

# The NIC Fund

## Monthly Management Report

### 1. Fund Prospectus

One of the main objectives of the Nova Investment Club (NIC) is to provide its members with the knowledge and experience necessary to work in the fields of empirical finance research and portfolio management. Following this line of reasoning, the Financial Markets division of the NIC decided to launch a new version of its virtual fund, “The NIC Fund”, in order to provide its new members with the valuable experience of implementing an investment strategy in the financial markets. Similarly to the previous year, the Fund will be managed using the Bloomberg platform and be composed by an initial fictional capital of 100 Million Euros. Due to the Portuguese origins of the NIC, all the investments will be taken from the perspective of an European investor operating in the global market. In this sense, all transactions made in foreign currencies are later exchanged to Euros.

Following the Fund’s good performance in the year of 2012, we decided keep its main investment objective of capital appreciation, since this allows it to enjoy some important tax benefits. As a result, the investment instruments selected will be the ones that are aligned and consistent with this ultimate goal, such as ETF’s, and so do not pay dividends but rather reinvest unrealized capital gains, thus removing tax considerations and providing an opportunity for investments to achieve their maximum growth potential.

Regarding the investment strategy followed by the Fund, it was decided that it should be composed by a stable section with a more long-term perspective, in which 80% of the capital would be invested in ETF’s for a one-year investment horizon. The remaining 20% will be allocated, starting on the month of December 2012, according to a shorter term strategy with a monthly investment horizon, based on the suggestions made by the Equity Research of the Investment Banking division and the trading strategies purposed by the members of the Fund.

Given that the portfolio management industry is extremely competitive and active management’s commissions and bonuses depend on the ability to provide investors with higher risk-adjusted returns than just a simple “buy-and-hold” strategy, the fund also tries to outperform the S&P500 benchmark in terms of Sharpe Ratio.



[www.novainvestmentclub.com](http://www.novainvestmentclub.com)

**Bernardo Reis**

[bernardoreis@novainvestmentclub.com](mailto:bernardoreis@novainvestmentclub.com)

**Filipe Gonçalves**

[filipegoncalves@novainvestmentclub.com](mailto:filipegoncalves@novainvestmentclub.com)

**João Almeida**

[joaoalmeida@novainvestmentclub.com](mailto:joaoalmeida@novainvestmentclub.com)

**Luís Meirinhos**

[luismeirinhos@novainvestmentclub.com](mailto:luismeirinhos@novainvestmentclub.com)

**Michael Tanjung**

[michaeltanjung@novainvestmentclub.com](mailto:michaeltanjung@novainvestmentclub.com)

**Naim Patel**

[naimpatel@novainvestmentclub.com](mailto:naimpatel@novainvestmentclub.com)

**Nuno Aguiar**

[nunoaguiar@novainvestmentclub.com](mailto:nunoaguiar@novainvestmentclub.com)

**Rui Coelho**

[ruicoelho@novainvestmentclub.com](mailto:ruicoelho@novainvestmentclub.com)

### Table of Contents

1. Fund Prospectus
2. Market Review
3. Performance Monitoring
4. Trading Strategies
5. Management and Participants

## 2. Market Review

The month of November was marked by some long awaited events that had a significant impact in the financial markets. The first week of the month ended with devaluations of close to -2% in almost every major equity index. This was due to the fact that the US elections on the 7<sup>th</sup> of November, where Barack Obama was able to retain the Senate for the Democrats but the Republicans continued with their majority control of the House of Representatives, increased investors' fear of no agreement being reached before the "fiscal cliff".

During the week ending on November 16, a negative sentiment continued to dominate international markets as the tension in the Middle East escalated and the Eurozone entered officially into a recession, as its 3Q contraction of 0,1% constituted the second consecutive one with negative growth. The only index which was able to contradict this tendency was the Nikkei 225, with an appreciation of 3,04%, in big part due to the depreciation of the Yen associated with increased expectatives that the winner of the early elections will incur into further quantitative easing.

Following two weeks of negative returns, most investors must have been relieved when, on the 23<sup>rd</sup> of November, they saw the biggest world equity indexes closed with weekly returns of around 4%. The speeches of President Obama regarding the budget agreement and of Fed's Chairman, Ben Bernanke, regarding further quantitative easing, together with the improvement of the business sentiment in Germany and the China's strong manufacturing index data, were the main reasons for this. In the same line of reasoning, commodities and real estate also achieved a price increase with the gold up by 2,29%, silver by 5,68%, Brent by 2,64% and Morgan Stanley REIT by 2,62%.

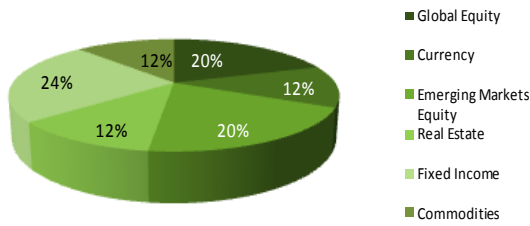
In line with what happened during the month, the last week of November was marked by residual positive gains in most world equity indexes. Within these the European indexes (DAX +1,36% ) were able to outperform the American ones (S&P +0,50%) , in big part due to the fact that the euro-area finance ministers decided to ease the loan terms to Greece and that the EU approved the 37 billion Euros funding program to Spanish banks. On the negative side, the commodity overall index closed the month with weekly losses (DJ-UBS Commodity Index -0,9%), in part due to gold's and silver's devaluation of over 2%.

## 3. Performance Monitoring

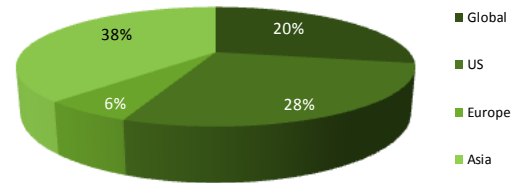
### Strategic Allocation

The Fund was relaunched on November 15<sup>th</sup> of 2012, with the acquisition of the ETF's which would be composing the first part of the fund. In order to purchase only the most efficient ETF's , each member of the Fund was assigned one asset class, within which he was responsible for conducting market research and selecting two to four ETF's that he found would be suitable for the fund. In this selection process one of our main concerns was that the ETF's chosen would not overlap and we were able to achieve a diversified portfolio across the different asset classes (Fixed Income, Global Equity, Emerging Market Equity, Real Estate, Commodities and Currency) and financial markets ( Global, Europe, US and Asia), as it can be observed in the pie charts on the next page.

## ETF's Asset Allocation



## ETF's Market Focus



Taking into account the selection made and the historical data available for each ETF, we then computed a Markowitz allocation with constraints, where no single investment could constitute less than 2% or more than 8% of the strategic allocation section. The different ETF's chosen for the Fund, as well as the initial amounts of the investment that was made in each one of these instruments and their key characteristics can be observed in the table below. Furthermore, this table also shows the individual return of these assets during the investment period since the inception of the fund.

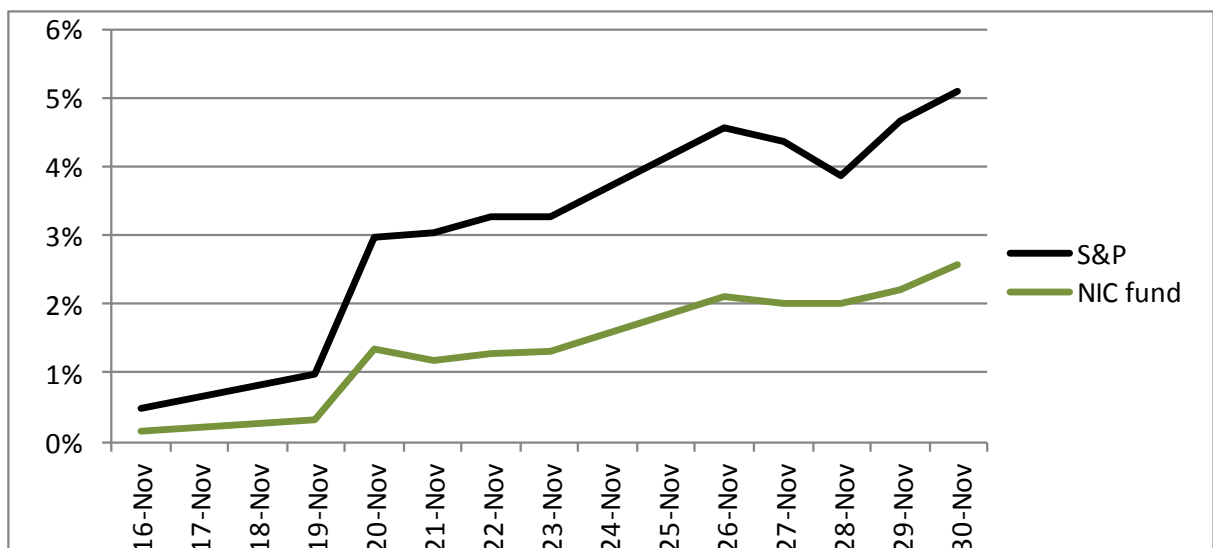
Security	Description	Country	Category	Investment (Euros)	Return
XES_US	SPDR S&P Oil & Gas Equipment & Services ETF	Global	Commodities	1.600.000	7,35%
EPHE_US	iShares MSCI Philippines Investable Market Index Fund	Philippines	Emerging Markets Equity	6.400.000	5,95%
EEE_FP	EasyETF FTSE EPRA Eurozone	Europe	Real Estate	1.600.000	5,01%
QTEC_US	First Trust NASDAQ-100 Technology Index Fund	US	Global Equity	1.600.000	5,00%
REMX_US	Market Vectors Rare Earth/Strategic Metals ETF	Global	Commodities	1.600.000	4,15%
VYM_US	Vanguard High Dividend Yield ETF	US	Global Equity	6.400.000	3,92%
TUR_US	iShares MSCI Turkey Index Fund	Turkey	Emerging Markets Equity	1.600.000	3,78%
IYR_US	iShares Dow Jones US Real Estate Index Fund	US	Real Estate	1.600.000	3,47%
THA_FP	Lyxor ETF Thailand	Thailand	Emerging Markets Equity	6.400.000	2,75%
IASP_LN	iShares FTSE EPRA/NAREIT Asia Property Yield Fund	Asia	Real Estate	6.400.000	2,52%
WIP_US	SPDR DB International Government Inflation-Protected Bond ETF	Global	Fixed Income	6.400.000	2,40%
JNK_US	SPDR Barclays High Yield Bond ETF	US	Fixed Income	6.400.000	2,24%
FXF_US	Currency Shares Swiss Franc Trust	Switzerland	Currency	1.600.000	1,93%
WLD_FP	Lyxor ETF MSCI World EURO	Global	Global Equity	6.400.000	1,69%
FXA_US	Currency Shares Australian Dollar Trust	Australia	Currency	6.400.000	0,51%
TIP_US	iShares Barclays TIPS Bond Fund	US	Fixed Income	6.400.000	0,06%
IAU_US	iShares Gold Trust	Global	Commodities	6.400.000	-0,66%
2823_HK	iShares FTSE A50 China Index ETF	China	Global Equity	1.600.000	-1,97%
XMIN_SP	MSCI INDONESIA TRN Index ETF	Indonesia	Emerging Markets Equity	1.600.000	-2,04%
FXY_US	Currency Shares Japanese Yen Trust	Japan	Currency	1.600.000	-2,74%

## Overall Performance and Benchmark Comparison

The days that followed the inception of the fund, on the 15<sup>th</sup> November of 2012, were market by a strong bull trend across almost all the asset classes in the different financial markets. This short-term trend was specially visible in the equity markets, where the S&P500 was able to achieve an astonishing Holding Period Return (HPR) of 5,11% in just 15 days. Because of this unexpectedly high returns in our benchmark, we were not able to outperform it, having achieved an HPR of 2,57%.

Despite our underperformance in terms of returns, due to the high diversity component of our portfolio, we were able to achieve a much lower annualized volatility (5,96% vs. 11,53%), thus allowing us to achieve an outstanding Sharpe ratio of 10,36 , very close to S&P's 10,65 for the same period. All the key performance indicators and the evolution of the NIC fund and the S&P500 throughout the month of November can be observed in the table and graph below.

Performance Indicators	Fund	S&P
Return	2,57%	5,11%
Return (annualized)	61,74%	122,76%
Volatility (annualized)	5,96%	11,53%
Sharpe Ratio	10,36	10,65
% Positive days	73%	73%



## 4. Trading Strategies

For the sovereign market we can expect several changes over the next weeks. In the United States the uncertainty about the fiscal cliff is getting higher, which may drive the yields to a higher value since investors will now require more return to invest on the Treasuries. For Europe the opposite is happening. The new agreement reached with Greece and Portugal will facilitate the payments extending the loan period. This will probably result on fiscal relief in both countries which are then expected to reach higher levels of growth. This way, it is expected that the yields decrease over the next weeks. Furthermore there is still the OTM (outright monetary transaction) that will allow the European Central Bank to buy sovereign bonds of European countries, with no limitations on quantity or quality. This seems like something that Portugal, Spain and Italy can benefit a lot from because it boosts the confidence in the markets. These countries can then expect an increase in price, therefore a decrease in the yields.

**Bernardo Reis**

### Trade Summary

Long PT 10y 50%  
 Long Spain 10y 25%  
 Long Italy 10y 25%  
 Short US 10y 50%

**Asset Class:** Fixed Income  
**Region:** Global

Apple had been experiencing a consistent growth in the stock price, reflecting its outstanding innovation, until mid-september. At that time, many uncertainties regarding the new released products concerned investors. The iPad mini was quite a flaw, the iPad 4 is still an iPad 3 and the brand new Retina Display Macbook family lies above the affordable line. This translated into a drop of about 25% of the all-time high of \$705.07. However, the stock apparently hit the bottom and returned to growth. Despite the bad times, Apple now has a more diversified portfolio of products and a new holidays season is approaching. On top of that, the concerns about the iPhone 5 production are finally handled and Apple is finally shipping its new iPhone 5 to China, which is why we believe the stock will outperform the market.

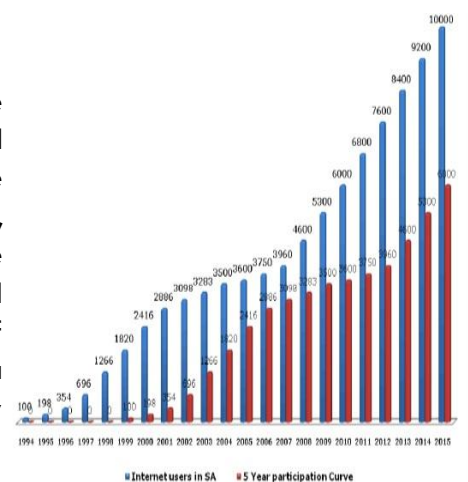
**Luís Meirinhos**

### Trade Summary

Long Apple 50%  
 Long eBay 50%

**Asset Class:** Global Equity  
**Region:** US

eBay has now 3 years of serious growth. It started on \$10 a share crossing, this week, the \$50 barrier. But, opposed to the natural expectations, the real engine of this growth rate is not the online store itself but Paypal. As online usage matures (see figure), people have an increasing need to use their credit cards over the internet. Paypal, a cash cow for eBay, is competitively well positioned in terms of trust and is clearly ready to be the star of the future wave of mobile payments. Paypal will continue to be a revenues generator and this holiday season could be specially interesting as the best prices are usually found online.



Following the US elections, there is still some uncertainty about the US budget deal. Moreover, the appreciation of the Dollar against the Indian Rupee turns difficult for India to buy Gold, as its price becomes relatively higher. With a decrease in the demand level (India is the main buyer) it is expected that the Gold price will decrease, thus making profitable a short position on Gold.

Currently, investors are forecasting a significant growth of China's economy and, consequently, of its Industrial sector. Since this sector is one of the main buyers of metals, particularly copper, I expect an increase in demand that will lead to a rise in the price of Copper. Since it is my opinion that China's growth expectation is highly probable I will bet considerably on Copper for the next month.

Finally, I took into consideration the recent conflicts in the Middle between Israelites and Palestinians. Despite the ceasefire, there is still much uncertainty regarding the possibility of these disputes happening again. This will increase the oil price (light crude), as we could verify by last month's trend, which is why I think it will be profitable to go long on oil during the month of December.

## João Almeida

### Trade Summary

Short Gold 20%  
Long Oil 45%  
Long Copper 75 %

**Asset Class:** Commodities  
**Region:** Global

Fundamentally, the British Pounds is gaining after the Bank of England changed their views on sticky inflation and started appears to slowly move away from its easing cycle. This is why the sterling continued to recoup the losses in early November and is expected to continue this way throughout the month of December. In contrast, weaker numbers on Japan economic indicators that were reported lately this quarter give me even more confident to buy GBP against the JPY. I believe that price will test ¥133 per GBP (March 2012 high) in the medium term, and given the opportunity to break that level, I am confident that GBP/JPY will be traded back around ¥135 (significant psychological level), and potentially advancing to ¥139 in a longer run.

To hedge my GBP exposure, I decided to short GBP against AUD. Since AUD is the currency with the higher yield I feel comfortable buying AUD in terms of insurance against market crash, because during the economic turmoil investors tend to invest in AUD rather than in any other major currency. This is why the AUD has outperformed the GBP since the global crisis. In terms of technical analysis, I am targeting AU\$ 1.5 per GBP in the shorter to medium term and anticipate AU\$ 1.47 in the longer term.

## Michael Tanjung

### Trade Summary

Long GBP/JPY 100%  
Short GBP/AUD 100%

**Asset Class:** Currencies  
**Region:** Global



Indonesia's ETF is an excellent investment opportunity to capitalize on Indonesia's economic growth that is expected to remain above 6 percent for the coming years driven by 3 factors. Indonesia's strong domestic consumption coupled with productivity growth as well as steady increase in commodities' prices, which make up nearly half of the Indonesian's exports. Another promising investment is Turkey's ETF. Since the structural reforms were implemented a decade ago to rebalance its economy toward a more export-led growth model, Turkey's economy has tripled and its public debt has fallen below 40 percent of GDP. No wonder Turkey has recently won the investment-grade credit rating status. Turkey's economy is also expected to be the best performer among OECD members until 2017.

Strong economic growth and moderate inflation rates are going to contribute to Philippines's sustainable economic performance. But what makes Philippines's ETF an interesting investment is the fact that the vast and resilient remittances, sent from skilled Filipinos working abroad, account for more than 10 percent of Philippines's GDP, boosting household consumption and thus minimizing the impact of a potential global demand slowdown. Regarding the Thailand's ETF, it might benefit from the Thai government's announcement of a spending program on infrastructure totaling 14 percent of the GDP. Thailand has also one of the lowest poverty rates in Asia and almost no unemployment. Moreover, it is running a positive current-account, GDP growth is picking up, inflation rate is low and stable and trade surplus is widening.

**Nuno Aguiar**

### Trade Summary

Long Indonesia ETF 25%  
 Long Turkey ETF 25%  
 Long Philippines ETF 25%  
 Long Thailand ETF 25%

**Asset Class:** Emerging Markets Equity

**Region:** Europe & Asia

Real estate investments were the first to be crushed in the financial crisis but recently housing prices have gone up for the first time in 5 years, thus bringing REITs back into the investment spotlight.

The iShares Dow Jones US Real Estate Index Fund have been showing negative return in the past 3 months. However, those negative returns have been showing some positive trend in a sense that it is becoming less negative overtime. In the past few days of November, the fund actually showed a positive trend, which might be due to the fact that the US house market is starting to recover. Hence, I believe that the housing market is going to turn during December and January and will present, finally, positive returns. This is why my trading strategy will be to go long on this fund.

The iShares FTSE EPRA/NAREIT Asia Property Yield Fund have been showing a positive trend and consistent trend over the past months. Results have shown high positive returns month over month which means that the Asian Market is still growing. This growth is expected to continue, which is why I believe returns will still be highly positive during the next month. Hence, my trading strategy will consist in going long on this fund.

**Naim Patel**

### Trade Summary

Long US Real Estate 50%  
 Long Asia Property 50%

**Asset Class:** Real Estate

**Region:** US & Asia





## 5. Management and Participants

### Legal and Institutional Disclaimer

The NIC Fund is a pure virtual fund, with no real implications, excusing itself by this reason from fulfilling any kind of legal requirements established by law. As there are no returns from a virtual fund, there is also no rationale for distributing them. On this reasoning, the Fund shall compound returns adding them to the value of the Fund periodically. In the same way, as there is no real capital involved, no commissions will be charged.

The Management Team or any other NIC member or equity research author are not responsible for any wrong interpretation, whether it be in the form of recommendation or advisory, or other, that may be done by investors using the information and decision taken in the sphere of the Fund's activity.

The role of the decisions, research and other information done is only pedagogical and must not be interpreted as true or even as a hint. Anyone who does so cannot claim liability with the Nova Investment Club or any other intervenient in this process.

### Management Company Details

The Management Company role is represented in this fund by the Nova Investment Club, recognized as a non-profit organization by the Portuguese legislation. Due to the virtual and legally disclosed nature of the NIC Fund, the interpretation of the Management Company must not be seen from a legal perspective, but merely as the entity that develops this activity.

The Management Team is composed by all Nova Investment Club members. The role of the Management Team is to prosecute the objectives described for the existence of this investment tool and cannot be extended further than that, unless explicitly justified and approved.

### Participants

The objective of The NIC Fund is to provide members and M.Sc. in Finance students with a powerful and real learning tool that incorporates the output of their knowledge. In this sense, we see the target public as the whole investment community whose interest is sparked by this initiative and wishes to follow it on a regular basis. There are no requirements to these individuals, and, if anything, we strongly appreciate any help or useful comments that there may surge.



Visit [www.novainvestmentclub.com](http://www.novainvestmentclub.com) for more updates

### Our **Nova Investment Club** team:

Bernardo Betley | Bernardo Reis | Bernardo Salgado Nogueira  
David Bianchi de Aguiar | Filipe Gonçalves | Francisco Formigal Pinto  
Guilherme Ribeiro Pereira | Joana Martins | João Almeida  
Luís Meirinhos | Michael Tanjung | Michael Wieser  
Miguel Reis | Naim Patel | Nuno Aguiar  
Nuno Vasconcellos e Sá | Rui Coelho | Stefanie Schlattmann  
Tobias Rabenstein

[nic@novainvestmentclub.com](mailto:nic@novainvestmentclub.com)

### Sponsored by:

