The NIC Fund
Student-run Virtual Fund - June

June 2014

Nova Investment Club

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1. Market Outlook

After another successful jobs report last Friday in the US and news that American economy has already recovered the jobs that have been lost during the financial crisis, global stocks have reached new record levels. The FTSE All World equity index closed at 280.82, breaking the 2007 levels. In the US, the S&P 500 is trading at a record high of 1949 and the CBOE Vix, also known as the Wall Street "fear gauge", is finally bellow 11 (the first time since 2007). On the fixed income side, US government bonds keep trading at historical levels (10-year government bond yield at 2.6%) as the market expects the Fed to keep an extremely accommodative monetary policy.

Eurozone equities performed positively in May, with some markets reaching new six-year highs. The DAX was one of the best performing indexes and reached new record highs, following information that Germany keeps on outperforming its Eurozone peers. On the flip side, Italian equities disappointed following negative GDP figures. At the sector level, telecommunications continued the leg up while the energy sector lagged, probably due to some profit-taking.

These gains followed the indication that the European Central Bank (ECB) would ease monetary policy soon. This eventually happened in June, with the ECB decreasing the deposit rate to -0.1% and the refinancing rate to 0.15%. It also unveiled a package of up to €400 billion of cheap loans. Moreover, GDP figures during the month showed the Eurozone economy expanded by 0.2% in the first quarter of 2014, which was below expectations. Germany grew the most at 0.8% while Italy's economy contracted by 0.1%.

Elections for the European Parliament were also a highlight for the month. Anti-European parties – both right and left-wing – saw success above expectations.

Regarding Emerging Markets, they outperformed developed markets in May, amid accommodative monetary policy in the US, the potential for easing in Europe and an easing of the tension in Ukraine. Ukraine elected Petro Poroshenko as its president, who will hopefully bring a new light to the negotiations with Russia.
EMEA was the best performing region on the back of easing tensions between Ukraine and Russia. Latin equities underperformed Emerging Markets overall, with Mexico disappointing and Brazil suffering due to poor Chinese data.

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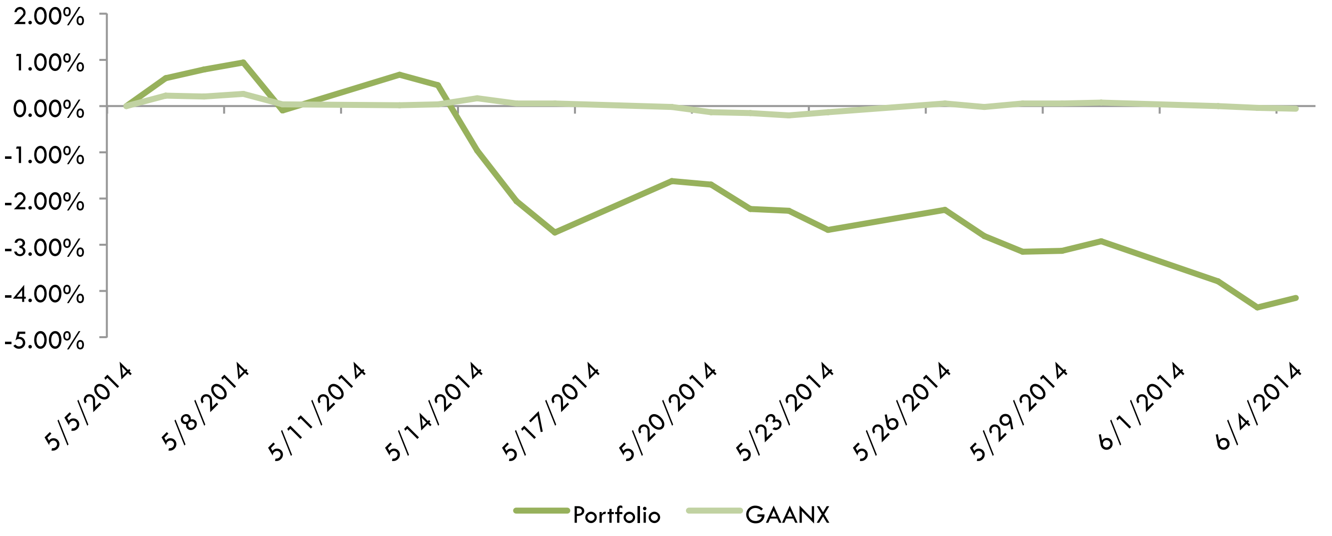
Source: Bloomberg (as of 05.06.2014)

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



	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%

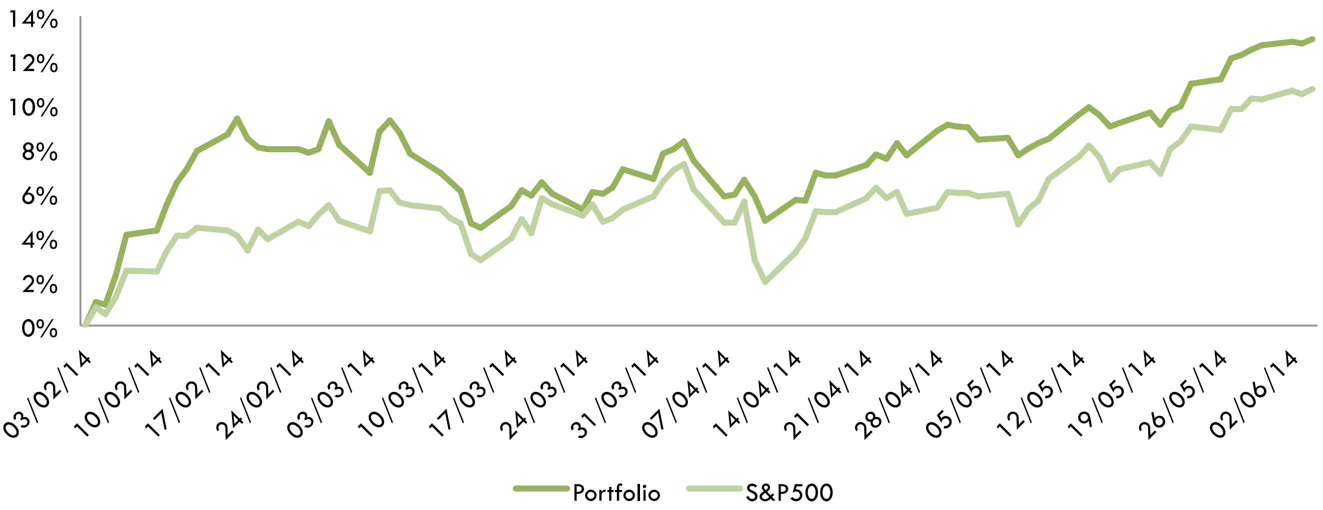
Source: Bloomberg (as of 05.06.2014)

2. Performance Monitor

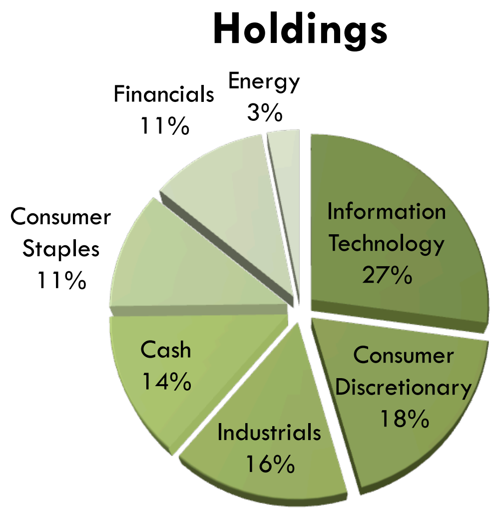
Global Equities Fund Overview

In May, the Global Equities fund underperformed its benchmark with a return of 4.45% against 4.76% of the S&P 500. The top holdings belonged to the Consumer discretionary and Energy that achieved returns of 1.36% and 1.57%, respectively. Lagging behind, the IT sector yielded a negative return of -0.16% and the Industrials stayed at -0.29%. Within the lagers however, AAPL stood out with positive returns of 9.40% during May.

Fund Performance



(since inception)	Portfolio	S&P 500
Total Return	12.95%	10.71%
Mean Return (Annualized)	61.64%	50.07%
Standard Deviation (Annualized)	10.90%	11.54%
Sharpe Ratio	3.73	2.89
VaR 95% (ex-post)	-0.94%	-1.06%



 Source: Bloomberg (as of 05.06.2014)

3. Fixed Income, FX and Commodities

ECB finally got 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 ECB finally both talked and acted on looser monetary policy. The EURUSD came from 2.5 years high at around 1.39 to around 1.35 (in favor of my position). I first shorted the pair in February at around 1.365 and even though there were 4 months of bad position, it seems like what I was waiting for finally arrived. Not only the ECB introduced very low and negative rates as they talked about an eventual QE.I believe we have entered a new phase in which the ECB will start to print money and the FED will be calmly reducing their printing. This will naturally have a negative impact on the pair.

- **Fundamentals:** The European Union is in the urge of a Japanese style deflationary crisis, which in addition to the still worrying structural problems and the already very low Treasury bonds does not paint a very rosy path for the euro zone. I believe the ECB will wait for economic numbers to come out, and in case they are not happy with them, introduce a QE like program faster than expected. This means there will downward pressure on the pair for the months to come.
- **Technical:** Technically speaking we also received strong downward signals as the pair broke down an upward channel the days after Mario Draghi first spoke about getting loose. I believe this signals a reversal in the major trend (which had been upward until here).

Portuguese Steepening

Analyst: Gustavo Ferreira
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Trade Summary:
Long 150% 2Y PGB
Short 50% 10Y PGB

Asset Class: Fixed Income
Region: Europe

The ECB is facing increased pressure to ease monetary stimulus even further. Having reached Germany, the 'ogre of deflation' is deemed to lower demand and increase peripheral governments' debt burdens. This can be seen as a strong signal that the central bank will react by lowering interest rates to an historical minimum and perhaps act on the deposit rates. At the same time, the aftermath of the European elections has warned for the citizens' disbelief in the European institutions. To bet on the steepening of the yield curve I would go long on short term Portuguese government bonds and short on long term bonds.

Source: Bloomberg (as of 05.06.2014)

3. Fixed Income, FX and Commodities

Long Live Cattle Futures

Analyst: João Madeira
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Trade Summary:
Long 100% Live Cattle Futures

Asset Class: Commodities
Region: US

In the wake of the recent conflicts in Iraq, where Sunni militias belonging to ISIS - an offshoot of Al-Qaeda - have taken control of the second largest city in the country, oil prices have experienced a significant hike last week. This unstable situations is likely to continue, as the Sunni radicals are set on marching on Bagdad and the Iraqi government seems unable to gather sufficient military force to stop them. This increase in oil prices will in turn inevitably drive fuel prices higher for consumers and firms.

On the other hand several US states have been experiencing severe droughts, with this being the fifth consecutive week in which 100% of California is in the state of at least D2 – Severe Drought, according to the US Draught Monitor. The situation is unlikely to improve in the near term, as the summer approaches. Higher fuel prices, and prolonged severe draught, combined with boosted demand for meat by countries like Japan and China, will result in higher prices for live cattle.

Long Nickel and Cocoa

Analyst: Mariana Sampaio e Mello
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Trade Summary:
Long 50% Cocoa
Long 50% Nickel

Asset Class: Commodities
Region: US

I will maintain my position in Nickel due to the continuing effect of the Indonesian ore export ban.

I will go long in cocoa Thanks to growth in demand for cocoa, especially from the Asian market, and the third consecutive year of deficit, prices are shooting upwards.

3. Fixed Income, FX and Commodities

ECB in a war against deflation

- I expect the ECB to keep loosening its monetary policy in order to avoid deflation in the Eurozone. This will support a further rally of Eurozone government bonds. As Greek government bonds are in my opinion the ones that have a larger upside potential at the moment, I will keep my position on them and in French Government bonds (to compensate the risk).
- I will increase to 20% my USDEUR position, as I expect the Euro to keep depreciating against the US dollar.
- I keep believing the US dollar has margin to strength against other major currencies so I will keep my long positions on USDGBP, USDCAD and USDAUD.

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

Asset Class: FX, Fixed Income
Region: US, Canada, Europe

Source: Bloomberg (as of 05.06.2014)

4. Equities

Betting on Quality

- I believe it is time to reinforce the quality of my portfolio and, by doing so, increasing the portfolio's dividend yield. The healthcare sector is a good place to look for quality and I chose Novartis.
- Novartis has a dividend yield of about 3.5%, with very reasonable valuations when compared to its main rivals.
- Regarding other positions, I will hold all since they are still far from my price targets. The main candidate for selling would be Cisco but I believe there is still some upside, at least to the 28 level.

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
Long 8% NOT GR

Asset Class: Equities
Region: U.S and Europe

A face lift for the Summer

- In the past month of May it is worth refering the outstanding performance of Unibail Rodamco (UL) which is now yielding a return close to 17%. Given the level reached by the stock I feel it is now the right time to close the position and take profits.
- On the other hand, AeroVironment (AVAV) was more on the slow side, in part due to the unstable performance of the Nasdaq Index. Nevertheless, since this is a long term position it will be mantained in the portfolio with positive outlook.
- The short position on Taylor Wimpey (TW) will be closed. Even though Mark Carney said recently that the interest rate fixed by the BoE might be increased sooner than markets expect, I believe it is still too soon to bet on this event. All in all, the position will be closed, yielding an almost neutral return.

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

Asset Class: Equities
Region: U.S and Europe

Source: Bloomberg (as of 05.06.2014)

4. Equities

Playing it cool

- After yielding a return of 9%, in just one month, and because the fund will be inactive for the summer period, I will close my position in Norfolk Southern Corporation (NSC) and increase the percentage of cash allocated to my portfolio.
- Regarding the other trades, I will keep AAPL (despite the fact that already yielded a return of 29% since the fund's inception) and DAI GR with the same exposure as before, but I will reduce my position on GM from 30% to 20%. The reason for this is because I keep believing AAPL has still more upside potential, this time due to its recent stock-split (7-for-1).

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

Asset Class: Equities
Region: U.S and Europe

Cash is King

- As previously stated US growth has improved during last month. As consequence, equities have rallied significantly with the S&P500 increasing more than 4%. At such levels, I believe that we are facing an expensive market and as consequence I will reduce my exposure.
- Regarding JMT PL and VOW GR, I will sell my positions despite not making a significant profit as I did in previous trades.
- On the other hand, the trade in Goodyear was very profitable, with the stock returning more than 10% during May. Regarding Halliburton, the trade already delivered a return of almost 20% during the holding period (3 months).
- Given the macro environment and the aforementioned details I will reduce my position in GT US in 10%, having a profit of 11% on one third of the position and I will also reduce my exposure to HAL US to 20%.
- Both the proceeds from the American and European stocks will be left in cash, being now 60% of my total portfolio allocated to cash since the fund will be innactive for 2 months and protecting the portfolio against some increase in volatillity during the summer period.

Analyst: Gonçalo Correia
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Trade Summary:
Long 20% HAL US
Long 20% GT US

Asset Class: Equities
Region: U.S

Source: Bloomberg (as of 05.06.2014)

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