NIC Undergrad Review

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NIC

— Undergraduate Division —



Editor's Note.

Dear reader,

As editor-in-chief for the academic year 2023/2024, it gives me great pleasure to present to you the last NUR edition of this year.

As usual, this edition starts with a comprehensive review of Iberian financial markets and global M&A transactions for the first quarter of 2024. Subsequently, an industry overview, in which will dive into the Defence Industry. In addition, you will find an article on Blue Economy. The last article presents a discreet but powerful investment tool, REITs. To conclude this issue, we bring an exclusive interview with the esteemed alumna Bárbara Simões.

I extend my deepest gratitude to our dedicated teams of writers, Francisco Faria, Matilde Oliveira, Matilde Murta, Leonel Lucas, Constança Rodrigues and Afonso Freitas, whose effort and support were crucial in putting this newspaper together.

As my time at NIC comes to an end, I would like to thank everyone who has been part of this journey for the opportunities I have had. It has been a pleasure. I am excited to see my colleagues continue to uphold the club's legacy and drive its progress.

Lastly, I wish the best to my successor. I am confident they will continue to manage this newspaper with excellence and bring noteworthy topics to discussion.

Warm regards,

Rita Fernandes

Editor-in-chief





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Quick Take on Iberian Markets



Rita Fernandes

Portugal to reintroduce tax breaks for foreign workers, excluding retirees. In Portugal's new center-right government to reintroduce a 20% flat income tax rate for skilled foreign workers, excluding wealthy expatriate pensioners. The measure, part of a broader economic stimulus package, aims to attract talent while addressing previous criticisms regarding its impact on housing prices and public services. The government faces political challenges in passing the tax breaks, which are crucial for boosting growth.

Political Turmoil: Sánchez's Future and Spain's Government Formation. Spain is currently navigating a complex political landscape with Prime Minister, Pedro Sánchez, struggling to form a government after a fragmented election left his Socialist party short of a majority. The process has been slow, marked by intricate negotiations with potential coalition partners including Podemos. Sánchez faces additional pressure due to ongoing legal issues surrounding his wife, Begoña Gómez.

Nokia secures 5G deal in Portugal. Nokia is poised to win a contract to supply 5G radio equipment to Portuguese telecom operator MEO, replacing Huawei, which had previously been MEO's sole supplier for 2G, 3G, and 4G networks. This marks Nokia's return to Portugal's RAN market after losing its share to Huawei years ago. The deal, yet to be officially signed, signifies a strategic shift as MEO diversifies its suppliers amid global concerns over Huawei's security issues.

Spain government fined Booking.com by €448 million. The Spanish regulator, CNMC, found that the online travel platform's practices restricted competition by abusing its dominant market position and imposing unfair conditions on hotels. CNMC said the booking website bans hotels from offering lower prices on their own sites than on Booking.com, thereby limiting their ability to compete. The company is expected to appeal the decision.

Spain lags in NATO defence spending despite Support for Ukraine. Despite Spain's strong support for Ukraine, it remains NATO's lowest spender on defence as a percentage of GDP. Spain's historical pacifism and political reluctance to increase military funding have contributed to this shortfall, despite NATO's push for members to allocate at least 2% of GDP to defence. Prime Minister Pedro Sánchez faces criticism ahead of NATO summits, as Spain's defence spending is forecasted to reach only 1.28% of GDP in 2024..

Iberian Peninsula and Latin America: mutual investment hotspots. Spain and Portugal stand out as the top destinations for real estate investment, having weathered recent economic challenges more effectively than its neighbours. South American funds view Portugal as a gateway to Europe, especially noted in the luxury residential sector. Simultaneously, bureaucratic delays in Portugal and market saturation in Spain present challenges but also indicate growth potential. Meanwhile, Spanish real estate giant Colonial has turned a €28 million profit in 2024, recovering from a significant loss in 2023, yet remains cautious due to ongoing European market uncertainties.

Portugal's economy on the rise, with surplus growth amid fiscal Improvements. The Eurozone deficit has decreased, placing Portugal among the top performers with the fourth-largest surplus. This shift highlights the nation's enhanced fiscal stability and robust economic management. Due to this recent results, Portugal is no longer viewed as a problem area in Europe, reflecting increased confidence among local and international observers in its economic policies. However, some critiques emerge surrounding the reported decline in public debt. While the reduction has been praised, experts caution that the improvements may not be as substantial as they appear, pointing towards structural issues that remain unaddressed..

M&A Analysis



Francisco Faria

Can M&A deals return to pre-pandemic levels in 2024?

Overview

In 2024, global M&A activity has seen a significant rebound, totalling $1.3 trillion, a 23% increase compared to the same period in 2023. Such activity resulted from a decline in corporate risk aversion compared to last year and, quoting Mark Sorrell, Goldman Sachs' global co-head of M&A: "there's an appetite for big deals". Notable recent deals include Swedish private equity group EQT's proposed £2.2bn acquisition of Keywords Studios, offering a 70% premium over its pre-announcement share price. Additionally, ConocoPhillips' $22.5bn acquisition of Marathon Oil highlights the trend towards mega deals, which has increased by 75% year-on-year. Despite the rise, M&A volumes remain below pre-pandemic levels. In 2023, M&A activity was remarkably lower, reflecting economic uncertainties and fewer high-value transactions. The increase in 2024 signals a cautious recovery, with strategic consolidations amid political and economic shifts.

Key factors affecting the M&A landscape include the outcomes of the US election, interest rate fluctuations, and regulatory scrutiny, particularly in the US and Europe. Private equity activity has increased by 30% yet remains cautious due to valuation disagreements and regulatory challenges. The energy and financial services sectors are particularly active, driven by technological demands and geopolitical shifts. However, the Asia-Pacific region has seen a 26% decline in M&A activity, marking the first time in 11 years it has fallen below $200bn at this point in the year.

Overall, while the number of deals remains below the record levels of the pandemic, the value of transactions indicates a robust pipeline being rebuilt. The focus has shifted towards strategic deals with a mix of sponsors and strategic sellers, indicating a market cautiously optimistic but wary of political and economic uncertainties.

Most relevant deals in the second quarter of 2024

Announced Date	Target	Buyer	Target Region	Target Industry	Value
28/03/2024	SRS	Home Depot	US	Home Retail	$18,5 billion
02/04/2024	Endeavour Group Holdings	Silver Lake	US	Entertainment	$13 billion
08/04/2024	AIR Comunities	Blackstone Real Estate Partners	US	Real Estate	$10 billion
13/05/2024	Squarespace	Primera	US	Technology	$6,9 billion
03/06/2024	Stericycle	Waste Management	US	Industrials	$7,2 billion
06/06/2024	Copeland	Blackstone	US	Climate Technologies	$3,5 billion

ConocoPhillips acquires Marathon Oil

Deal Structure

The Houston-based Exploration & Production company has agreed to buy rival and neighbour Marathon Oil in an all-stock deal that values the company at $22.5bn, including debt, and enables a vaster suite of assets across the US. The agreement announced on May 29th, states that Marathon shareholders will receive 0.255 shares of Conoco for each Marathon share they own, representing a 14.7% premium to the target's closing share price on May 28th, $26.45. The transaction is expected to close in the fourth quarter of 2024.

The Rationale

After losing out to Diamondback in the pursuit of Endeavor Energy Resources, one of the most sought-after private producers in the prolific Permian Basin of Texas and New Mexico, the deal for Marathon boosts Conoco's position in the market as pretended. "Our industry needs to consolidate. There are too many players. Scale matters, diversity matters in the business," said Ryan Lance, CEO of ConocoPhillips, in an interview on CNBC.

The acquisition fits into ConocoPhillips' strategy of enhancing its US. onshore portfolio, ensuring greater resilience and operational efficiency. The assets owned by Marathon in North Dakota, New Mexico, and Oklahoma greatly aid Conoco's expansion in the US, the world's largest economy. On top of this, the integrated gas business in Equatorial Guineas owned by Marathon will fortify Conoco's production in Africa.

On the other side, Lee Tillman, CEO of Marathon Oil stated that the deal was a "proud moment" for the company. "When combined with the global ConocoPhillips portfolio, I'm confident our assets and people will deliver significant shareholder value over the long term," he said.

This deal marks a significant event in the ongoing consolidation within the US oil and gas sector, following similar mega deals and major transactions like Chevron's acquisition of Hess Corporation and ExxonMobil's purchase of Pioneer Resources.

Market Reaction

Following the announcement, ConocoPhillips' stock declined by 3.3%, while Marathon Oil's stock surged over 7%. This mixed market reaction highlights investor concerns over ConocoPhillips' significant expenditure compared to the perceived growth potential from Marathon Oil's assets. Additionally, ConocoPhillips plans to increase its dividend and buy back shares after the acquisition. Investors are wary of the integration challenges and potential regulatory hurdles, although the strategic fit and anticipated $500 million in annual savings are viewed positively, contributing to Marathon Oil's stock rise. The broader consolidation trend in the energy sector also influenced market perceptions, adding complexity to the outlook.



ConocoPhillips and Marathon Oil's stock performance (Source: Yahoo Finance)

Industry Overview:
Defence



Matilde Oliveira

Historical Evolution, Current Dynamics, and Future Outlook

Profiting from conflict: the global weapons industry

With war raging in different parts of the globe, the weapon sector is now both capitalizing on the conflicts and struggling to meet the demand. Even before the latest escalation, global defence spending was approaching Cold War levels, primarily driven by the war in Ukraine and the perceived threat of China's expanding military power. In 2023, military outlays rose for the ninth year straight, hitting $2.443 trillion.

The global weapons industry, a significant subset of the broader defence industry, involves the development, production and sale of military weapons and systems.

This sector plays a crucial role in shaping international security, economic policies, and geopolitical strategies. This article delves into the history, current state, key players, financial aspects and future of the weapons industry, providing an overview of its nature.

From swords to superpowers

The history of the weapons industry dates back to ancient civilizations, where weapon production was essential for defence and conquest. But war used to be simpler: men used to fight with their muscles, swords, crossbows, and later guns and cannons.

However, the Industrial Revolution in the 18th century marked a turning point, with advancements in manufacturing and metallurgy leading to more sophisticated and mass-produced weaponry. This was made possible by the amount of energy being stored in coal and oil and the usage of iron and metal. The 19th and early 20th centuries saw an increase in major weapons manufacturers in Europe and in the United States, driven by colonial expansions and global conflicts. This was accompanied by a natural increase in government war budgets.

The World Wars were also very important in the evolution of the modern weapons industry. During these periods, the demand for advanced military stimulated rapid technological advancements and the establishment of large defence contractors. Companies like Krupp (Germany), Vickers (UK), and Springfield Armory (USA) shaped the weapons industry of the time.

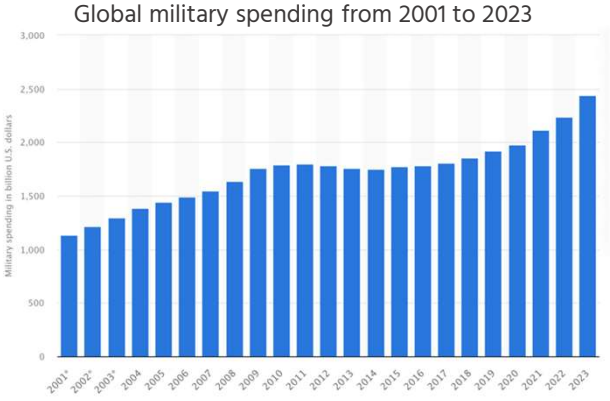
The Cold War era, characterized by an intense arms race between the United States and the Soviet Union, led to significant investments in nuclear weapons, missile technology and conventional arms.

The rise in conflict

In the 1800s and 1900s, only corporations could sell weapons as governments were not involved in these transactions. Today, although companies still manufacture and sell weapons, all sales must undergo a government approval process.

In the 21st century, the weapons industry is a globalized and highly lucrative market. Around the world, conflicts have escalated to full-blown wars as we've seen between Israel and Hamas or Russia and Ukraine others are slowly simmering, threatening to boil over, whether in South China or Taiwan straight. In all these cases, policymakers are racing to keep funds flowing to their defence sector.

Global military spending from 2001 to 2023



Source: SIPRI, international arms transfers

A currency that shapes geopolitics and economic interests

Weapons sales are a major means by which nations achieve geopolitical goals. These sales promote regional stability by equipping allies to counter threats, maintain a balance of power, strengthen alliances by ensuring military cooperation and shared defence commitments, and promote closer ties between nations. By providing arms to countries facing threats, nations can deter conflicts and contain enemy influences, thus enhancing security and stability.

Access to basic infrastructure, such as energy supplies, is another key factor driving arms sales. In this context, weapons act as a form of currency, trading military support for strategic advantages and reinforcing influence on the global stage.

Selling weapons also sustains economic interests. The arms industry, thriving since the Industrial Revolution, involves substantial financial investments, creating jobs and promoting the interests of private corporations.

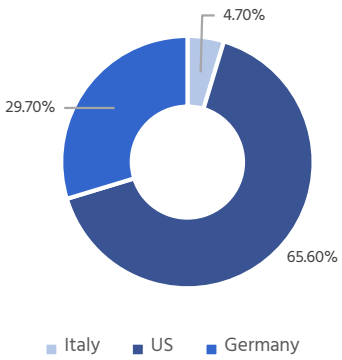
Current conflict zones

Recent and ongoing conflicts in regions such as the Middle East, Africa, and Eastern Europe have sustained a high demand for weapons. The Syrian Civil War, the conflict in Yemen, and the Russian-Ukrainian war are notable examples of substantial weapons transfers. These conflicts have not only increased the demand for conventional weapons but also for advanced technologies such as drones, cyber warfare tools, and missile defence systems.

Currently, in the Israeli-Palestinian conflict, the United States and Germany represent the two major suppliers of weaponry to Israel. On the Hamas side, guns come mostly from Iran, but also from China and Russia.

The truth is that, in the murky global arms trade, it can be difficult to determine who is selling weapons to whom. A weapon manufactured in one country could end up in the hands of another by way of one or more intermediary countries. Besides this, copycat armaments are also part of the weapons business.

Israel's arms suppliers



Source: SIPRI, estimated volume of major arms transfers 2013-2023

Key exporters 2019-2023

1. United States: The U.S. is the world's largest weapons exporter, accounting for approximately 42% of global arms sales.
2. France: France accounts for 10.9% of global arms sales, with their production being widely exported to the Middle East, Asia, and Africa.
3. Russia: The third-largest weapons exporter, contributing around 10.5% of global sales. Russian weapons are prominent in Asia, the Middle East, and Africa.
4. China: It has rapidly expanded its weapons industry, becoming the fourth-largest arms exporter, with its technology advancements and increasing geopolitical influence driving its growing market share

Arms import rankings fluctuate greatly as countries enter and exit wars. In contrast, export data tends to be less volatile as exporters are usually more technologically advanced and have stable production flows.

USA weapon exports destinations



Source: SIPRI, international arms transfers

Key companies in 2022 (Arms Revenue)

	Company	Country	Arms Revenue as % of total revenue
1	Lockheed Martin	United States	90%
2	Raytheon Technologies	United States	59%
3	Northrop Grumman Corp	United States	88%
4	Boeing	United States	44%
5	General Dynamics Corp	United States	72%

Investment trends

The United States, China and the European Union are the top three largest military spenders, significantly shaping the global defence landscape. Their substantial investments in military capabilities underscore the importance of maintaining a high level of national security and technology.

A country's defence expenditure is very closely related to its GDP. However, it is important to note that among emerging markets, countries with greater political instability and higher vulnerability to terrorist attacks tend to spend more on defence. Emerging markets offer new companies a potentially easier path to growth, given that competition in these regions has not reached significant levels yet. Nevertheless, it is essential to acknowledge that elevated risks and instability are present in these markets.

Since the Russian invasion of Ukraine, investors have been heavily investing in U.S. defence companies, particularly through ETFs like iShares Aerospace and Defence and Invesco Aerospace and Defence. This trend, spanning from 2021 to 2024, highlights the perceived stability and growth potential of the sector during times of conflict.

Interestingly, U.S. stock volatility tends to decrease during wartime and periods of conflict, including World War II. Historical data shows that stock volatility is 25 per cent lower during these times, indicating a unique market dynamic where defence investments are seen as more stable and resilient.

A recent study examines how geopolitical risk (GPR) influences the returns and volatility of 36 major defence companies during the Ukraine war (February to early April 2022). Before the war, these companies' performance was largely unaffected by GPR, but during the conflict, there was a strong positive correlation, particularly for U.S. and European firms. Investors expected increased defence spending, leading to higher returns. Chinese and Indian companies did not show the same correlation, suggesting they could diversify investment portfolios.

A favourable landscape

The weapons industry is known for its substantial revenues and profit margins. The top 100 arms companies reported combined sales of $597 billion in 2022. These companies benefit from long-term contracts, government support, and the continuous need for military upgrades and innovations.

Many leading weapons manufacturers are publicly traded, with their stocks often considered safe investments due to steady government contracts and global demand.

This sector tends to outperform in times of economic weakness: even in recessions, governments tend to be reluctant to cut defence spending. Several defence companies demonstrate robust financial performance, positioning themselves for sustained profitability.

Stock prices in the sector are usually positively impacted by ongoing wars: for example, since the beginning of the Israeli-Palestinian conflict in October 2023, stock prices of Lockheed Martin and Raytheon Technologies have increased, respectively, 16.5% and 50%.

Lockheed Martin Corporation (LMT) stock performance 10/23 - 06/24



Source: Yahoo Finance

The role of research and development (R&D)

R&D is a critical component of the weapons industry, with companies and governments investing heavily in new technologies. Innovations in artificial intelligence, hypersonic weapons, and unmanned systems are current focal points. The U.S. Department of Defence alone allocates more than $100 billion annually for R&D.

The next wave of defence technology will include improvements in counter-drone systems, the electrification of military vehicles, AI developments and soldier-assisting robots.

Important ethical and legal considerations

The weapons trade is regulated by various international treaties and agreements, such as the Arms Trade Treaty (ATT), which entered into force in 2014, prohibiting the sale of weapons for attacks on civilians. These were created to control and monitor the export of conventional weapons and dual-use goods, ensuring they do not contribute to human rights abuses or exacerbate conflicts.

However, these regulations are often breached. For example, weapons have been sold to countries involved in severe human rights violations. Additionally, there have been situations where weapons intended for one group have ended up in the hands of insurgents or terrorist organizations, as seen in Libya and Syria.

The industry is often scrutinized for its role in perpetuating violence and conflict. Issues such as weapons sales to authoritarian regimes, the use of child soldiers, and the humanitarian impact of weapons like landmines and cluster bombs raise ethical concerns, with advocacy groups calling for stricter regulations.

Future Outlook

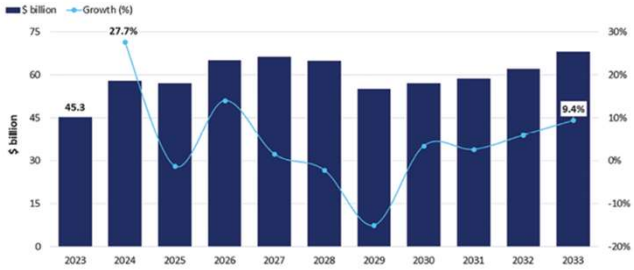
Emerging powers, such as China, are likely to increase their role in the global weapons market. Their defence budgets and ambitions for technological parity with the West will drive growth and competition in the industry.

On the selling side, one notable example of growth is that of South Korea, which between 2019 and 2023, possessed 2% of the major weapons market. The country is increasing its arms sales faster than anyone else, with a 74% increase in export volume from 2018–22 compared to the previous five-year period. The largest arms recipients were precisely developing countries: the Philippines, India and Thailand.

While increasing demand trends, caused mostly by growth in political instability, are likely to drive both domestic and international spending, the increased demand may cause arms companies to deal with new challenges as they grapple with ongoing ones such as supply chain issues, longer lead times, and a talent shortage.

Even though this industry relies on wars and geopolitical instability, it seems the outlook for the industry is strong. As tensions between major powers continue to grow, many nations are increasing their s. With weapons stock depletion heightening the need for new and advanced technologies, the defence industry is poised to see significant growth in the coming years.

Global missiles and missile defence systems market 2023-2033



Source: GlobalData ADS Intellingence Center

Conclusion

The global weapons industry is a highly complex and influential sector with deep historical roots and significant relevance today. As it evolves, the industry will continue to impact global security, economic policies and international relations.

However, it seems that this strategy of leveraging weapons sales for geopolitical stability is increasingly showing its limitations. As nations across the globe become more heavily armed, the world seems to be getting closer to a perpetual state of readiness for war rather than peace. This, while beneficial for the industry's profits, may have devastating effects on human lives.

It is crucial to reconsider this reliance on weapons as a primary tool for international relations and stability, by focusing on new peace-building measures, aiming for a better and safer world.

Blue Economy

How can the Blue Economy drive sustainable growth?



Matilde Murta

Blue Economy is a recent field of study that encompasses economic activities that depend on the sea, often associated with other economic sectors, including tourism, maritime transport, energy and fishing. Blue growth supports the long-term sustainable growth strategy of the maritime and marine sectors. The oceans and seas are engines of the global economy and have great potential for growth and innovation. Currently, this economy employs 3,6 million people, has a turnover of nearly €624 billion, and accounts for €171 billion in Gross Value Added Value, demonstrating its growing trend.

Sectors of the blue economy

Sustainable fisheries and aquaculture

Traditional aquaculture practices often contribute to water pollution due to the discharge of excess nutrients and faecal matter into ocean systems. Sustainable aquaculture aims to address these issues through innovative techniques that reduce environmental impact while enhancing efficiency.

- **Recirculating Aquaculture Systems** (RAS): These technologies reuse water within the aquaculture system, conserving resources and reducing pollution. By continuously filtering and recirculating water, these systems maintain optimal water quality and reduce the need to discharg waste into natural water bodies.
- **Offshore Aquaculture**: Moving aquaculture operations offshore reduces conflicts with other coastal resource users and minimizes the impacts on sensitive coastal ecosystems. Offshore farms benefit from stronger currents and deeper waters, which help disperse waste more effectively.
- **Sustainable Fish Feeds**: To reduce the pressure on wild fisheries, sustainable aquaculture uses recycled fish feeds or algae-based products.

These alternatives are designed to provide the necessary nutrients without relying on wild-caught fish, thereby helping to conserve marine biodiversity.

Marine renewable energy

Offshore renewable energy companies are developing innovative technologies that are revolutionizing marine energy, such as wave power, tidal power, and ocean thermal energy conversion (OTEC). These technologies provide clean, reliable energy for coastal communities and power marine operations.

Due to the predictable nature of ocean waves and tides, These technologies are increasingly integrated with wind and solar power to maximize energy output.

Marine biotechnology

Marine biotechnology offers a plethora of applications that revolutionize healthcare, energy production, and environmental management. This field leverages the unique properties of marine organisms to create innovative solutions across various industries.

- **Energy Production:** Marine bioresources are used to produce biofuels, with algae and kelp being prime candidates. The metabolic pathways of marine microorganisms enable the efficient production of biofuels and biogas, presenting sustainable alternatives to fossil fuels.
- **Bioplastics:** Innovations in bioplastics from ocean-sourced materials offer biodegradable alternatives to conventional plastics, helping to combat plastic pollution.

Costal Tourism

Coastal and maritime tourism stands as the largest sector in the EU Blue Economy, both in terms of Gross Value Added (GVA) and employment. However, the sector's recovery faces challenges such as waste management, over-consumption of resources, pollution, biodiversity loss, and unsustainable coastal development. Accelerating climate action within the tourism sector is crucial.

After the COVID-19 pandemic, coastal tourism took

longer to recover compared to other blue economy sectors. In 2020, the overall tourism industry experienced a severe downturn. Post-pandemic, there's a growing demand for sustainable tourism destinations, with tourists often willing to pay a premium for such experiences. This trend not only boosts local economies but also enhances environmental quality. For instance, the World Bank estimates that Mediterranean destinations lose up to 268 million euros annually due to plastic pollution. Investing in sustainable coastal tourism is crucial for supporting the blue economy and achieving the 2030 Agenda for Sustainable Development.

European Outlook

The European Union is actively fostering the Blue Economy through funding and policy initiatives. This sector includes marine resources, renewable energy, port activities, shipbuilding, maritime transport, and coastal tourism, employing nearly 3.6 million people and generating €623.6 billion in turnover and €171.1 billion in GVA. Despite a slow recovery from the pandemic, coastal tourism remains the largest segment.

Investing in the Blue Economy

Oceans play a vital role in mitigating climate change effects, absorbing nearly 90% of global warming emissions and producing half of the oxygen we breathe. They also drive economic progress, supporting industries such as seafood, port construction, and coastal tourism, which together generate $2.5 trillion globally and sustain nearly 3 billion people's livelihoods.

Nowadays, 3% of global emissions can be attributed to the maritime shipping industry a year. In addition, the rising sea levels and the record-setting hurricanes and cyclones could displace coastal communities from Mumbai to Miami.

The Sustainable Development Goal (SDG) dedicated to oceans – Number 14: "Life Below Water – aims to conserve and sustainably use the oceans, seas and marine resources. There have been some small improvements in the sustainability of fisheries and an expansion of Marine Protected Areas (MPAs), but these cover only around 7.5% of the oceans.

How are the oceans governed?

Governance of the ocean and the blue economy is both complex and potentially difficult to implement, which has led to fragmented approaches to the sharing of marine resources between nations and impeded understanding of the environmental impacts of the blue economy. It involves regulations for Exclusive Economic Zones (EEZs), which include territorial waters, archipelagos, and the area of sea that extends 200 nautical miles out from countries' coastlines. The remaining area is called the High Seas and accounts for 64% of the world's oceans.

In March 2023, the UN reached a historic High Seas Treaty to protect 30% of the oceans, enhance marine conservation funding, and introduce new rules for deep-sea mining. This Treaty sets ambitious 2030 targets for ocean health and biodiversity.

Investment in the blue economy is booming, with venture capital focusing on solutions like plastic waste reduction, seaweed innovations, and emerging blue technologies. In public markets, nearly 500 equity funds had an average exposure of more than 3% to the "Life Below Water" goal in 2022, with more than 100 of those funds' exposures at 10% or more. Regarding fixed income, blue bonds are beginning to emerge to fund sustainable ocean economy projects. For example, Morgan Stanley acted as joint bookrunner for The Export-Import Bank of Korea's $3.5 billion bond issuance in 2022, which included a $1 billion blue tranche for sustainable marine transportation.

Measuring Investment Opportunities

Decarbonizing the Maritime Industry

Oceans are the world's highway. Maritime shipping carries 80% of global trade by volume and 70% by value and approximately 3% of annual global greenhouse gas emissions are attributed to the industry. The International Maritime Organization, which regulates ship emissions, set a goal in 2018 to halve the emissions from the industry by 2050 through low-carbon fuel, ship modification, and other solutions. Those efforts are expected to cost $50 billion to $70 billion annually from 2030 to 2050.

Marine Solutions to Protect Ecosystems

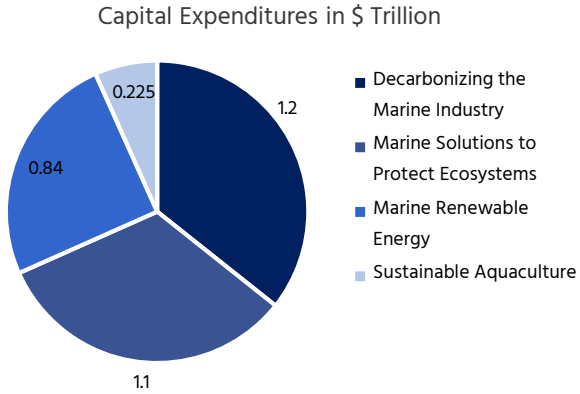
As sea levels rise, coastal communities will need ways to protect critical infrastructure. Marine nature-based solutions, such as seagrass beds, mangroves, and salt marshes, are proven to protect coastal communities from storms and flooding while also removing carbon from the atmosphere. This solution will require approximately $1.1 trillion in investment between 2022 and 2050.

Marine Renewable Energy

Fixed offshore wind farms and other emerging technologies like floating turbines and tidal energy tools are crucial for meeting global electricity needs. By 2040, global offshore wind sites could meet the projected demand for almost all global electricity needs. Thus, wind farm construction will require $840 billion in capital expenditures to move toward a clean energy economy.

Sustainable Aquaculture

Approximately half of global seafood production today comes from farmed sources, or aquaculture, mostly in Asia. The other half comes from wild fish stocks, which are facing pressure from overfishing. An estimated $150 billion to $300 billion is needed over the next decade to boost capacity while addressing water pollution and labour risks inherent to the aquaculture industry. In some cases, it can also serve climate objectives as fish farms can also be co-located with new renewable energy sites and farmed seafood is a comparatively low-carbon source of protein.



Conclusion

The Blue Economy represents a crucial opportunity for sustainable growth, blending economic development with environmental stewardship. By focusing on sustainable aquaculture, marine renewable energy, and coastal tourism, we can harness the ocean's potential while addressing global challenges like climate change and pollution. With strong policies and innovative practices, we can ensure that maritime activities support both economic progress and the health of our oceans, paving the way for a sustainable future.

REITs (Real Estate Investment Trusts)

Unlocking the potential of REITs



Miguel Patrício

In an era where investment options are vast and varied, Real Estate Investment Trusts (REITs) have emerged as a compelling choice. Despite their potential, they often fly under the radar. They offer access to one of the most well-known asset classes: real estate. REITs have been around for over fifty years. Despite being the third-largest asset class in the US investment market (16%), real estate is underrepresented on the stock market and has a low correlation with it (around 0.6). This makes real estate, through REITs, an attractive diversification opportunity for investors. REITs were established by the US Congress in 1960 to allow individual investors to invest in large-scale, income-producing real estate.

What are REITs

A REIT is a publicly traded company that owns and typically operates income-producing real estate. Unlike other real estate companies that might develop properties for resale after they have been developed, REITs acquire and develop properties primarily to operate them as part of their investment portfolio. This unique structure allows individual investors to earn a share of the income produced through commercial real estate ownership without the need to buy and manage properties themselves.

Types of REITs

Even inside REITs, there are several types enabling different plays and strategies:

Equity REITs

Own and operate income-producing real estate. They are the most common type but can be sensitive to economic cycles. Usually focused and specialized on only one sector from various ones. The most prominent ones are the residential, industrial, retail, communication and data centers, among many others.

Mortgage REITs

Provide financing to real estate owners and operators either directly through mortgages or other real estate loans, or indirectly via mortgage-backed securities. These REITs are more leveraged and suitable for risk-tolerant investors seeking maximum income, without much focus on capital appreciation.

Characteristics

For a company to be classified as a REIT it must apply to several criteria:

- The bulk of its assets and income are connected to real estate investments;
- REITs must distribute at least 90% of taxable income to shareholders annually in dividends;
- They can deduct dividends paid from their corporate taxable income, often resulting in no corporate tax liability;
- At least 75% of total assets must be invested in real estate and cash;
- At least 75% of gross income must come from real estate sources;
- No more than 25% of assets can be non-qualifying securities or stock in taxable REIT subsidiaries;
- Can be categorized based on tenant contracts, such as single, double, triple, or absolute net leases, which determine the extent of expenses covered by tenants.

Financials

Valuation

REIT valuation can be approached through several methods:

Net asset value (NAV): Calculated based on the fair market value of real estate assets. It is the most common REIT valuation approach.

Dividend discount model (DDM): Discounts all future expected dividends to the present value at the cost of equity.

Discounted cash flow (DCF): Similar to traditional DCF valuation but adjusted for the real estate sector.

As REITs register a very reduced net income resulting mostly from depreciation and amortization (a very relevant factor in the real estate industry) the industry standard cash flow metric used is the Adjusted Funds From Operations (AFFO), which provides a clearer picture of cash flow.

Dilution

One significant disadvantage of investing in REITs, which is important to look after, is the risk of shareholder dilution. This occurs when a REIT issues additional shares to raise capital, which can decrease the value of existing shareholders' equity.

REITs operate in a capital-intensive industry, that is, they require substantial funds to operate. While they can use debt to finance their activities, REITs often prefer issuing new shares as a means to raise capital. When a REIT issues new shares, the ownership percentage of existing shareholders decreases unless they purchase additional shares to maintain their proportionate ownership. This process, known as dilution, can impact shareholders by reducing EPS, dividends per share and voting power.

While shareholder dilution is a common concern, there are ways in which REITs and investors can mitigate its impact through strategic capital allocation, share buybacks and increased investor awareness.

Returns

REITs have a strong track record of outperforming the S&P 500 over the long term, boasting average annual returns of 12.7% compared to the S&P 500's 10.2%. However, this trend has shifted over the past decade, with REITs underperforming the broader market. Over the past 10 years, the average annual returns for REITs have been 12% compared to the S&P 500's 9.5%. This underperformance has been particularly pronounced in the short term.

The increase in interest rates is one of the key factors that help explain this. Not only do higher interest rates increase borrowing costs for REITs, due to their reliance on debt, but also make bonds more attractive, leading to a shift in investor preferences. The COVID-19 pandemic and subsequent economic uncertainties have affected various real estate sectors. In addition, despite real estate often being seen as an inflation hedge, the immediate impact of rising costs can create short-term volatility in the REIT market.

Regardless of the past decade, the long-term fundamentals of REITs remain strong. As the economy recovers and interest rates stabilize, REITs are well-positioned to deliver competitive returns.

Advantages

- Stable and predictable financials;
- Liquidity;
- Competitive long-term performance;
- Substantial and stable dividend yields with a high payout ratio;
- Reduced bureaucracy and paperwork;
- Portfolio diversification;
- Less volatility (the long-term beta is 0.75);
- Organic growth with the help of M&A.

Disadvantages

- Limited diversification in asset types;
- Cyclical nature of the real estate market;
- Inverse correlation to the interest rates from the high debt;
- High payout ratio;
- Dilution of shareholders;
- Little to no sustainable competitive advantages (economic moat).

Conclusion

REITs offer a unique and competitive investment opportunity, allowing investors to easily enter the real estate market with numerous benefits. With a history of outperforming the broader market and providing high dividend yields, REITs are ideal for dividend investors and those seeking portfolio diversification. Despite some disadvantages, the future outlook for REITs remains positive, making them a worthy consideration for any investment strategy.

Interview with



Bárbara Simões

/in/anabarbarasimoes/

Bárbara Simões already has a remarkable career that reflects her deep enthusiasm for the finance industry with a focus on the credit area.

She graduated from Nova SBE with a bachelor's degree in Management and a master's in Finance in 2021. During her master's she got the opportunity to be a teaching assistant.

Bárbara secured a summer internship at Goldman Sachs in London, where she joined as a full-time Credit analyst after finishing her master's.

Recently, she joined Golub Capital as a Private Credit associate.

Q : How relevant do you think being at NIC was for your future career?

I believe NIC is a little bit different now than it was when I joined. At that time, NIC focused a lot on discussing various topics, whatever we wanted to talk about. It could be macroeconomics, finance, or some news piece. It was what sparked my interest in finance in general.

When I joined my first year of my master's, we had a lot of senior people, who were already in their third year and incredibly intelligent. I remember the first presentation that I did, it was on contingent convertible bonds. To be honest, I didn't understand much about it even after I finished the presentation. Nevertheless, I had a lot of support from the people inside.

These people introduced me to the field, from what Goldman was to what market selling was, the application and recruitment process to get jobs, etc. From my experience, outside of the club, these things are not very transparent, and people don't offer much help In comparison, in UK universities, everyone knows the process and how to study for interviews. Sometimes it's not about just being intelligent. It's really about knowing how to answer the questions. Therefore, I think NIC was key to my success.

Also, from a CV standpoint, it demonstrates your interest in the field. That can really help you get through the interview process and help you land an internship in an investment bank, asset management or consulting - whatever you want to do.

Q : Could you discuss the importance of obtaining a master´s degree in finance at Nova for your career and do you believe Nova was the right decision?

I think it was. I often joke that if I could go back, I would do it again. A lot of what you learn, if you choose the right subjects is exactly what you apply in real life. When I started to work, no one explained financial accounting, and how to do an LBO or even a DCF. People just assumed that you know. When you have that background (in finance), you learn how to do those things.

However, I thought everything moved very quickly. When I did it, often it was just about getting it done. So, it was sometimes just about memorizing formulas. I think it's crucial to understand what you're doing. Although there are things that won't apply in real life, having frameworks and this base of understanding will help you link the everyday tasks of whatever role you have in investment banking.

To sum up, if you want to pursue a career in finance, you should consider earning a master's degree in finance.

Q : Why did you choose to be a teaching assistant at NOVA? What did you learn from that experience?

In fact, one of my professors asked me if I wanted to be a teaching assistant. Overall, it was nerve-wracking, to be honest. I was teaching the corporate finance course, which is very basic, almost the same as what is taught at the bachelor's level. So, just like a simple balance sheet, equity and assets. Yet I was second-guessing myself in every single step. "Do I really know this? How am I going to explain this to someone?". Being a teaching assistant is interesting because it gives you a lot of responsibility. You know that if you explain something incorrectly, it can impact their grades. It was a good way for me to make sure that I understood corporate finance at the time.

In addition, I think it's nice to have an understanding of how grading systems work, and how professors think about things. When you're a student, you might think everything is unfair, but in reality, professors strive to make it as fair as possible. In short, I think it was a good learning opportunity overall.

Q : Can you provide us with some insights into the application process for Goldman? Both for the summer internship and for the full-time position.

For the internship, I applied online, just regularly. But, I think you can also come in with a referral.

You usually have three positions that you can apply to at max.

You need to submit a cover letter and your CV. At the time, for Goldman, it was different from other companies. You could only write 300 words, so it was a bit shorter.. The second round is just videos. So, you answer seven or nine questions in one minute and a half each. Lastly, the final interview is just an interview with the people who are inside the role, for example, a VP and an executive director.

In terms of tips, I would say put keywords in your CV so that you get through the screening process

Then, for the second round, one frequent question is "Tell me about a news piece and tie back to how is that relevant to the markets?". For that, I think Goldman has a really good podcast that I used at the time – Goldman Sachs Exchange. You don't need to overcomplicate it, a simple answer will be enough. No one wants you to be a finance genius.

Your final round is going to be very position-specific. So, for investment banking is a lot about the types of valuations, DCF and all the comparables, etc. You need to understand the basis of finance - if you have an increase in depreciation, what happens to the financial statements? Things like that.

At the end of the day, when I look back, I thought people wanted me to know everything when in reality, people just want to know if you study for interviews and to have someone willing to learn. Something that I learned is that even when you're very senior and experienced, you need to have a low ego. You never know everything, so people don't expect you to know everything when you first enter. People expect you to know what you know and be confident in that: And just be honest about the things that you don't. Be willing to learn overall, I would say.

Q : How was the experience of moving to London? What are some unique experiences or challenges you've encountered?

I actually really like London, to be honest. I think it may be because I never lived in Portugal during my childhood. So, I never had this kind of emotional connection. My flatmate is 100% Portuguese, was born there, and has lived there since he was a baby.. I feel like he misses his family. I think in the beginning, it can be hard, but there's also a really big Portuguese community here. I think it's exciting as well. You make a lot of friends. The city has a lot of stuff to do. You find numerous activities to engage in, making time pass quickly.

Q : Can you elaborate on how a typical workday at Goldman Sachs goes and how has it changed throughout your career path?

It's hectic. The work is diverse and complex, making it difficult to describe succinctly. So, I work with both the asset management and investment banking divisions in all the credit finances that we do.

I actually read what you publish, and in one of your posts, the one about private credit. I thought it was interesting because it's one of the parts of my job. For example, if there is an LBO from a sponsor, they will send us the materials, including the financial and commercial diligence documents. So, my job is to analyse the company and have a credit memo to write. I'll read all the documents and understand the industry, the drivers, the company, the business model. Then, I create the forecasts, known as the bank case of the LBO. We usually handle three to four deals a week.

On top of that, I do a lot of portfolio management. The companies that are potentially going into distress or having some kind of trouble require us to be on top of them and how they are performing to decide what we're going to do about it. There's a lot of documentation, like legal documents that you need to negotiate and need to understand. And then, of course, you just have a lot of meetings with senior people and across teams.

In my job, from analyst to associate, the tasks remain largely the same. What changes is the amount of responsibility given to you. When you start the job, people offer more support, and you rely on others. Now, I can run the whole process myself and just check in with my VP. Overall, it's just a matter of more responsibility over time.

Q : What do you find most exciting or rewarding about working in investment banking, particularly at a prestigious firm like Goldman Sachs?

What I find most rewarding is working with extremely smart people. When I sit down, there's an associate beside me and a senior VP in front of me, and they're just amazing. You ask them a question and they know a lot. So, you're always learning.

In comparison, at least from what people tell me, Goldman has a very collaborative culture. You can literally send a message to anyone in the firm and be like, I want to learn about equity.

And then they're going to talk to you. It can be a very senior person, like an executive director. I've had meetings with managing directors and they're really nice to you, to be completely honest.

Even when I joined, I was asking them very simple questions. I think that's what makes the firm work well because it's not about being confined to your division and specific tasks. You kind of exchange a lot of information and you learn from each other. I think that that makes it fun overall.

Q : Managing long hours in your job can be challenging. How do you prioritize maintaining a healthy work-life balance amidst demanding work hours?

During times of long hours, I just remind myself that it's temporary. That's how I usually do it. I need to do it. If I don't do it, no one will. It's just one or two days. As long as you're in a role where there is time to rest, it's easier to manage.

I've never been in a role like investment banking, but I think it can really train you. Nevertheless, it's temporary because people know what they're signing up for; they move to a private equity firm, earn a lot of money, and then it's done.. I think it depends on how long you can handle the long hours. Whether you want to do it for one or two years, or if you want to have overall always a good work-life balance. I think I do have that, to be completely honest.

Q : Finally, do you have any last message for young people who are just starting their careers?

I would say try to find the thing that you really like to do and then learn as much as possible. Whether you're considering a sell-side or buy-side investment role, it's important to determine your specific interest. I wish I had realised that at university, but everyone can do a financial model eventually, it's just numbers. You eventually learn it. However, understanding industries and business models, it's a lot harder. Imagine that I'm interested in the healthcare industry, which I actually am. Then, learn everything about it. Look at the Financial Times and the news. Grab one or two companies and really learn them inside out. This detailed knowledge can be impressive when interviewing for positions in investment banks or buy-side companies.

My second tip is to make sure that you do something that you're interested in. Everything makes money in finance, to be completely honest. Eventually, you're going to be 30, 40 and it's going to be all the same. So, I think it's a lot more fun when you enjoy what you do.

Another key factor is finding a good company culture. Look for a place where you have a good culture because I think there is no price to it.

Networking is also crucial. If you know someone who works there, I think it's always good to reach out. I think people are always willing to help you overall.

In summary, discovering what you love, delving deep into that area, and seeking supportive environments can significantly enhance your career in finance.



Rita Fernandes



Constança Rodrigues



Afonso Vieira de Freitas

Message from the Co-presidents.

Dear reader,

I trust this message finds you well. I would like to thank all the members of NIC-UD who composed this magazine for their extraordinary work. Their dedication and creativity have truly brought this publication to life, providing a vibrant and engaging reading experience for all.

As the academic year comes to an end, this marks our last NUR as Co-Presidents. I would like to extend my gratitude to all the members of NIC-UD and the entire NOVA community. It has been a wonderful journey, and we hope our content has been insightful and useful so far. Manuel and I are extremely proud to be part of such an extraordinary community of brilliant-minded individuals and to witness the remarkable path this club has taken so far and we hope it keeps following that same path.

Moreover, we wish the best of luck to Rafael Mora and Francisco Bragança in carrying on the club's legacy and propelling it forward.

Best regards,

Miguel Pereira

Co-President NIC-UD



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