April 2014

Nova Investment Club

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The NIC Fund
Student-run Virtual Fund - March

1. Market Outlook

During the month of March, the S&P 500 had a positive return of 0.69% and it was trading at 1872 by the end of the month. Although still positive, the index reflected the general sentiment of concern following Janet Yellen's statement, in which she that the benchmark interest rate could begin rising above zero 6 months after the end of the QE program. Relatively to the US job market, the economy has added 192.000 jobs in March, falling short of expectations and holding the unemployment rate steady at 6.7%. On the other hand, the labor-force participation rate has increased during this month, which is sends a strong positive signal on the recovery of the labor market.

Also during March, the situation in Ukraine both intensified and later calmed down. On the 1st of March Russia's Parliament approved Putin's request to use force in Ukraine to protect Russian interests as pro-Russia rallies had already been held in several Ukrainian cities outside Crimea. The official decision naturally destabilized the markets on concerns of Russia taking the civil war to a global scene. The Euro Stoxx 50 fell by 3%, the Russian Rubble by 1.4% against the USD and MICEX by 10.8%. As the US came on scene with talks to try to set Russia back the markets further dropped. Crimea's parliament eventually voted to join Russia which was almost fully (97% approval) backed on referendum on March the 16th which sparked the recovery. By March the 14th the Euro Stoxx 50 had dropped 10.9% from its February the 28th level, the RUBUSD was at the same level as on the 3th of March and the MICEX had dropped 14.35% from its February the 20th level. After that the situation preceded more or less smoothly as Ukraine and Russia slowly withdrawal troops from Crimea and international officials talked about potential punishments for the involved. The markets further recovered.

Concerns over a possible housing bubble in China have also been rising as home sales in the main Chinese cities fell by over 40% in the first quarter of 2014 when compared to the same quarter of 2013 and the country experience the first ever corporate bond default as Shanghai Chaori Solar Energy Science & Technology failed to make as $14.7 million interest payment.

On Europe, in spite of lower prices, Mr Draghi kept the minimum bid rate unchanged at 0.25% and confined his actions on looser monetary policy to words. In addition to that, peripheral treasuries' yields have been falling which suggests an improvement in their situation.

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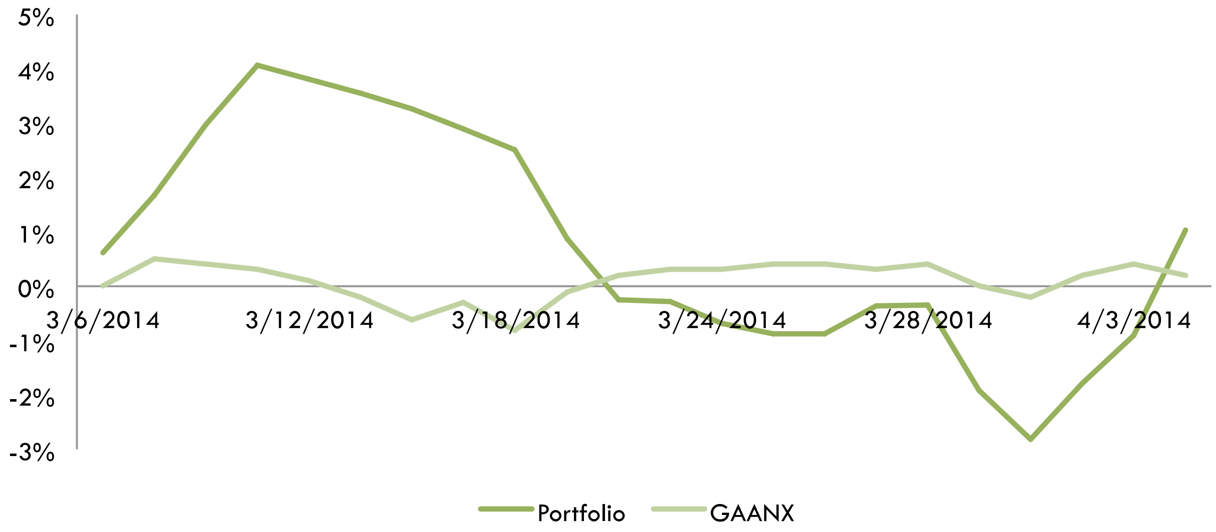
Source: Bloomberg (as of 01.04.2014)

2. Performance Monitor

Fixed Income, FX and Commodities

Since its inception, the Fixed Income, Currency and Commodities fund (FICC) has managed to achieve 1.03% total return and a Sharpe Ratio of 1.955. This performance was benchmarked against a similar fund: Goldman Sachs Fixed Income Macro Strategies Fund (GAANX). The greatest contributors to the fund's positive returns were investments in hot commodities and currencies. On the other hand, the funds' heavy emphasis on Portuguese Government Bonds often led to negative returns. The behavior of both funds is somewhat alike albeit NIC's FICC fund being much more volatile than Goldman Sachs'.
This volatility is reflected in the funds standard deviation, equal to 15.77% and VaR, which is equal to -1.54.

Fund Performance



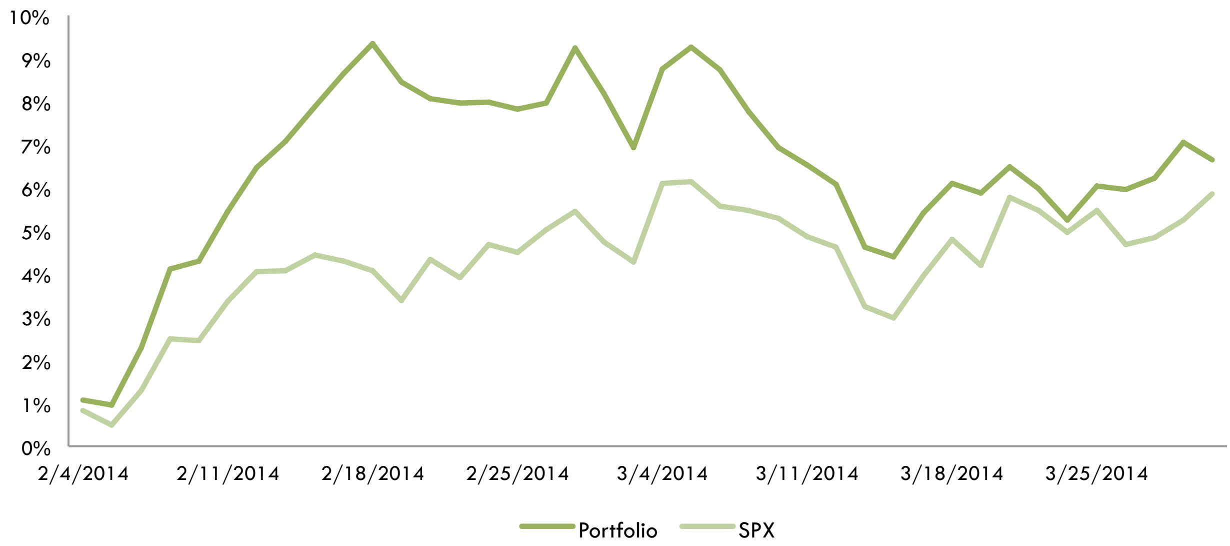
(since inception)	Portfolio	GAANX
Total Return	1,03%	0,93%
Mean Return (Annualized)	46,07%	15,97%
Standard Deviation (Annualized)	15,77%	4,22%
Sharpe Ratio	1,96	2,58
VaR 95% (ex-post)	-1,54%	-0,23%

2. Performance Monitor

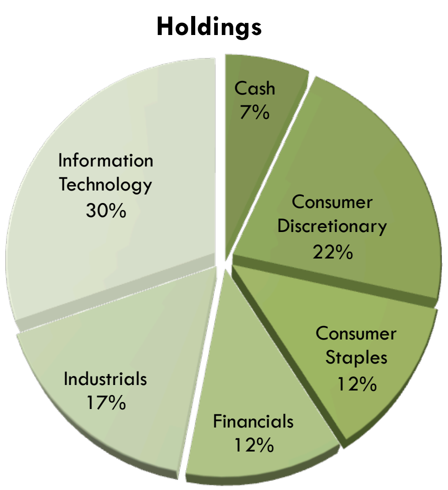
Global Equities Fund Overview

In March, the Global Equities fund continued to outperform its benchmark with a return of 6.35% against 5.38% of the S&P 500. The top holdings belonged to the Financials (and Auto Industry that achieved returns of 5.30% and 2.07%, respectively. Lagging behind, the IT sector yielded a negative return of -1.88% and the Consumer Staples stayed at -0.10%. Within the lagers however, CISCO stood out with positive returns of 2.84% during March.

Fund Performance



(since inception)	Portfolio	S&P 500
Total Return	6,35%	5,28%
Mean Return (Annualized)	70,40%	56,08%
Standard Deviation (Annualized)	12,53%	10,95%
Sharpe Ratio	3,68	3,40
VaR 95% (ex-post)	-0,95%	-0,75%



Source: Bloomberg (as of 01.04.2014)

3. Fixed Income, FX and Commodities

Is ECB finally getting loose?

- Since last month's report the EURUSD fell around 1% (against my position), which seems to finally be in line with my 2 month old position. Even though economic figures during the month have been somehow dismal, with lower treasuries yields for peripheral Europeans in par with deflation concerns and higher than expected unemployment rate in the US at 6.7%.
- Fundamentals: Even though the economic indicators from the US do not seem as good as expected, I believe the FED still has to proceed with the tapering. On the other hand the ECB seems to finally getting loose on their monetary policy as Mario Draghi suggested that ECB was willing to shed some of its traditional cautious approach to fight low inflation which I believe will define the trend until something else is suggested.
- Technical: The pair broke up a major resistance around 1.382 but failed to rally too much above that and came back below it less than 2 weeks after which I think revalidates the downward trend.

Analyst: Bernardo Câncio
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Trade Summary:
Short 100% EURUSD

Asset Class: FX
Region: Europe; US

Extreme Europe

- The week ended with Christine Lagarde's pressure on the ECB to start a QE program being heard by Super Mario. Recent numbers show that euro area inflation has decreased to 0.5%, the lowest level of the last four years. A new wave of interest rate cuts is expected as well as a series of unconventional monetary policy measures should this trend emphasize. Negative deposit rates and a strong asset purchase program are the next steps. Reacting positively, peripheral bond yields ended the trading day hitting historical minimums with exception of Greece. Portugal has been able to send the right signals to the markets and distance itself from the Hellenics while preparing its exit from the bailout program. I believe therefore that yields are going to decrease further, driving prices up in shorter maturities.

- At the same time, in Western Europe, Ukraine has received funding from international creditors for the next two years. With the European elections approaching, there is some pressure on the EU decision makers to give support to Ukraine and help solving the quarrels against Russia, bringing some stability. Going long in short term Ukrainian bonds reflects this belief.

Analyst: Gustavo Ferreira
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Trade Summary:
Short 50% EURUSD
Long 150% Gold

Asset Class: Fixed Income
Region: Europe

Source: Bloomberg (as of 01.04.2014)

3. Fixed Income, FX and Commodities

Short Copper futures and AUD, Long PGB's

- Last two months' investment in Portuguese debt has shown to be the correct decision as yields have decreased significantly during this period. Now that the end of the assistance program is only a month away, it is particularly useful to look at what were the spreads between Irish and German yields, at the end of the Irish program, and to compare them with what are the current spreads between Portuguese and German yields. Clearly the spreads for the Portuguese bonds are significantly higher (around 70bp for the 5 and 10 years maturity and 40 bp for the 2 years maturity), signaling that, even taking into consideration the differences between the Portuguese and Irish economies, there is room for the spread to decrease in the following weeks, as the program comes to an end. On top of that there is also the expectation of some kind of monetary intervention from the ECB following the concerns on the low inflation data, which would naturally have a negative impact on yields across the Euro-Area. For both reasons we expect this positive trend in Portuguese bonds to continue and thus hold the long position.

- Last month's short on copper futures has shown to be the right decision as investor's concerns about China reflected negatively on its price. We still strongly believe that the Chinese economy is set to suffer a deceleration in growth as the signs keep piling up. On one hand, corporate debt (as a % of GDP) in China is the largest in the world (around 150%) and the segment seems to be set for more inevitable defaults (non-performing loans have been increasing steadily for the last two and a half years) after the Chaori Solar default last month, following the government's decision of not intervening. On the other hand the fear that the Chinese real estate prices are set to decrease in the near future is increasing, as home sales in Q1 in first-tier Chinese cities have fallen around 40% YoY, which could signal lagging demand. This fall in real estate prices would reduce private consumption, hurting the economy and the central government's plan of switching to a more consumption-focused economy. Given how tightly correlated the performances of the Australian and Chinese economies are, we decided to play this downward trend with short positions in both the AUD and on copper futures, for the sake of diversification.

Analyst: João Madeira
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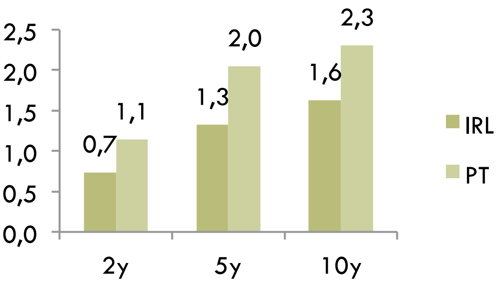
Trade Summary:
Long 60% 5Y PGB
Long 60% 10Y PGB
Long 30% 2Y PGB
Short -25% Copper
Short -25% AUDUSD

Asset Class: Commodities; Fixed Income, FX
Region: China; Europe; Australia

Spread IRL-GER (Dec. '13) & PT-GER (Now)



Long Coffee, Ethanol and Sugar

- Futures for coffee maintain high as the draught's effect on coffee production has spooked investors. The Brazilian summer has been hot and dry, which has led to damaged coffee crops and anxiety regarding a light harvest, regardless of recent rainfall. Thus, the long future in coffee should be maintained.
- Transportation disruptions due to the harsh weather experienced over the winter continue to effect the ethanol industry, which is experiencing low supply. In March alone the price of ethanol spiked 22% and the trend is expected to continue. However, the price has been historically extremely volatile.
- Weather has also effected sugar production and prices have reached their highest levels in 15 months. Additionally, demand from bulk consumers (soft drinks and ice cream manufacturers) is expected to improve with upcoming milder weather.

Analyst: Mariana Sampaio e Mello
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Trade Summary:
Long 35% Coffee
Long 35% Sugar
Long 30% Ethanol

Asset Class: Commodities

Source: Bloomberg (as of 01.04.2014)

3. Fixed Income, FX and Commodities

Peripheral Barbell

Analyst: Rodrigo Lameira
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Trade Summary:
Long 20% 3Y PGBs
Long 15% 3Y SPGBs
Long 15% 3Y BTPs
Long 25% 10Y GGBs
Long 25% 10Y OATs

Asset Class: Fixed Income
Region: Europe

- I am still bullish on Eurozone peripheral bonds and I am expecting a further easing from the ECB, probably through a bond-buying program, in order to fight the low inflation climate we are currently living. However, over the last quarter Eurozone bonds, specially the peripheral countries' ones, have been rallying substantially. Portugal is actually leading this rally. In the beginning of January 10-year PGBs yields were at 6% while now they are at 3.8%. Therefore I am going to do a profit taking and change some of my positions. I will close my exposure to 10-year PGB's since I believe they are starting to look risky from a risk/return perspective, due to the recent rally.

- This time, I will do a barbell: I will buy Portuguese, Italian and Spanish government bonds of short maturities (3 years) and French and Greek government bonds of longer maturities (10-years). Even though Portuguese, Italian and Spanish bonds have been rallying, I believe short maturities still have an attractive yield and a good-looking roll down. On the other side of the Barbell, I will buy French and Greek 10-year government bonds. Greek government bonds have also been rallying considerably and are know yielding around 6.15% (down from 8.4% in the beginning of the year), however I believe there is still margin for a further tightening of the spread between the Greek and the other peripheral countries' bonds. The position in Greek bonds is considered to be risky so I decided to balance it with French bonds (which have a risk similar to the German Bunds and a slightly higher yield). This exposure to France bonds will mitigate the portfolio losses in case some negative event occurs in the periphery.

Source: Bloomberg (as of 01.04.2014)

4. Equities

Taking some profits

- While I believe there is still upside in World equities, headwinds are increasing and I will close my positions in Activision and Sensata. Up 17,6% and 17%, respectively, since inception of the position, I consider both companies to be fairly priced now. Regarding the other positions, Glanbia and Google have been the major disappointments. Nothing changed fundamentally, with Glanbia's earnings even beating expectations, and, as a result, I will take the opportunity to buy more shares of Glanbia and Google at a discount. I will invest half of the proceeds of the Sensata and Activision sale in Glanbia and Google, equally. I will store the other half in cash as a way to protect against future headwinds.

Analyst: Artur Silva
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Trade Summary:
Long 12% CSCO US
Long 12% DPW GY
Long 18% GOOG US
Long 12% SAP GY
Long 18% GLB ID

Asset Class: Equities
Region: U.S and Europe

Shifting to Europe

- The portfolio has had an overall positive performance, based on this the idea is to maintain the same investment style. The only change made for the month of April is closing the long position on DuPont Fabros Technology Inc (DFT:US) that accounted for 20% of the portfolio. The reason for this change is the poor performance the stock has exhibited in the months of February and March (-4.78%) which gives a feeling of the stock being overvalued and now initiating an adjustment towards its real value.
- The substitute chosen is Unibail-Rodamco SE (UL:NA), a French and Dutch company with a 10.80% in the European real estate industry, its P/E ratio is 14.15, below the 24.80 of the industry. The position will represent 20% of the portfolio and the objective is to increase the return of the portfolio through a higher exposure to Europe.

Analyst: Bosco Olazabal
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Trade Summary:
Long 10% F US
Long 15% PM US
Long 18,33% GE US
Long 18,34% MMM US
Long 18,33% HON US
Long 20% UL NA

Asset Class: Equities
Region: U.S and Europe

Source: Bloomberg (as of 01.04.2014)

4. Equities

Momentum is gone

Analyst: Filipe Lopes
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Trade Summary:
Long 40% AAPL US
Long 30% GM US
Short 20% NFLX US
Long 15% DAI GR

Asset Class: Equities
Region: U.S and Europe

- Even after the poor performance of the last month, I maintain my position on GM (currently trading at ~$35). General motors is facing controversy regarding faulty ignition switches and as a result recalled 1.6 million vehicles. Obviously, these two events drove its stock price down. On the other hand, GM have seen its sales going up by a solid 4% in March, which shows that costumers have not fled from GM, and it is expected to continue to increase in the spring season. It is still trading at discounted relatively to the industry (PE: 14 vs. 17) and if they act accordingly to the expectations, regarding the faulty ignition switches, we can expect the stock to go up. However, since they are in a delicate position and more bad news can drive the price down even further, I will put a stop loss at 5% of the current market price.
- It seems that Netflix stock is still in trouble as the underlying fundamentals are in decline. The company has already many competitors and there are rumours that Amazon is considering to launch a streaming television and music service, increasing even more the competition. Additionally, according to new figures, the recent decline in the stock suggest that the market is just starting to understand the reality of the company's situation. The momentum is gone, insiders have been selling and therefore I believe that it represents a good shorting opportunity.

Profit taking from BES PL

Analyst: Gonçalo Correia
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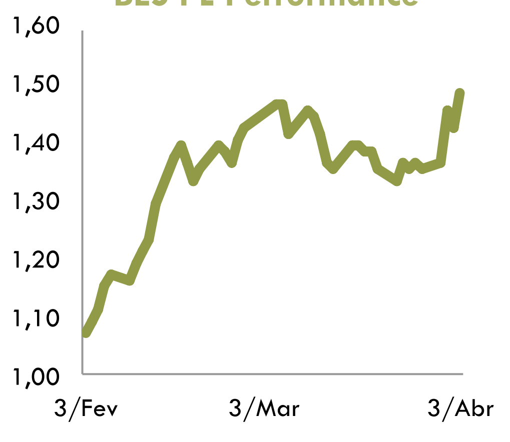
Trade Summary:
Long 25% JMT PL
Long 50% VOW GR
Long 25% HAL US

Asset Class: Equities
Region: Europe and U.S

- BES had an amazing performance during the past two months, after raising almost 40%. Last month I sold half of the total position in BES and this month it will be completely closed due to the high profit obtained and also due to the slowdown on its momentum.
- I will keep my position in VOW since I still believe it is a good stock to buy at this price (around €190). Despite being in a very interesting industry it is trading at discount comparing to its peers. The timing of the entrance on this position, probably was not the ideal, but I am confident that there is still a tremendous upside for VOW stock. Furthermore, I will also keep my position in JMT PL, despite the slow pace, it is showing some signs of improvement during last weeks and an exposure to the Portuguese market is valuable in my opinion.
- Halliburton is an energy company that provides services such as engineering, construction and maintenance on the development, exploration and production of oil and natural gas. The company generates almost 50% of its revenues from the U.S and the remaining from the rest of the world. Those revenues have been increasing in a fast pace last year and the outlook for the earnings growth is still very positive. Furthermore the projections for oil and gas exploration and production are positive for 2014 (increase of 6%) and Halliburton is very well positioned to profit from this. In addition, the stock is trading at a slightly discount comparing with the industry, however the highlight relates with its main competitor, Schlumberger Ltd. (SLB US) which is trading at premium comparing with HAL US (EV/EBITDA: 9,60 vs. 7,68) and (PE: 17 vs. 15) which is also a good indicator for the HAL, despite its YTD performance (almost 19% valuation). I will allocate the stake and profits from BES PL to buy HAL US.

BES PL Performance



Source: Bloomberg (as of 01.04.2014)

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