May 2014

Nova Investment Club
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The NIC Fund
Student-run Virtual Fund - May

1. Market Outlook

Housing activity in the US remains weak, with new home sales dropping 14.5% in March. While this can be explained by the severe weather it is probably also due to higher mortgage rates as 30 year rates are now up substantially on a year-on-year basis. Moreover, initial unemployment claims have increased to 329,000; up 24,000 from the previous session's revised levels. Obama has also strengthened its position against Russia by preparing stronger sanctions, which led to a greater demand of US government bonds.

The Purchasers Managers Index dropped slightly, from 55.5 to 55.4 but the New Orders Index rose to 58.9 and the output measure was at its highest value since March 2011.

Regarding the release of the March minutes, the Federal Open Market Committee suggested that an earlier-than-expected rate rise is unlikely, even though interest rate expectations had risen after the FOMC meeting (realized two weeks before the minutes release), after declarations from Janet Yellen.

On the equity level, eyes in the US have been pointing towards technology stocks, with the Nasdaq suffering heavy-pressure.

In the UK the economy has shown encouraging signs of recovery with the unemployment rate now at the 5-year low of 6.9%, and this has been reflected in the performance of the FTSE 100, which was up by 3.19% in the month of April. Furthermore, the gap between the 2 year and the 10 year yields is widening, resulting in a steeper yield curve. Even though the panorama in the UK is positive, the situation in Ukraine is a big threat, if the conflict aggravates European developed markets will suffer and the UK will be no exception, especially on the equities' side.

In the Euro Zone, not only do equity indices continue but also corporate bond markets are showing a sign of recovery, with corporate rating upgrades exceeding downgrades for the first time in 6 years.

Moreover, the pressure for a more active ECB is increasing, with the IMF stating that the ECB should launch immediately an unconventional plan similar to the ones used by the Federal Reserve, the Bank of England and the Bank of Japan as a way of fighting the Eurozone´s risk of deflation.

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Source: Bloomberg (as of 02.05.2014)

Mario Draghi reacted in a defensive form to the IMF's statement; nevertheless he said the ECB has no problems on undertaking a Quantitative Easing (QE) programme if it feels the risk of long term low inflation is high and if geopolitical tensions in Europe and a strong Euro start to considerably harm the Eurozone's economy.

Therefore, the passive approach used by the ECB so far aimed to protect the Euro is now more likely to shift towards more active policies such as QE if low inflation expectations remain and if the situation in Ukraine does not ease. Furthermore, this increasing expectation of a more interventional ECB does not seem to be reflected in the Euro yet, on the other hand it is reflected on investors moving from Bunds to peripheral government bonds, which in turn helps to explain the substantial rally the latter have experienced.

In the Emerging Markets, the Brazilian Central Bank raised the benchmark interest rate of the highest level in two years with the purpose of taming inflation and the Argentinean government added additional price controls in the economy, while the peso continues to devalue. In China, real GDP growth slowed from 7.7% to 7.4%, year-on-year, with the Chinese Renminbi depreciating the most in over 14 years. In India, the news were positive with the trade deficit falling to the lowest-level in three years and inflation easing. Data from Indonesia also surprised positively with consumer confidence rising to a 16-month high and the Rupiah strengthening versus the US Dollar.

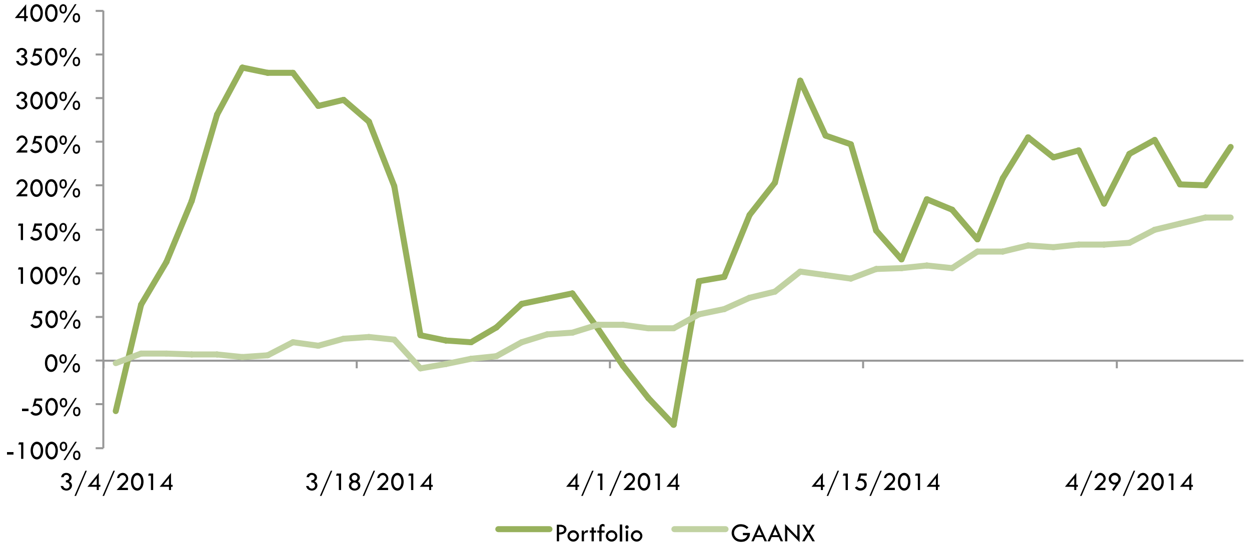
Source: Bloomberg (as of 02.05.2014)

2. Performance Monitor

Fixed Income, FX and Commodities

The Fixed Income, Currency and Commodities fund (FICC) has, since its inception, achieved a return of 13.59%, which was substantially higher than the benchmark's, Goldman Sachs Fixed Income Macro Strategies Fund (GAANX), return of 2.51%. The FICC fund was also significantly more volatile, annualized standard deviation of 22.23% (versus GAANX's standard deviation of 1.42%). The funds returns divide themselves amongst successful investments in sovereign bonds, which have seen high returns as of late, especially peripheral European countries such as Portugal and Spain, as well as successful bets in commodities such as Copper and Coffee.

Fund Performance



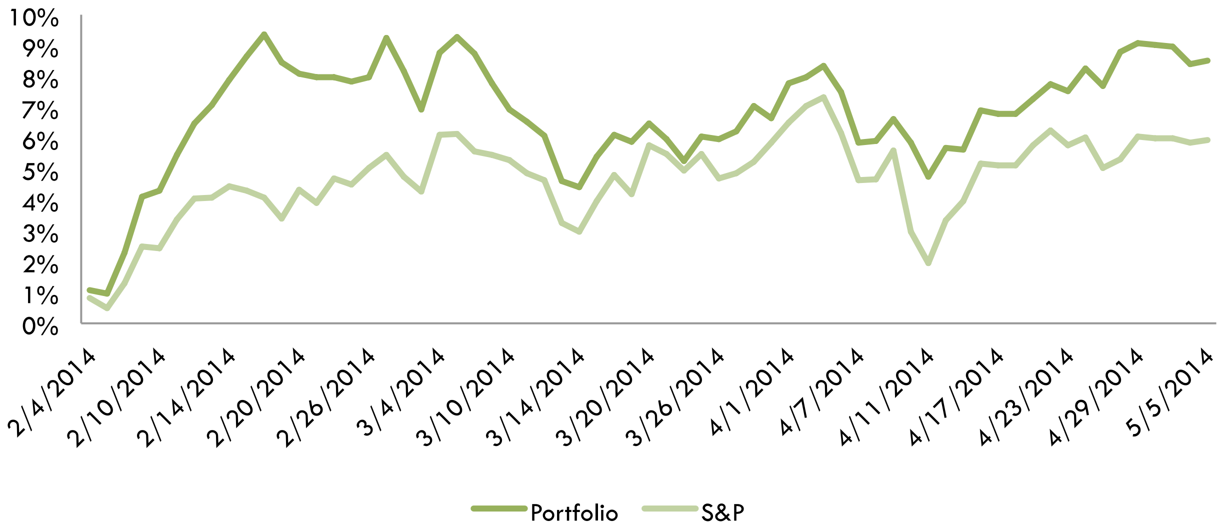
(since inception)	Portfolio	GAANX
Total Return	13.59%	2.51%
Mean Return (Annualized)	116.41%	15.44%
Standard Deviation (Annualized)	22.23%	1.42%
Sharpe Ratio	3.31	7.57
VaR 95% (ex-post)	-2.12	-0.06

2. Performance Monitor

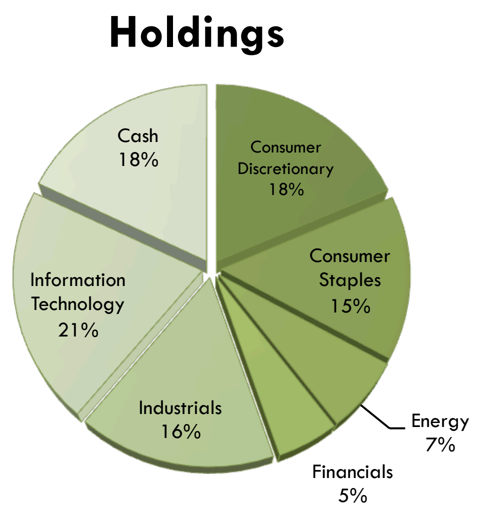
Global Equities Fund Overview

In April, the Global Equities fund continued to outperform its benchmark with a return of 7,48% against 5.43% of the S&P 500. The top holdings belonged to the Energy and Sectors which achieved overall returns of 5.30% and 2.07%, respectively. The worst performing sector this month was the IT sector, achieving a return of 1%. However our position in Apple jumped around 9%, the gains of this position were mitigated by the huge loss on LinkedIn (-13%). Overall April was a great month for the NIC Equities fund. An highlight should be made to the fact that all the six sectors ended up the month on the "green zone".

Fund Performance



(since inception)	Portfolio	S&P 500
Total Return	8,5%	5,95%
Mean Return (Annualized)	53,37%%	37,25%%
Standard Deviation (Annualized)	12,04%	10,95%
Sharpe Ratio	2,94	2,06
VaR 95% (ex-post)	-1,03%	-1,07%



Source: Bloomberg (as of 02.05.2014)

3. Fixed Income, FX and Commodities

Still waiting for ECB to get loose

Analyst: Bernardo Câncio
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Trade Summary:
Short 100% EURUSD

Asset Class: FX
Region: Europe; US

Since last month's report the EURUSD has came back to the 1.38/9 zone (against my position) and complains/worries have been pilling that the pair might stay this high, crippling the economy. During the month of April inflation in the Eurozone has repeatedly disappointed with the Core CPI y/y being 0.7% (0.1pp below expectations), the Unemployment Rate brought some positive news beating expectations by 0.1pp at 11.9%. In the US, the indicators seem to point to stability as inflation slowly rises and unemployment slowly decreases (6.3% from 6.7%).

- **Fundamentals:** I believe that even though there have been good news regarding the peripheral economies regarding government bonds the economy is still lagging behind the good financial indicators. Deflation is a threat and unemployment is still uncomfortably high. I believe it would be healthy for the European economy to have a looser monetary policy. Having that in mind I will keep my short position in the EURUSD.

- **Technical:** Even though the pair has broken the 1.38 resistance, it is struggling to consistently move further up which might suggest some weakness.

Emerging Markets' malaise

Analyst: Gustavo Costa
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Trade Summary:
Long 25% 2Y SGB
Long 25% 2Y BTP
Long 50% 1Y PGB

Asset Class: Fixed Income
Region: Europe

Abundant liquidity, a shy economic recovery and the successful exit of Ireland from its bailout programme have been responsible for the continuous reduction of peripheral bond yields. Greece recently completed a €3bn debt issuance which achieved a demand of €20bn and Portugal gave its first steps into the markets through an equally successful non-syndicated 10 year bond issuance. On May 17th, Portugal is expected to finish its bailout programme with a clean exit, which should signal its confidence in financing itself for the future. I would take the opportunity of a growing confidence in the southern countries by going long on shorter term maturities of Spanish, Portuguese and Italian bonds.

Source: Bloomberg (as of 02.05.2014)

3. Fixed Income, FX and Commodities

Short Copper futures and AUD, Long Treasuries

Analyst: João Madeira
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Trade Summary:
Long 75% 10Y USG
Short -50% Copper
Long 75% USDAUD

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

- **Short Copper futures and AUD**

Even though last month's return on these positions was not the intended we maintain the negative outlook for China and thus decide to hold these positions in order to benefit from an eventual further deterioration in the macro environment of the country. Once again, the past weeks have shown yet more signs of the inevitable growth deceleration, with HSBC's China manufacturing PMI coming in below 50 for the fourth consecutive month. On the other hand there have been some worrisome signs that the shadow credit is spreading throughout the economy at an astonishing rate, not only in small, city-level banks, but also in larger banks, particularly through entrusted loans. A weaker Chinese economy would hurt cooper prices as well as the economy of Australia, thus impacting its exchange rate.

- **Long 10Y US Government Bonds**

In the US the economy looks increasingly weak whereas the equity markets seem set for a decrease in stock prices which in turn makes this a particularly good scenario to buy bonds, as investors flee the uncertainty of the stock market. On one hand the job market is showing an artificial comeback, with unemployment rate sharply down at 6.3% but mainly due to the decrease in labor force participation, which remains at extremely low levels, while at the same time the consensus expectation for the first quarter is now for negative growth. On the other hand, although the S&P500 is near all-time highs the fact is that Bloomberg's Smart Money Flow indicator shows that the smart money is reducing exposure to equities sharply while individual investors' portfolio allocation to shares is at pre-crisis levels, meaning that in the recent past this rally has been fed by retail investors, which are typically the last to invest before prices correct.

Long Coffee, Ethanol and Sugar

Analyst: Mariana Sampaio e Mello
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Trade Summary:
Long 30% Coffee
Long 20% Wheat
Long 50% Nickel

Asset Class: Commodities

- Nickel, the humble Industrial metal used to produce stainless steel has become a top performer due to a ban imposed by Indonesia. Indonesia banned nickel exports, skewing world supply, in an attempt to boost their industry. Indonesia produces 18% of the world's supply of nickel. This action along with speculation regarding embargos on Russia, another producer of Nickel, has made prices soar.
- Drought caused the US wheat production level to drop 20% relative to the previous year and amid the events in the Ukraine, prices have been pushing upwards.
- I will maintain a position, albeit smaller, in coffee.

Source: Bloomberg (as of 02.05.2014)

3. Fixed Income, FX and Commodities

Is the "peripheral rally" over?

Analyst: Rodrigo Lameira
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Trade Summary:
Long 30% 10y GGBs
Long 20% 10y OATs
Long 15% USDEUR
Long 15% USDGBP
Long 10% USDCAD
Long 10% USDAUD

Asset Class: FX, Fixed Income
Region: U.S, Canada and Europe

- With peripheral bonds' yields trading at a two years low, I believe there is not much more upside on these bonds. In fact, they are now starting to look quite expensive to me. Portuguese government bonds yields' are down from 6.13% to 3.6% since the beginning of 2014, while Spanish and Italian Government bonds' yields are both down from around 4% to 3%. I have been able to capture this upside on peripheral bonds and now its time to take profits and close positions. I will only maintain an exposure to Greek government bonds, which are currently yielding 6.13% and have still margin to a further rally in May. The position in French government bonds, which will help to mitigate my portfolio losses in the case of a negative event in Greece, will also be maintained.

- In the US the FED keeps consistently tapering its QE program and therefore liquidity is being reduced. With the ECB expected to start its own bond-buying program in the near future, I believe the Euro is currently overvalued against the US dollar (EURUSD at 1.39) and I am expecting a devaluation of the Euro against the dollar during the following months. Furthermore, I am expecting an overall strengthening of the US dollar against other major currencies. To be able to take advantage of this perspective I will go long the US dollar against a bundle of several currencies.

Source: Bloomberg (as of 02.05.2014)

4. Equities

Playing the ECB QE

Analyst: Artur Silva
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Trade Summary:
Long 12% CSCO US
Long 12% DPW GR
Long 18% GOOG US
Long 12% SAP GY
Long 18% GLB ID
Long 20% BNK GR

Asset Class: Equities
Region: U.S and Europe

- Whether it was in Japan, US or the UK, QE has always been supportive for equities. With a strong euro, weak inflation and a significant shrinkage of the ECB's balance sheet over the past year, it is becoming increasingly more likely that QE will indeed take place. Financials have always been a major beneificiary of QE but in Europe banks play an even bigger role in financial intermediation, thus it is probable that QE in Europe, if it does happen, will target banks more.
- As a result, I will enter a long position of 20% in BNK, Lyxor STOXX Europe 600 Banks.
- Regarding other positions, I will not make any changes.

A reaction to earnings

Analyst: Bosco Olazabal
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Trade Summary:
Long 15.55% SXS L
Long 15% PM US
Short -15.55% TW L
Long 18.34% MMM US
Long 15.55% AVAV US
Long 20% UL NA

Asset Class: Equities
Region: U.S and Europe

- In the month of April the portfolio's American companies released earnings. On the positive side were General Electric (GE), Philip Morris (PM) and Honeywell (HON), all of whom beat the estimates. In turn, Ford (F) did not see its earnings match the analysts' expectations, and was therefore penalized by it. Finally, 3M (MMM) posted results that were in line with forecasts, thus reinforcing the idea of continuing good performance.
- The first decision made after the string of earning releases was to close the position in F, not only because of its poor results but also because in the company's view this will be an year of restructuring rather than growth. In addition, despite the good results the positions in GE and HON were also closed due to the fact that both stocks have seemed to be holding back the performance of the portfolio, with very mild price changes.
- The proceeds from the closed positions will be distributed in an equal weighted basis through a long position on Spectris PLC (SXS) as to expose the portfolio to the British economic recovery, a short position on Taylor Wimpey PLC (TW) the homebuilding company since interest rates in the UK are expected to rise; and a long position on AeroVironment (AVAV), an American company with strong fundamentals namely low levels of debt and high liquidity that focuses on the production of drones, it is a bet on the potential increase in drones' demand coming not only from the army but also from private consumers.

Source: Bloomberg (as of 02.05.2014)

4. Equities

Profit taking from NFXL and AAPL

- In this month I will reduce the exposure to AAPL US. Since February the stock yielded about 19% return and I believe it is a good time to take some profit and give more liquidity to other trades. However, I do not want to close entirely this position because I still believe that the stock as more to give, with an interesting upside potential.
- Regarding Netflix, as I mentioned in April, I was expecting a further downfall and in fact, the stock went down almost 8%. With this, I will close this position and get some profit.
- Despite the fact that the other trades were not successful as the trades in AAPL and NFLX I still believe they have an interesting upside potential and therefore I will keep them in my portfolio.
- With the profit taken from Netflix, I will use it to invest in Norfolk Southern. Norfolk Southern Railway is a Class I railroad in the United States and it controls great part of the Eastern railroad system of the U.S. Giving the current macroeconomic trends I believe this stock has a lot of potential. Additionally, this company is expected to benefit from the major expansion undergoing in the Panama Canal and also from the manufacturing shifts to the southeast (due to low-cost labor, lower tax burdens and "friendly" local governments). With this, I will go long in NSC.

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

Asset Class: Equities
Region: U.S and Europe

A ride on cyclicality

- The trade in Volkswagen was not successful, yielding just 4% during the holding period. I will still keep some exposure but will decrease it to only 20% in order to provide more liquidity to other positions.
- Regarding Halliburton, the stock is performing well as it was expected and it returned almost 8% during April. I will keep this position for May since I still see further upside for the stock.
- The improvement of US economic growth is a fact and the upside for specific industry groups is very interesting. Among such IG, consumer cyclical is certainly a sector that is well positioned to profit from the current market environment. Goodyear Tire and Rubber (GT) manufactures and sells tires for most applications. Moreover, it also manufactures rubber and rubber-related chemicals as well as provides automotive repair services worldwide. Among the cyclical industry groups, I believe that Goodyear is within a lagging industry that certainly have further conditions to recover since the global economic growth would certainly increase demand for auto parts and GT is very well positioned to profit from that due to its stable cost structure and worldwide exposure.

Analyst: Gonçalo Correia
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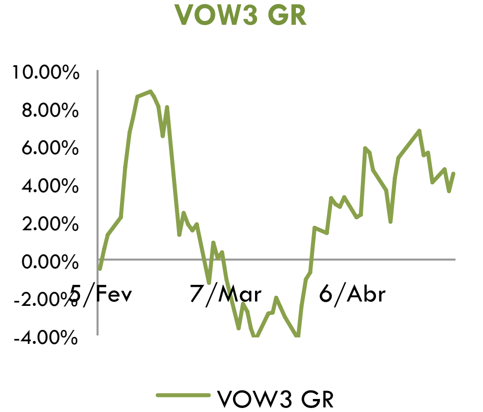
Trade Summary:

Long 25% JMT PL
Long 20% VOW GR
Long 25% HAL US
Long 30% GT US

Asset Class: Equities
Region: Europe and U.S



Source: Bloomberg (as of 02.05.2014)

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