Division

M&A: Top Deals

Xylem to Acquire Evoqua Water Technologies

On the 23rd of January 2023, water technology company Xylem Inc announced the acquisition of Evoqua Water Technologies Corp in a USD 7.5 bn all-stock deal, seeking to capitalize on increased awareness of the risks linked to worldwide water shortage. Evoqua shareholders will obtain 0.48 new Xylem shares in exchange for every Evoqua share, representing a premium of c. 29%.

Buyer vs Seller

US-based Xylem is a leading water technology company committed to solving water issues by creating innovative and smart technology solutions to meet the world's water, wastewater and energy needs. Evoqua Water Technologies is a leading American provider of water and wastewater treatment solutions, offering products and services tackling critical water needs. Goldman Sachs and Bank of America advised Evoqua, while Lazard and Guggenheim Securities acted as financial advisors to Xylem.

Industry Overview

Due to population growth, industrial expansion, and increased agricultural development, demand for fresh water is rising sharply. Policymakers and business leaders are backing global initiatives to help secure long-term water supply. In 2021, the global bottled water market was valued at USD 283.0 bn and is expected to grow at a CAGR of 6.7% from 2022 to 2030, primarily on the back of health issues, gastrointestinal diseases, and consumption of contaminated water.

Peers	Currency	Market Cap (CUR m)
Energy Recovery Inc	USD	1,262.71
Fluidra SA	EUR	3,456.40
Runner Xiamen Corp	CNY	5,197.01
Grupo Rotoplas SAB de CV	MXN	13,682.65
Guangdong Liantai Env.	CNY	3,411.22

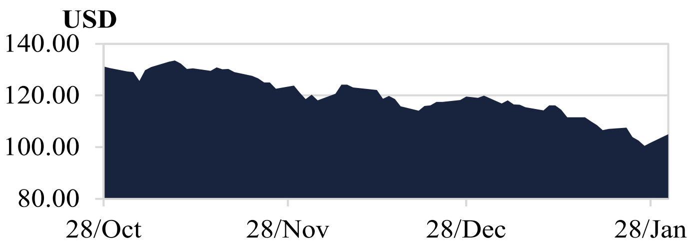
Deal Rationale

The combination creates a leading transformative platform to address the most critical water challenges and consolidates the entities' strong positions in resilient, attractive, and growing markets. Concretely, the acquisition unlocks compelling new growth opportunities and is expected to deliver run-rate cost synergies of approximately USD 140 m within three years, driven by scaling effects, procurement efficiencies, network optimization, and corporate cost reductions. Additionally, the purchase enables Xylem to maintain its solid financial position, giving the combined firm a significant amount of strategic flexibility and optionality.

Market Reaction

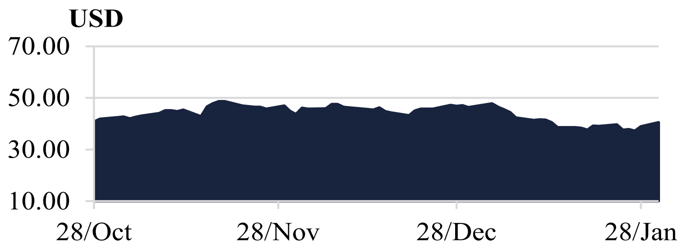
Xylem

On the day of the announcement, Xylem stock closed nearly 8% down, after recouping some earlier losses, as investors disapproved of the hefty price and premium paid.



Evoqua Water Technologies

Evoqua investors have reacted positively to the news of the merger, pushing the stock up ca. 14%, as the offer significantly exceeds a previous USD 2.5 bn offer the firm received.



Future Challenges

The main challenge posed by this transaction is likely a potential overpayment trap – which the market seems to believe, as Xylem shares plunged 8% while the Evoqua stock jumped 14% on announcement – implying that the expected synergies and strategic rationale of the deal are too optimistic, potentially leading to post-transaction shareholder value destruction.

Ignacio Klimowitz
Investment Banking Division

What Happened To

BuzzFeed Inc

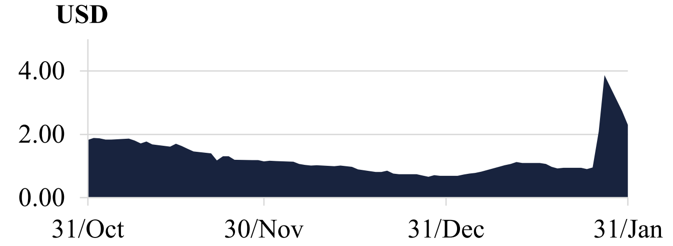
BuzzFeed is a US-based news and entertainment company focused on digital media. By now, its content covers a wide range of topics, including business and politics, but also less sophisticated topics such as pop culture news. The platform was originally popular for its "listicles" – list-like structured articles with additional text accompanying each subheading – and quizzes.

Corporate News

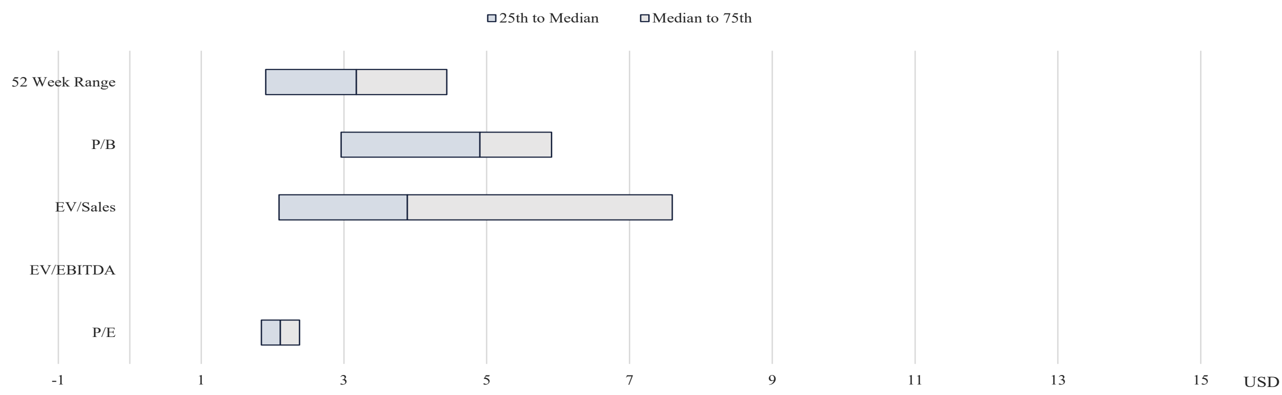
Since going public through a SPAC merger on the 6th of December 2021, BuzzFeed's stock price has been declining almost constantly. Especially in June 2022, the digital publisher's stock price drastically declined by 40%, which was mainly driven by the expiry of lockup agreements of some of its major shareholders. From this point until the beginning of November, the share price was more or less constant at around USD 1.8 before continuing to fall close to its 52 weeks low of USD 0.63. Then, on the 26th and 27th of January 2023, the company's stock price suddenly skyrocketed by around 100% on each of the respective days, peaking at USD 3.87. As BuzzFeed recently announced its plans to leverage artificial intelligence provided by OpenAI in order to enhance its content creation and personalization, this surge is one of many examples of how companies can profit from being linked to the newly launched ChatGPT software.

Price (31 Jan 23, USD)	**2.18**
Target Price (USD)	2.25
3M Performance	19.13%
Market Cap (USD m)	303.32
Enterprise Value (USD m)	398.95

**Target Price is for 12 months*



Valuation Analysis



Currently trading at USD 2.32, BuzzFeed shares are already down about 40% compared to their post-announcement high, suggesting that the announcement had a rather short-term effect on the company's market value. However, BuzzFeed CEO Jonah Peretti believes that AI, next to the content creators themselves, is one of the leading trends shaping the future of digital media organizations and announced that the company will introduce AI-powered features such as quizzes within this month.

BuzzFeed's method of entering into the stock market has not been fortunate. In early 2021, some of BuzzFeed's competitors cancelled their plans to go public via SPAC, as these vehicles increasingly attracted the attention from regulators due to their opaque and risky nature. Also, the appeal of SPAC mergers seems to have been more of a temporary phenomenon during the pandemic - when it was harder to conduct the typical face-to-face investor calls of a traditional IPO.

Peers	**Currency**	**Market Cap** (Cur m)
Vimeo Inc	USD	782.29
Netflix Inc	USD	161,211.08
fuboTV Inc	USD	550.81
DHI Group Inc	USD	284.77
TrueCar Inc	USD	284.61

Charlotte Mayr
Investment Banking Division

What Happened To

Netflix Inc

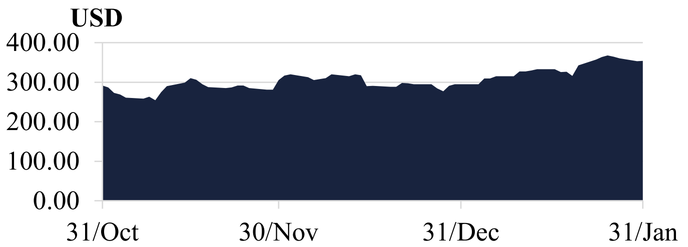
Netflix Inc is an American company operating in the entertainment industry. The firm's offerings include television programs, feature films, and games in a range of genres and languages. The company has paid memberships in over 190 countries and provides a number of streaming subscription options, the cost of which varies by country and membership features.

Corporate News

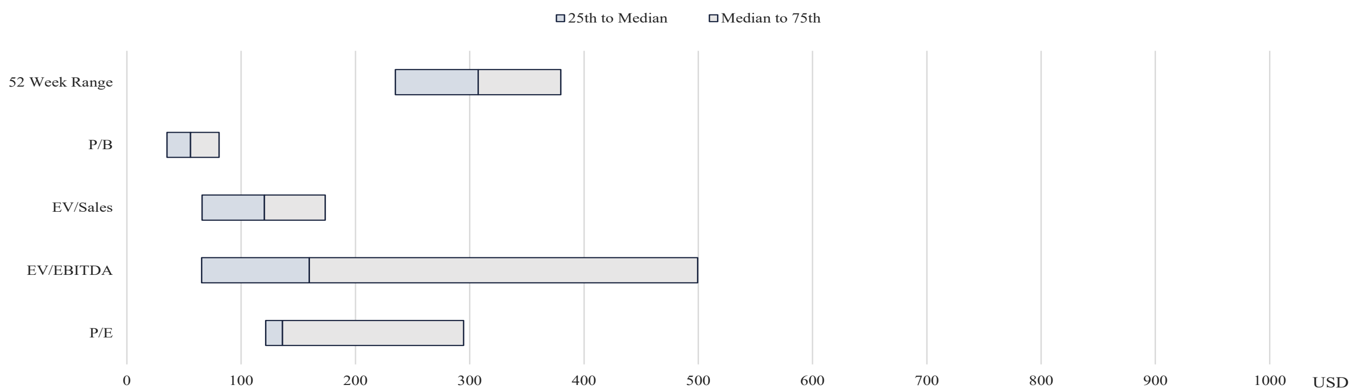
Throughout 2022, Netflix's share price has varied significantly. In Q1 2022, the firm's global subscribers came in at 222 m, missing analysts' predictions by roughly 3 m. In Q2 2022, Netflix lost another 1 m subscribers. Since then, the share price dropped from USD 341.1 at the Q1 earnings announcement date to USD 162.7 in May 2022, reaching its lowest point throughout the year. Despite the negative sentiment, the firm has announced major changes to its business model, introducing, among other initiatives, a lower-cost ad-based subscription, shifting away from a previous focus on the absolute number of subscribers to changes in the membership model. The firm's recent earnings announcement on the 19th of January 2023 was perceived positively by the market. Despite a 91% decrease to USD 55 m in net income, the share price rose by about 7% to USD 342.5 following the announcement day.

Price (31 Jan 23, USD)	**361.99**
Target Price (USD)	377.50
3M Performance	24.02%
Market Cap (USD m)	161,211.08
Enterprise Value (USD m)	172,084.19

**Target Price is for 12 months*



Valuation Analysis



Currently down by 47.66% from the all-time high of USD 691.7 in November 2021, the firm has made significant changes to its business model and had a strong comeback in the second half of 2022, as represented in its recent earnings announcement. However, the revenue growth rate has still decelerated from about 6% in Q3 2022 to 2% in Q4 2022, partially due to the strong development of the USD. For 2023, Netflix predicts revenues to increase by about 4%, about 8% on a constant currency basis.

Finally, the development of competitors remains dynamic as well and may further influence the firm's trajectory, especially due to the vast amount of streaming platforms available. With delivered content being the core component of the firm's business model, Netflix will have to invest billions into new content to further set itself apart from the competitive streaming landscape. However, the recent change to revenue streams might further amplify the firm's goals for 2023.

Peers	**Currency**	**Market Cap** (Cur m)
Walt Disney Co/The	USD	199,482.73
Paramount Global	USD	15,978.66
Warner Bros Discovery Inc	USD	37,300.16
Fox Corp	USD	18,067.31
Roku Inc	USD	8,363.13

Marlin Egbuna
Investment Banking Division

NIC's View On

Kim Kardashian's Private Equity Company SKKY Partners

Marie Klingsporn
Investment Banking Division

"Not bad for a girl with no talent"

– Kim Kardashian, Co-Founder SKKY Partners

Kim Kardashian is entering the world of finance with the launch of her private equity firm SKKY Partners. Together with co-founder and private equity veteran Jay Sammons, the firm is set to make investments in consumer, retail, and media businesses. With this step, Kim Kardashian joins other celebrities that ventured into the investment space, such as Leonardo DiCaprio, Gwyneth Paltrow, or Serena Williams, whose venture capital firm, Serena Ventures, raised USD 111.0 m in March 2022 for their first fund.

Kim Kardashian was named a billionaire by Forbes Magazine in April 2021 and now has an estimated net worth of USD 1.8 bn. Kim Kardashian started her career as a reality star in the family's reality TV show "Keeping up with the Kardashians" and several spin-offs. She launched her make-up and beauty brand "KKW Beauty" in 2017 as well as the clothing brand "SKIMS" in 2019, which is, according to Forbes Magazine, currently valued at USD 3.2 bn. Further, Kim Kardashian is a successful influencer with around 340 m Instagram followers and is listed as one of the top 100 influential people worldwide. This track record and knowledge about building successful consumer brands is what the former reality star plans to bring into the newly founded private equity company to support the growth of its portfolio companies.

For this move, Kim Kardashian partnered with Jay Sammons to co-found SKKY Partners. Sammons spent over 16 years at Carlyle Group as a Partner and Head of Consumer, Media, and Retail Investments. During his career, the Harvard Business School alumni steered the growth and success of several renowned brands such as Beats by Dr. Dre, Supreme, or The Bountiful Company. In addition to the private equity veteran, David Brisske, who worked for Permira for the last eight years, will also join SKKY Partners, bringing in his experience as Managing Director. His extensive knowhow in the private equity and financial industry, paired with Kardashian influence and expertise in building consumer brands, sets SKKY Partners up for a strong start. Also joining the company as a Partner is Kris Jenner, Kim Kardashians' mother, manager, and long-term business partner. This once again makes this a Kardashian/Jenner family business, as the family has been heavily involved in each other's business ventures on previous occasions.
SKKY Partners intends to conduct both minority and majority investments in "high-growth, market-leading consumer and media companies", as announced by Kim Kardashian via Twitter in September 2022. The firm still has to start its fundraising process and is planning to target mainly institutional investors and, as currently speculated, to use a significant portion of the founders' own wealth. SKKY Partners still has to make their first investment.

Briefly, the newly founded company will be highly influential in the financial, consumer, and media industries. With a strong brand and even stronger expertise coming from its founders, business partners, and employees, SKKY Partners has great potential, and one can curiously await the announcement of the first investment.

Date	Recent News
07 Sep 22	The new company is announced via Twitter by Kim Kardashian ***Source:*** *forbes.com*
01 Dec 22	David Brisske leaves Permira and joins SKKY Partner as Managing Director ***Source:*** *bloomberg.com*

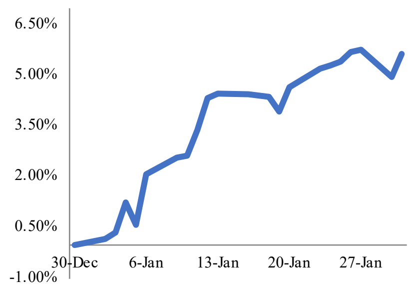
Marie Klingsporn
Investment Banking Division

NIC Fund

NIC Fund

Portfolio Overview

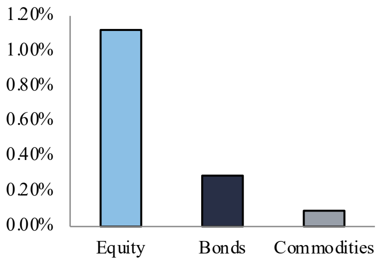
NIC Fund Cumulative Return



Portfolio Statistics	
Cumulative Return	5.65%
Annualized Return	67.84%
Daily St. Dev	0.53%
Period St. Dev	2.45%
Annualized St. Dev	8.49%
Info Sharpe	7.99
Skew (Daily)	0.18
Kurtosis (Daily)	-0.09

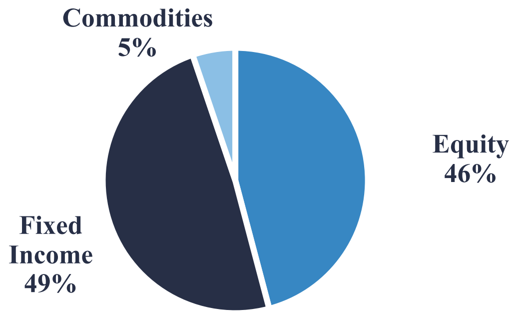
Benchmark	
iShares 3-7 Year Treasury Bonds	40%
SPDR S&P 500 ETF Trust	40%
Powershares DB Commodity Index	10%
iShares JP Morgan USD EM Bonds	10%

Individual VaR



Portfolio Snapshot

During the last month, the NIC Fund remained invested in Equities, Fixed Income and Commodities with very similar allocations to our benchmark fund. Overall, 46% of our fund remained devoted to Equities, 49% to Fixed Income and 5% Commodities. As in the previous month, there were no significant changes in asset allocation, the fund continues to hold 6% more in equities, 1% less in fixed income and 5% less in commodities compared to the benchmark. Due to higher exposure to equities, the fund outperformed the benchmark in January.



Return Metrics

The total portfolio performance in January 2023 has been positive, with a cumulative return of 5.65%. Commodities and equities were the best performers, contributing positive returns of 1.08% and 4.53%, respectively. Also, bonds achieved a positive return this month, but far below 1%. On the equity side, the portfolio was not only invested in the S&P 500 index fund and other ETFs, but also in MercadoLibre S.A. (MELI US), Nvidia Corp. (NVDA US), Goldman Sachs Group, Inc. (GS US), Amazon.com, Inc. (AMZN FP) and 23 other individual stocks. The best performers were MercadoLibre S.A. and Nvidia Corp., with a performance of 39.64% and 33.69%, respectively. Northrop Grumman Corp., on the other hand, was the worst performer, with a return of -17.88%. The best performing ETF was the Global X Data Center REITs & Digital Infrastructure ETF, with a performance of 10.42%.

Risk Metrics

In terms of risk, our portfolio registered a relatively low daily VaR of 0.53%, taking into consideration the benefits of diversification. This ratio is well below the established maximum of 2.50%. Equities were the asset class with the highest individual VaR, which was around 1.12%. On the other hand, Bonds and Commodities had slightly lower VaRs of 0.29% and 0.09%, respectively.

Philipp Hauswurz
Financial Markets Division

NIC Fund

Assets in Brief

Asset Class	Symbol	Comments
US Equity	NVDA	One of our most successful investments this month was the long position in NVIDIA. After losing significant value last year, due to concerns about the global economy, the stock benefited enormously from rising confidence in the markets in January, gaining almost 34%.
FR Equity	KER	Our position in the luxury brands group Kering also performed very well this month with an almost 25% gain, outperforming its competitor LVMH. Certainly, the change of the chief designer of Gucci has contributed to this. Gucci is the most successful brand of the luxury conglomerate with a double-digit percentage contribution to sales.
DE Equity	VOW3.DE	Volkswagen sold 7% fewer cars in 2022 than in 2021. The main reason for this was delivery problems, but it became clear in the last quarter that this was only a temporary problem after sales picked up significantly at the end of the year, with the total sales of e-cars benefiting in particular. We will continue to be bullish for VW in 2023.
CH Equity	NVS	With a performance of -0.62%, Novartis is one of the few stocks in our portfolio that did not achieve a positive return in January. Looking at the last year as a whole, we can see that Novartis, with a profit of USD 7 bn, is well below the USD 24 bn profit of 2021.
FR Equity	BNP.PA	After BNP Paribas closed the year 2022 with a price decrease of 12%, the bank could more than make up for it in January with a price gain of over 20%. We also remain bullish for the major French bank due to rising interest rates.
ARG Equity	MELI	The best performing stock in our January fund came from Argentina. The e-commerce retailer MercadoLibre started the year with an increase in stock price of 40%. Reasons for this include the incredibly strong sales of around USD 3 bn in the last quarter of 2022 and the weakness of the Brazilian retailer Americanas SA, which will presumably enable the Argentinean company to gain further market share. We remain invested.
US Equity	DIS	After Disney's share price went on a downward slide last year, the stock recovered well in January, posting a performance of almost 25%. This shows that it was the right decision to include the former CEO Bob Iger back into the company, but the situation remains tense as soon as he is appointed as successor after a fixed period of two years.
US Treasury Bonds	EMB ETF	In January, our best performing bond investment was the iShares J.P. Morgan USD Emerging Markets Bond ETF with a return of 3.92%. The fund offers the opportunity to invest in the sovereign debt of over 30 emerging market countries in a single fund.
Commodity	DBC ETF	The investment in the Invesco DB Commodity Index Tracking Fund covers futures on various commodities, including NY Harbor ULSD, Gasoline, Brent Crude, WTI Crude, Soybeans, Sugar and several others. In January, the ETF achieved a gain of 0.89%.
Commodity	AAAU ETF	Our second commodity investment, the Goldman Sachs Physical Gold ETF, generated a very good return of 5.75% in January. The ETF is a hedge for our portfolio. With gold, we try to counter inflation, plus its low correlation with other asset classes makes it an important portfolio diversifier.

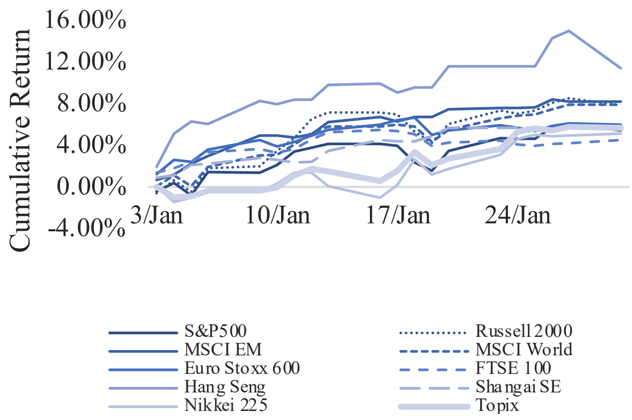
Philipp Hauswurz
Financial Markets Division

NIC Fund

Equities

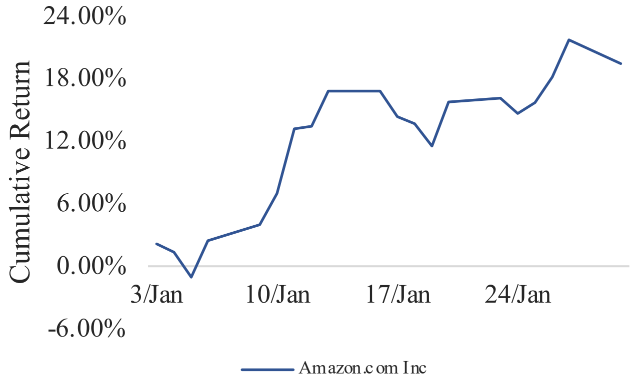
World Equities

Global equities resumed activity at the start of the year with significant gains, with the MSCI ACWI registering a monthly return of 7.91% in January. The stabilisation of interest rate hike expectations and headline inflation falling from previous peaks was supported by declining energy prices as winter temperatures exceeded forecasts and growing investor optimism amplified the recovery. The S&P 500 rose 6.2% MoM, standing at its highest level since September at 4,034.31. The Eurozone's ability to reduce its dependence on Russia, helped by a relatively warm winter that saw natural gas prices plummet, supported a positive month, with the Euro Stoxx 600 yielding 5.99% this month. The ECB is expected to raise base rates by 50 bps to 2.50% this month, however, in their previous meeting the central bank declared that "[…] interest rates will have to rise significantly", resulting in the anticipation of a hawkish stance in 2023 that may harm European equities going forward. Regarding Asian markets, the Hang Seng Index rose 11.39%, fuelled by Alibaba's (BABA) and Tencent's (TCEHY) development whose share price rose 24.08% and 17.39%, respectively, in the last month. However, with expectations of weak global demand due to a potential recession and the weakened yet present Covid-19 risk, investors remain bearish.



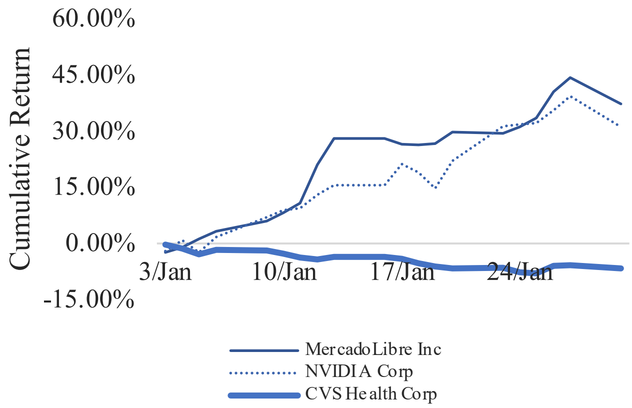
In Depth: Amazon.com Inc

Amazon has been one of the standout performers within the portfolio during the month of January, with a return of 19.41% MoM. After taking a significant hit last year, represented by a cumulative return of -50.71% in 2022, they will officially launch their "Buy with Prime" nationally in the US after a successful beta test, which allows Prime members to use other online vendor platforms, benefitting from fast and free shipping. This is expected to allow them to address growing consumer demands better. With the company's current cost-cutting strategy, which entails the lay-off of 18,000 employees and general divestment of unprofitable projects, the firm aims to maintain its dominance in the e-commerce space and boost its profitability. However, despite the stock trading close to 4-year lows and its current positive momentum, the risk associated with the cyclicality of the stock, uncertainty regarding the aforementioned policies, and evolutions in market sentiment warrant caution in labelling the stock as undervalued.



Our Performance

The month of January was characterized by a strong contribution of equities to our portfolio, with a contribution of 4.53%. This is mainly driven by the strong generalized performance of equities as interest hike expectations become less hawkish and investor confidence improves. Note to CVS Health Corp, which fell by 5.67% as it begins to cut hours by 1/3 in its over 9,000 stores due to a shortage of pharmacists.



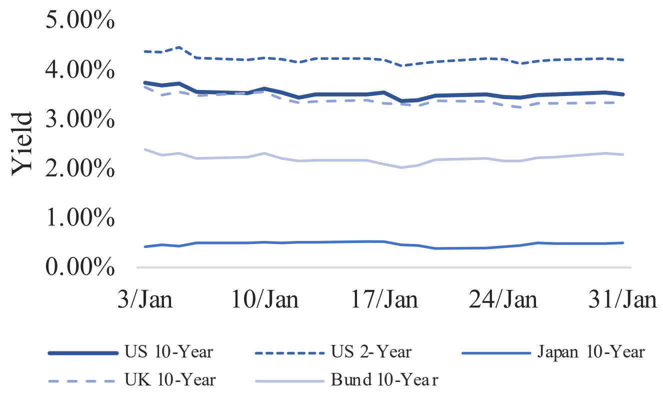
Tomás Forte Vaz
Financial Markets Division

NIC Fund

Fixed Income

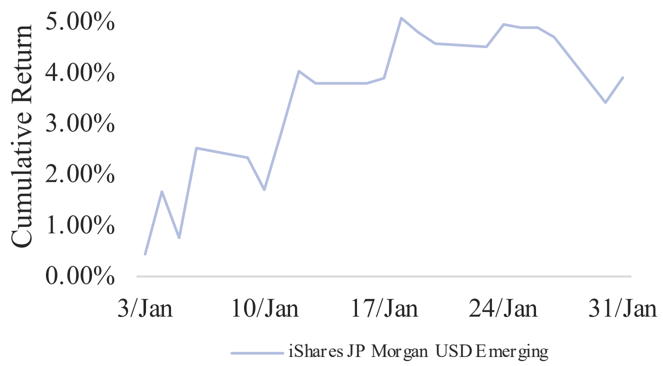
World Yields

January started off already with further speculation regarding the Fed meeting on the 1st of February, which ultimately decided introduce another hike in interest rates. However, compared to the last meetings, at a less aggressive rate of 25 bps. The Fed also pledged future rate increases, reinforcing beliefs that it might still tip the economy into a recession. However, the central bank also gave hints that it could back off of its tightening plans at some point, saying inflation has eased somewhat. The US 10-Year Treasury rates had a negative return of -9.49% MoM and have stabilized around 3.33%. The 10-Year German Bund is down -6.46% MoM with a yield of 2.22%, retreating from the peak in December. The Eurozone inflation rate dropped for a third consecutive month to 8.50% in January from 9.20% in December on the back of a significant decrease in energy costs. Furthermore, the UK 10-Year yield has decreased by 9.26% MoM and has settled at around 3.34%. The Japanese 10-Year yield increased further by 17.54% MoM (prior month return of 66.08% MoM) to 0.48%. To stop the rise, the Bank of Japan on Friday bought JPY 5 trn, equivalent to USD 39 bn, of JGBs with maturities from 1 to 25 years, the largest daily amount of bond buying by the BOJ ever.



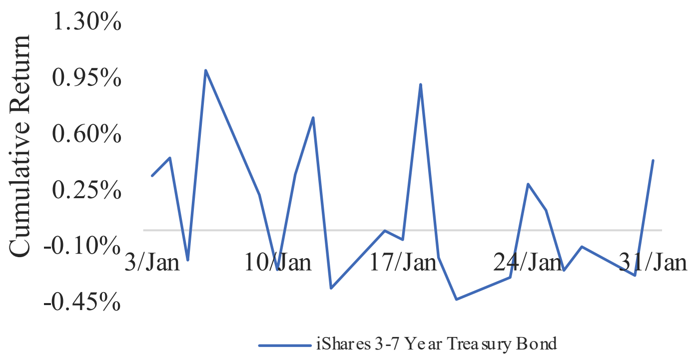
In Depth: Emerging Markets

Emerging market governments have already raised more than USD 40 bn in international bond markets this year as an easing of global inflationary pressures and hopes for an economic recovery in China. The flood of selling bonds came as emerging market bond prices recovered from heavy losses in 2022. JPMorgan's iShares emerging market is up 3.92% so far in January after falling 15.01% last year. All sales were at least three times oversubscribed, a sign that the appetite for emerging market bonds is returning after a year in which many countries were effectively excluded from the markets due to the rise in global interest rates. Investors seem happy to invest in riskier bonds again, betting that global interest rates are approaching their peak. The issuance in 2023 is already at 40% of the total of 2022. Nevertheless, if the global downturn hits, it might imply that the current optimism will not last, especially for riskier emerging market bonds.



Our Performance

The iShares 3-7 Year Treasury Bond, which tracks 3- to 7-year U.S. Treasury bonds, posted a return of 0.38% for the month, allowing the total fixed income holdings in our portfolio to contribute quite well, with a return of 1.08% compared to -0.04% the previous month.



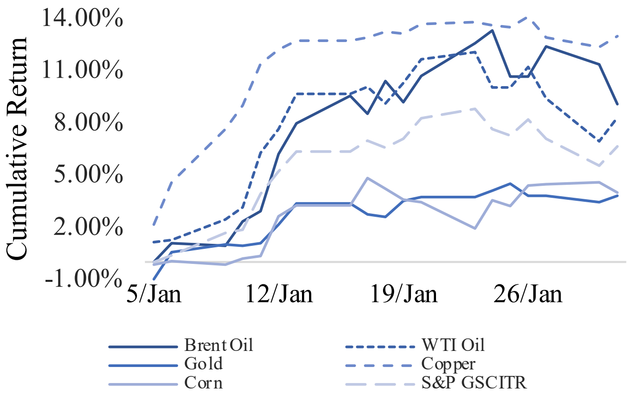
Pauline Schüller
Financial Markets Division

NIC Fund

Commodities

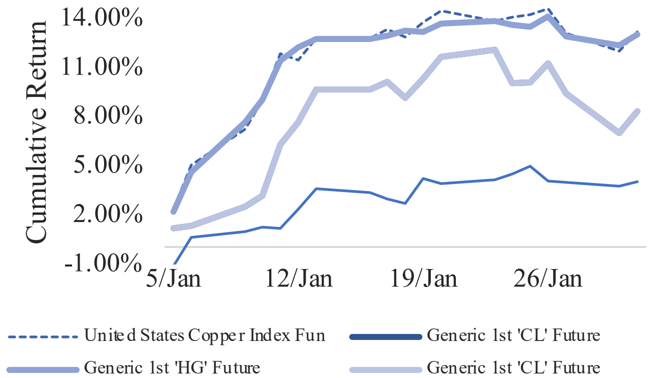
January Round-Up

For the month of January, the S&P GSCI Total return index, which tracks 24 commodities, declined 8.21% MoM. The 24 individual commodities comprising the S&P GSCI finished the first month of 2023 with divergent performances. This echoed the uncertain path forward regarding inflation expectations. Half outperformed, with industrial metals leading the way, while the other half declined, with natural gas tanking. Energy prices dropped 34.22% due to a small glut of inventory, as Europe filled its tanks well above expectations. This coincided with a warmer winter than expected in the region, easing supply shortage fears after cutting Russian imports. The petroleum complex finished flat, despite investors pulling back into petroleum futures and options at the fastest rate in more than two years. On the other hand, gold rose 6.02% in January as the US Dollar continued its decline, currently below 2022 highs. Moreover, gold has historically performed well when other assets have deteriorated. In the past, when there was a high and rising inflation, gold tended to lag behind other inflation-sensitive assets, and this time there seems to be no difference. The cost of most food commodities had a return of 1.18% MoM, with softs outperforming, while only wheat lagged behind. Even though wheat prices decreased in the US, they increased in India due to continued tightening of supply, as the harvest shrank due to severe heat waves and higher export demand amid the Russia-Ukraine conflict. Fertilizer prices declined 9.0% MoM and metal prices gained 9.4% due to China’s reopening.



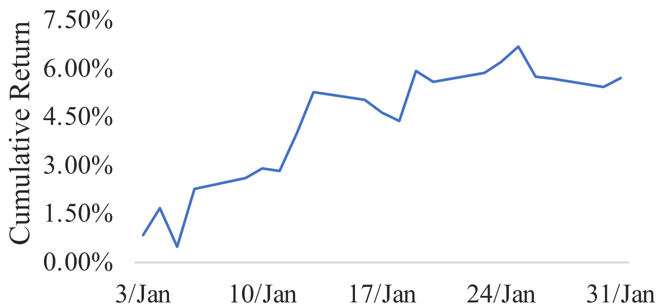
Outlook for February

In 2022, Commodities were the best performing class, and it is expected to be the same in 2023. One of the commodities to keep an eye on is copper. The copper price has started to turn around since its low point in July 2022, currently up by 28%. Moreover, copper supply is at all-time lows and demand is rising, in addition, the lower US Dollar is fuelling future purchases of copper. Furthermore, as China is the largest consumer of copper and reopening borders after three years, the price of copper could be further influenced over the medium to long-term, especially as China’s EV market is continuing its growth.



Our Performance

During January, the Invesco DB Commodity Index returned 0.89% while the the Goldman Sachs Physical Gold Index returned 5.75%, leading to an overall return of 0.2%.



Francisca Bombas
Financial Markets Division

Extras

Hot Topic

Travel and Leisure: Ready to Take Off

David Biewald
Financial Markets Division

“The leisure traveller is buying a destination. The business traveller is buying the journey. The fun side is leisure travel, but corporate is where most companies, like mine, are going to make most of their money”

– Dave Hershberger, President, Prestige Travel Leaders

The travel and leisure sector was affected by several headwinds in 2022. These negative conditions have changed in the last few months. Therefore, the industry could take off in 2023, when a normalization in consumer behaviour could take place due to several outlined factors.

Firstly Asia was able to boost demand since China eased their Covid-19 restrictions and opened its borders again. Only a couple of weeks after the reopening, Chinese vacation bookings are up, malls are filled with people willing to spend money, and infection numbers have already peaked. This development is more positive than expected and gives investors hope that the recovery of the Chinese economy could happen faster and ease the global economy due to solved supply chain issues and money floating into foreign markets.

Secondly, fare prices are up more than 20% compared to September 2019. On a YoY basis, prices are up 5%, indicating stable pricing power to compensate for cost effects caused by inflation. The industry and, in particular, airplane companies are able to keep their prices stable or even elevated for more reasons. Delayed airplane deliveries, personnel shortages and maintenance bottlenecks lead to a shortage on the supply side. This advantage is also reflected by comparing the producer price index with service prices. While producer prices decline due to bigger inventories, service prices remain stable, indicating that the pricing power of service industries is stronger. Sticky core inflation and declining headline inflation support this assumption. Ryanair's CEO Michael O'Leary, confirmed this assumption in the last earnings call by stating higher labour costs caused by higher inflation will be manageable due to higher margins while higher fare prices help to pay for higher oil prices, which are already hedged.

Thirdly, another beneficial effect on the travel and leisure industry is the dropping headline inflation due to falling energy prices. Since fuel and oil cover 20% to 30% of the costs of the airplane industry, a -38% decline in oil prices from its peak in 2022 supports the expert's consensus that airlines will be profitable again in 2023. During the oil price decline, airlines hedged their oil and fuel expenses at a lower price to avoid potential volatility in the oil price in 2023. Record bookings for this year's holiday season confirm the positive outlook. Moreover, one can observe that consumers' vacation budgets are increasing yearly, meaning that consumers have the money to compensate for higher prices and are willing to spend their funds on vacations.

The industry is further experiencing a shortage in the labour force and airplanes due to reductions in production during the pandemic. Thus, fewer airplanes have been added to the global aircraft fleet in the last years, leading to a supply shortage while demand increases. In the press conference of the ECB on the 2nd of February, even Christine Lagarde confirmed that the service sector has been holding up, supported by China's reopening and stronger demand for leisure activities. Lagarde's statement regarding the leisure industry is a strong confirmation of the assumption that the travel and leisure industry might be one of the sectors to invest in 2023 since the president of the ECB usually does not share her assessment of specific industries.

The European travel and leisure sector rallied around 15% in the year's first month. It could show further upsides when the positive effects of this year's consumer behaviour are reflected in the financial statements of companies operating in the industry. For all those reasons, it is worth keeping an eye on the top pick Ryanair.

David Biewald
Financial Markets Division

Extras

ESG Review

Sustainable Real Assets: The Key to Addressing Global Challenges and Unlocking Trillion-Dollar Investment Opportunities

Yutong Wang
Investment Banking Division

"Investing in real assets is not just a step towards a greener future, but also a smart financial decision with multi-trillion-dollar potential.

– Jeremy Anagnos, Portfolio Manager of Nordea's Global Sustainable Listed Real Assets Strategy, Nordea

The world faces pressing challenges, both economically and environmentally. The ongoing inflationary shock, compounded by Russia's invasion of Ukraine, continues to harm consumers and businesses. Meanwhile, the effects of global warming and climate change are becoming increasingly apparent, with more frequent and severe coastal floods, droughts, and wildfires.

To address these challenges, we must adapt and transition to more sustainable practices. To reduce our reliance on fossil fuels and decrease energy usage, we need to intensify investment in renewable and alternative energy sources and improve energy efficiency. Identifying sustainable leaders within the real assets space, encompassing both infrastructure and real estate, is essential for short- and long-term change. Companies in this sector are at the forefront of the transition to net-zero emissions, investing in green initiatives like solar farms, upgrading transmission lines, and improving building energy efficiency. For example, smart building systems can significantly reduce power consumption and increase energy savings.

Even though these industries are responsible for half of all carbon emissions today, they make up nearly three-quarters of current capital investment in global low-carbon initiatives. The transition to a greener future is not only driven by sustainability, but also by the clear economic rationale for change demonstrated by the current energy crisis.
Investors are taking note of the attractive characteristics of real assets in the current economic climate. Anchored by essential needs such as housing, power, transportation, and communications, these entities often operate as monopolies with contracted or regulated returns, providing stability during economic stress. Additionally, real assets typically have the ability to pass on price increases, making them attractive during periods of high inflation. The investment opportunity to upgrade existing infrastructure and real estate assets to meet society's evolving needs is estimated to be worth over USD 130 tn in the next 30 years. Corporate opportunities are already emerging in environmental and social stewardship and technological innovation.

Examples of sustainability leadership include LINK, the Hong Kong-based property owner committed to reaching net-zero emissions by 2035 and seeking a 100% green building portfolio by 2025/2026, and National Grid, the UK electricity transmission network owner, set to spend GBP 30-35 bn between 2022 and 2026 to meet the UK's net-zero targets. Portuguese electric utilities group EDP is a leader in decarbonization innovation, aiming to generate 1.75GW of hydrogen capacity by 2030 and operate with 100% renewable capacity by the end of the decade. In the social stewardship space, companies like Ventas, a diversified healthcare REIT with properties in the US, Canada, and UK, are well positioned to benefit from secular trends, including the growing senior housing market.

In conclusion, the challenges faced by our world require adaptation and transition to more sustainable practices. The real assets sector is at the forefront of this transition, presenting a multi-trillion-dollar investment opportunity for investors. With the emergence of compelling corporate opportunities, the sector is poised for growth as the world moves towards a greener and more sustainable future.

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Thank you!

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