

# Newsletter

March 2016



## Foreword

It is a pleasure to introduce you the March version of the Nova Investment Club Newsletter.

In this issue, our Investment Banking team will guide you towards our followed companies and present an in depth overview of Nomura Holdings and Michael Kors.

Our Financial Market division will provide some fixed income and equity interesting investment ideas for this period of uncertainty. Finally, in our monthly article, Vasco Moura will present his point of view on the possible merger between the London Stock Exchange (LSE) and the Deutsche Börse.

*Francisco Dias Lopes— Head of Investment Banking Division*



Nova Investment Club

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# Investment Banking Report

March

## 1. Macro Overview

*Analyst: Nick Roberts*

February continued from January's poor start of the new year but with some good news. For the US market the S&P 500 fell 0.40% and is down 5.50% year to date with only the utilities sector having had positive gains this month. The NASDAQ fell 1.21% and was hurt from poor performance in the Biotech sector. Notably Valeant Pharmaceuticals which is currently under investigation by the SEC under allegations of posting false revenues and implementing large drug price increases. Both the S&P and NASDAQ are on a three month losing streak for the first time since 2011.

The Chinese market has appeared to stabilize with the Shanghai Composite Index down only 0.03% for the month. Good news came from China's central bank implementing a stimulus package to increase liquidity by lowering its Reserve Rate Ratio (extra cash lenders to China must have on reserve). This news was felt in the US market with the Dow Jones industrial average posting a minimal gain of 0.3% for the month and also improved oil prices. US crude oil futures were up 0.39% at USD 33.75 a barrel, the first positive monthly change since April 2015.

Another positive result for oil prices was having Russia and OPEC members Saudi Arabia, Qatar and Venezuela reaching an agreement to freeze oil production at January levels, in an attempt to lessen the oil price decline partially due to oversupply in the market. However, a historical agreement was reached between the US and Iran on Iran's nuclear program. The US and European nations have now lifted financial and oil production sanctions imposed on the country allowing Iran to ramp up oil production. There is still skepticism in the oil market following the OPEC freeze and Iran returning to prominence as a major oil producer.

In Europe, Mario Draghi, the president of the European Central Bank delivered a speech to the European parliament stating that the ECB is prepared to act with a stimulus package. This comes as prices in the Eurozone have fell 0.20% since the start of the year marking deflation for the first time since September 2015. Sustained low commodity prices could have a negative impact on the Eurozone economy. The Euro STOXX 50 index was down 2.48% since the start of the month.

Concerns still surround the BREXIT movement of Great Britain to leave the European Union. British Prime Minister David Cameron did offer progress following a major meeting with the European Council to stay in the EU with "special status". Britain will have a referendum on June 23<sup>rd</sup> to vote on the BREXIT issue. Regarding the stock market the FTSE 100 index was up 0.61% for the month.



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### Companies

- Daimler
- Ferrari
- Tesla Motors
- Fiat Chrysler
- Barclays
- Glencore
- Tyson Foods
- Edwards Lifesciences
- Priceline

### This month's detailed company reviews:

- Nomura Holdings
- Michael Kors

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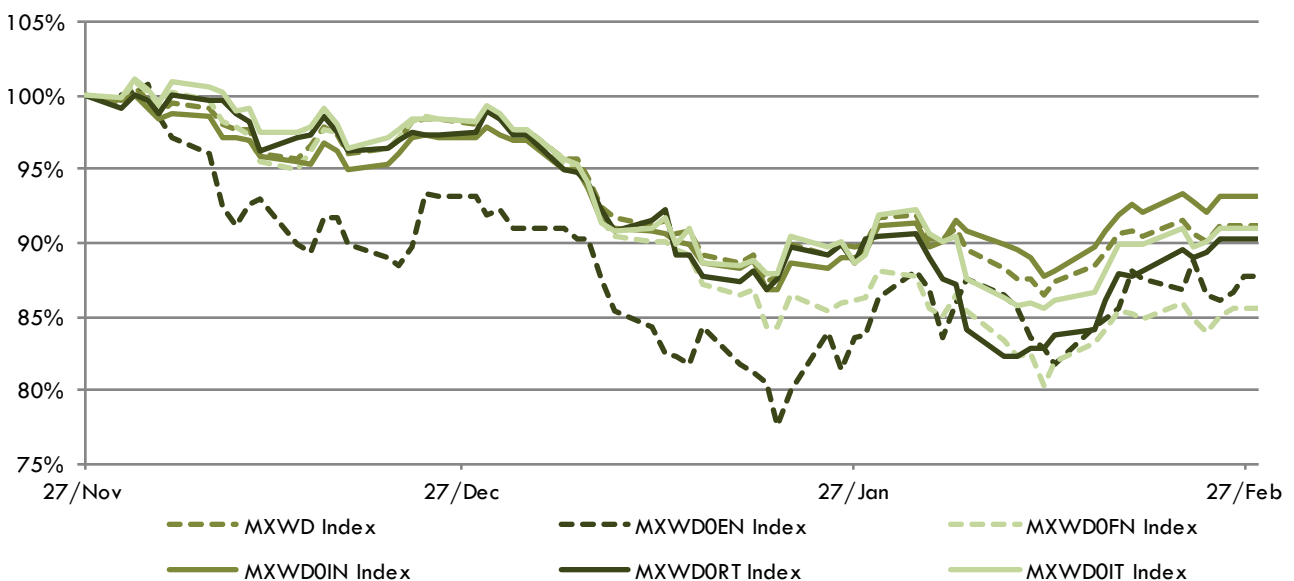
## Countries' Economic Data

Analyst: Tomás Gaivão Ribeiro

Country	February Inflation (%)		Exchange Rate		Unemployment Rate (%)		10 Year Yield	
	MoM	YoY	USD	Monthly Change (%)			Current (%)	Monthly Change (bp)
United States	0.00	1.40	1.0000	-	5.00	Q4	1.842	-11
Eurozone	0.10	-0.20	1.0860	-0.26	10.50	Q4	0.195	-16
Portugal	-1.00	0.78	1.0860	-0.26	12.20	Q4	2.982	5
Japan	-0.40	0.00	0.0087	5.81	3.27	Q4	-0.028	-8
Greece	-1.90	-0.70	1.0860	-0.26	24.70	Q3	9.938	66
Russia	1.00	9.80	0.0135	4.49	5.70	Q4	n/a	n/a
China	0.50	1.80	0.1527	0.43	4.05	Q4	2.900	3
Brazil	1.27	10.71	0.2552	1.11	7.40	Q4	n/a	n/a

- Concerning the inflation, it's strongly visible the different situations that the main world economies are going through. On one side the Eurozone continues to present alarming signs of deflation of -0.20% YoY, while the US present's an inflation rate within the FED's target zone (1.40% YoY). China presents a surprising 1.80% YoY, though commentators said that boost was just a temporary bit of Lunar New Year cheer. Finally, Brazil and Russia, whose economies are being brutally affected by commodities' low prices, are facing inflation rates of 10.71% and 9.80%, respectively.
- Regarding the Exchange Rate, Japan and Russia saw major appreciations in their currencies against the USD, 5.81% and 4.49%, respectively. By opposite the Euro depreciated -0.26% and the Yuan saw a minor valorisation of 0.43%.
- Both the US and Eurozone 10 year yields have fallen sharply last month, as concern has grown about the world's economy momentum, which has been also a trend for most of the year. However, US's better-than-expected economic data, are dragging yields on Treasuries higher in the first days of March.

## Sectors' Overview



- Overall, sector indexes showed an upward trend during the second half of the month of February. The industrials index (MXWD0IN) outperformed, while the Financials Index (MXWD0FN) underperformed the other indexes, reflecting the pressure by worries over the negative interest rate policies of Japan and the Eurozone and with US banks hit by credit concerns in the wake of commodity prices plunging.
- The Energy Index (MXWD0EN) continues as one of the poorest performers. This trend comes along with new data about US commercial crude stocks which surged by 10.4mm barrels in the last week of February, the biggest jump since April 2015, and four times greater than forecasts. This is the latest sign that the market remains deeply over supplied even as global producers mull plans in order to stabilise prices.



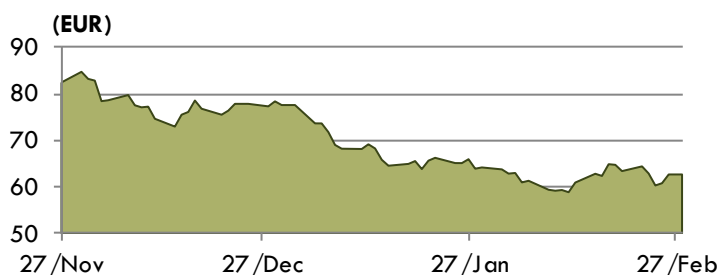
## 2. Followed Companies

Analyst: Gonçalo Cabral

### Daimler AG

(Ticker: DAI GI Equity)  
Industry: Automotive

- Daimler's earnings before interest and tax (EBIT) from ongoing business rose to EUR 3.46 bn in the fourth quarter, from EUR 2.82 bn YoY, representing a 22.50% gain. This move is largely explained by the 41.00% sales growth in China; which is currently its largest market.
- In line with EBIT values, the firm proposed its highest ever dividend of EUR 3.25 per share, a jump from last year's EUR 2.45 dividend payment.
- The biggest drag on Daimler shares was the company's warning about slower growth in 2016, triggered by the Chinese economic slowdown.

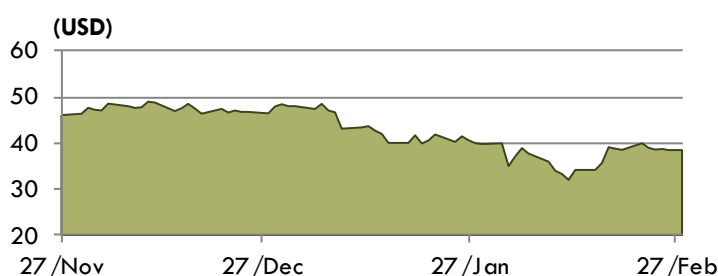


Price (EUR)	↑	62.65
Target Price (EUR)		86.00
Up/downside:		37.3%
Performance 3M:		-24.0%
P/E Ratio:		8.3x
ROC/WACC:		1.3x

### Ferrari N.V.

(Ticker: Race US Equity)  
Industry: Automotive

- Ferrari's net profit was USD 60 mm for the fourth quarter, down 44.00% from a year earlier, while revenues were down 1.00% to USD 810 mm. The year of 2015 called for shipments of about 7,900 units and net revenues of EUR 2.9 bn, with adjusted EBITDA close to EUR 770 mm.
- The disappointing performance since its IPO has to do with a strong pre-IPO valuation, together with a slow growth in total sales, which is leaving investors apprehensive about future growth opportunities.

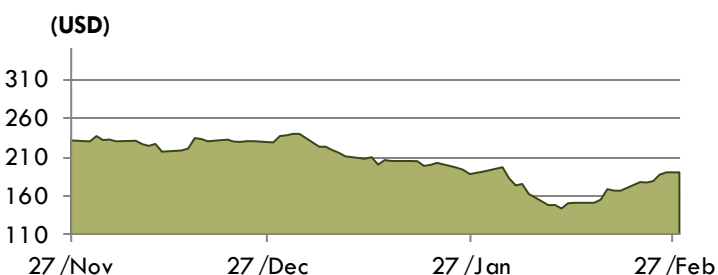


Price (USD)	↑	38.46
Target Price (USD)		48.00
Up/downside:		24.8%
Performance 3M:		-16.5%
P/E Ratio:		n/a
ROC/WACC:		0.2x

### Tesla Motors Inc.

(Ticker: TSLA US Equity)  
Industry: Automotive

- Tesla reported a fourth-quarter earnings loss, with revenues falling to USD 1.75 bn from USD 1.81 bn registered in the passed quarter.
- For the year, Tesla reported a net loss of USD 888.7 mm, or USD 6.93 per share, larger than the loss of USD 294 mm and USD 2.36 per share in 2014. Last year's revenue came in at USD 4 bn, up from USD 3.2 bn in the previous year.
- Shares rose by as much as 10.00% in after-hours trading, as the company's projections for deliveries topped estimates. Tesla projects that it will deliver 80,000 to 90,000 Model S and Model X vehicles this year, beating the forecast for 76,200.



Price (USD)	↑	190.34
Target Price (USD)		227.50
Up/downside:		19.5%
Performance 3M:		-17.8%
P/E Ratio:		n/a
ROC/WACC:		-1.7x

## 2. Followed Companies

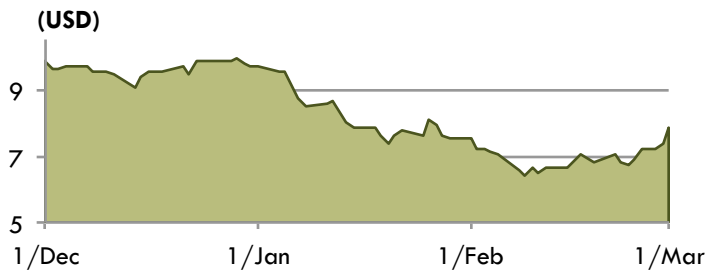
Analyst: Jin Maruhashi

### Fiat Chrysler Autos.

(Ticker: FCAU US Equity)

Industry: Automotive

- Fiat Chrysler Automobiles, the Italian-American multinational, recently recorded a 7.15% rise in its share price. More specifically, it increased from USD 6.85 on the 29<sup>th</sup> of February to USD 7.34 on the 1<sup>st</sup> of March. This appreciation is due mainly to the early press day held on the 1<sup>st</sup> of March for the 2016 International Geneva Motor Show, an annual auto show exhibiting some of the major model releases from leading automotive manufacturers.
- The 7<sup>th</sup> largest carmaker in the world revealed its latest model: the Fiat Tipo. The five-door hatchback model is expected to cost somewhere between USD 24,000 and USD 25,500. The price point is strongly reminiscent of the Ford Focus and Focus estate.



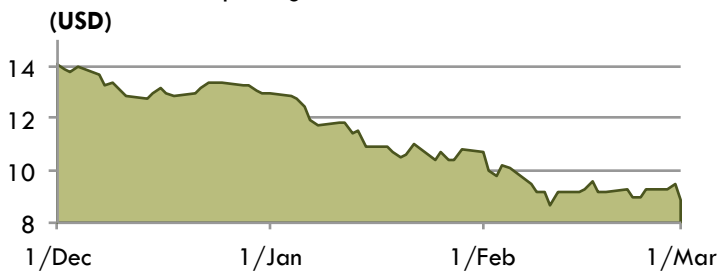
Price (USD):	↑	6.70
Target Price (USD):		10.12
Up/downside:		51.0%
Performance 3M:		-4.7%
P/E Ratio:		7.8x
ROC/WACC:		2.1x

### Barclays

(Ticker: BCS US Equity)

Industry: Banking

- Barclays, the British multinational bank, experienced a decrease in its share price on the 1<sup>st</sup> of March of around 7%. On the 29<sup>th</sup> of February its stock was at USD 9.44 and on the following day it had fallen to USD 8.89.
- This downward stock movement occurred as a reaction to three main events; a 2% decrease in annual profits for 2015, a considerable cut in its dividends and a restructuring consisting of a major pullback from its 62% stake in its African business (BAGL).
- Reasons for this divestment may have been a combination of the depreciating African currencies and high unemployment figures, which suggested that most Africans would not benefit from opening bank accounts.



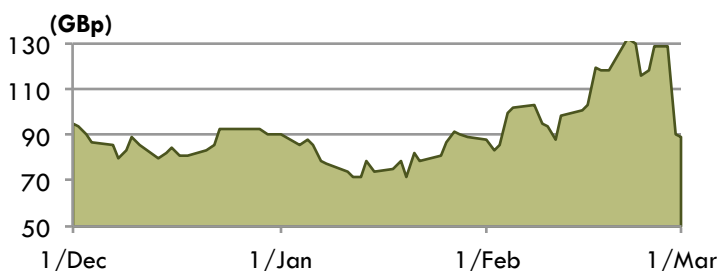
Price (USD):	↑	9.31
Target Price (USD):		13.43
Up/downside:		44.3%
Performance 3M:		-36.8%
P/E Ratio:		n/a
ROC/WACC:		0.4x

### Glencore PLC.

(Ticker: GLEN LN Equity)

Industry: Metals and Mining

- Glencore, an Anglo-Swiss multinational commodity company, faced a share price decrease from USD 133.25 to USD 130.50 towards the end of February.
- Dwindling commodity prices caused Glencore to incur a 32% decrease in its yearly profits. Its earnings fell to USD 8.7 bn from USD 12.8 bn in 2014 and overall mining activities tumbled by 38%.
- Glencore has had the added financial strain of carrying a USD 30 bn from 2013 takeover of Xstrata. It has attempted to resort to share issues and dividend payment suspension to shareholders to counter these pressures.



Price (GBp):	→	128.25
Target Price (GBp):		130.00
Up/downside:		1.4%
Performance 3M:		-5.3%
P/E Ratio:		n/a
ROC/WACC:		-1.5x

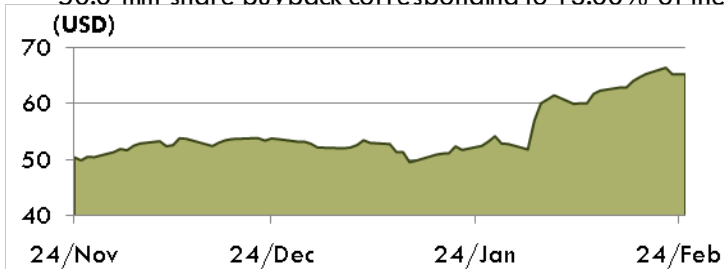
## 2. Followed Companies

Analyst: Stefan Melzer

### Tyson Foods Inc.

(Ticker: TSN US Equity)  
Industry: Food Meat-Products

- Since its earnings announcement on February 5<sup>th</sup>, stocks of Tyson Foods Inc. rose by over 20%.
- The world's largest producer of chicken and poultry-based food products impressed investors by beating expectations for Q4 2015 with reported earnings per share of USD 1.15 considerably above the USD 0.87 expected.
- For the fiscal year of 2016, the company also increased its earnings per share forecast to USD 3.85 from the previously expected USD 3.64.
- The positive stock price reaction was also driven by Tyson Foods' announcement of a USD 50.0 mm share buyback corresponding to 13.00% of the current market cap.

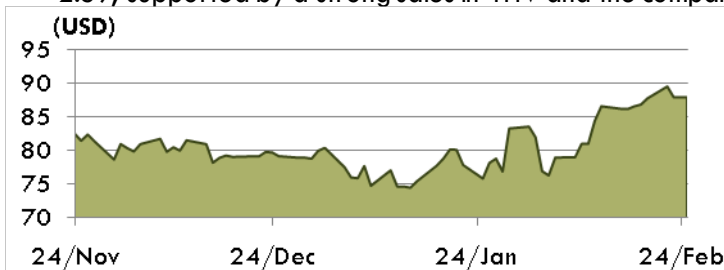


Price (USD):	→	65.17
Target Price (USD):		66.50
Up/downside:		2.0%
Performance 3M:		33.5%
P/E Ratio:		18.2x
ROC/WACC:		1.4x

### Edwards Lifesciences

(Ticker: EW US Equity)  
Industry: Health Care Equipment

- Shares of Edwards Lifesciences Inc., a leading provider of products and technologies to treat late-stage cardiovascular diseases, surged up by more than 10.00%, after the company reported better than expected Q4 earnings per share results at USD 0.62 versus USD 0.59, on the 2<sup>nd</sup> of February. Additionally, the company reported revenues at USD 671.0 mm which were higher than the expected USD 643.0 mm.
- The guidance for 2016 earnings forecast were also raised by Edwards Lifesciences, seeing its expected EPS for Q1 in a range between USD 0.64-0.70. For the entire fiscal year of 2016 EPS prospects were raised to USD 2.57-2.67 versus the initial expectation of USD 2.39, supported by a strong sales in THV and the company's focus in building its pipeline.

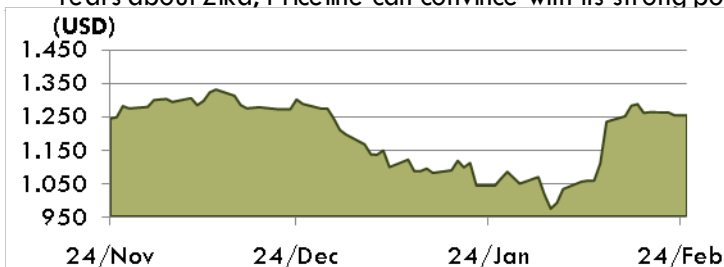


Price (USD):	↑	87.93
Target Price (USD):		93.00
Up/downside:		5.8%
Performance 3M:		9.6%
P/E Ratio:		38.2x
ROC/WACC:		1.7x

### Priceline Inc.

(Ticker: PLCN US Equity)  
Industry: Internet Retail

- The online travel agency Priceline, operating popular reservation sites as booking.com, reported earnings on February 17<sup>th</sup> and beat again estimates as it usually did for the past years. EPS increased from USD 11.83 in the Q4 of last year to USD 12.63, as well as revenues at USD 2.0 bn versus USD 1.98 bn expected.
- Although revenues were only a slight beat and guidance for Q1 came with USD 9.00-9.60 below the expectations of USD 9.83, Priceline shares rose by over 10.00% on the news while the market was still drifting down.
- After the market pushed the stock below USD 1,000 beginning of February, mainly due fears about Zika, Priceline can convince with its strong position over peers in online travel.



Price (USD):	↑	1,254.27
Target Price (USD):		1,490.00
Up/downside:		18.8%
Performance 3M:		1.1%
P/E Ratio:		26.3x
ROC/WACC:		1.7x

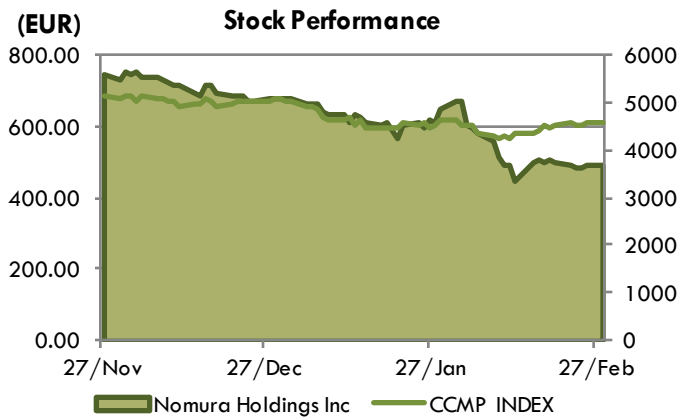
### 3. Detailed Review – Nomura Holdings Analysts: Francisco Dias Lopes & Márcia Gomes

#### Company Overview

- Nomura Holdings is headquartered in Tokyo and is Japan's largest securities group with around 29,000 employees worldwide. The group provides a variety of financial services such as brokerage, underwriting and asset management. Nomura has offices in Asia, Americas and EMEA and by being the only global investment bank with deep Asian roots is able to offer an unparalleled access to, from and within Asia.

#### Corporate News

- In the last quarter of the year, its net income declined to JPY 35.4 bn (USD 294 mm) due to the slump in brokerage commissions and investment banking fees. This situation forced the group to postpone its overseas pretax profit target of JPY 50 bn to March 2016.
- According to the CEO of the group, Koji Nagai, the group is considering a share buy-back after they plunged to its lowest price in 3 years. Nomura intends to cut costs overseas by trimming jobs and shrinking unproductive operations. However, the strengthening of operations in the U.S. is aimed to continue.



Nomura Holdings Inc (JPY)	
Current Price (28/02/2016)	489.00
52-week high % change	-46.22%
Median Target Price	653.80
Market Capitalisation (mn)	1,840,564
Return on Common Equity	8.43%
Dividend Yield	4.78%
Beta (vs. CCMP INDEX)	1.4x
Total Debt/Equity	1333.52%

#### Comparable Analysis

Company Name	Country	Currency	Mcap (mm)	EV (mm)	P/E	EV/EBITDA	EV/Sales	P/B
<b>Nomura Holdings Inc</b>	JP	JPY	1,840,564	38,131,279	7.5x	56.5x	20.7x	0.6x
Goldman Sachs Group Inc/The	US	USD	65,966	409,048	8.2x	27.6x	10.7x	0.8x
Bank of America Corp	US	USD	129,277	142,081	8.6x	n/a	n/a	0.6x
UBS Group AG	CH	USD	58,594	121	10.0x	11.5x	3.7x	n/a
Citigroup Inc	US	USD	114,534	594,079	6.7x	15.7x	7.2x	0.6x
Morgan Stanley	US	USD	48,377	323,252	9.8x	26.5x	8.9x	0.7x
75th Percentile					8.6x	27.6x	10.7x	0.7x
<b>Median</b>					<b>8.2x</b>	<b>26.5x</b>	<b>8.9x</b>	<b>0.6x</b>
25th Percentile					7.5x	15.7x	7.2x	0.6x

- In order to do a comparable analysis, a set of investment banks were selected. As can be depicted from the table, Nomura is the bank with the highest market capitalization and enterprise value. It is interesting to notice that although the P/E ratio is below the median, which suggests investors do not anticipate higher growth in the future, EV/EBITDA and EV/Sales are above the median, which indicates that the bank is overvalued. These conclusions are reinforced when comparing with the 25<sup>th</sup> Percentile values. The low P/E ratio is a reflection of the continued decrease in its share price.
- Nomura's price-to-book ratio is equal to the median, which once again does not point to growth opportunities in the near future.
- After Nomura, and with a huge difference, Citigroup has the largest enterprise value. However, it is one of the banks with the lowest EV/EBITDA and EV/Sales ratios, with these being also lower than the median. This might mean Citigroup is less efficient in its operational cost structure, suggesting a higher level of EBITDA when comparing with Morgan Stanley or UBS, for instance.



### 3. Detailed Review – Michael Kors

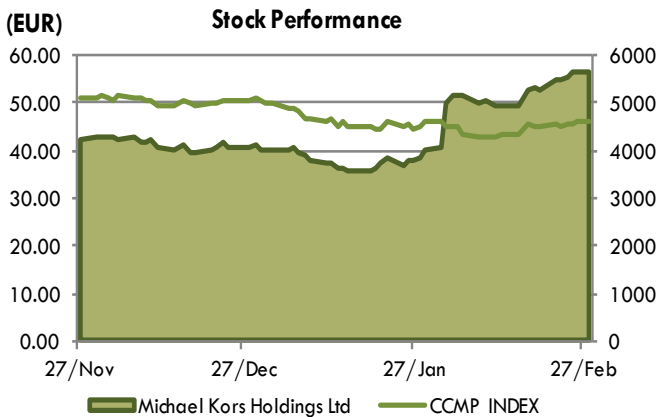
Analysts: Manuel Leal Coelho & Rita Castro Dias

#### Company Overview

- Michael Kors is an American luxury sportswear company with global accessories present in over 100 countries. The company operates in three main segments – retail, wholesale and licensing – in the global luxury goods industry.

#### Corporate News

- The traders bid up Michael Kors after the American fashion accessories retailer posted stronger than expected holiday-quarter sales.
- The company is making more money than what Wall Street expected. And that is happening at a time when many clothing retailers are struggling because people are not shopping at physical stores as much as they used to. Even the stock is fashionable again. It is currently running neck and neck for the title of performer of the year in the S&P 500. Kors is up a whopping 43% at a time when most stocks are in the dumps.



Michael Kors Holdings Ltd (USD)	
Current Price (28/02/2016)	56.58
52-week high % change	-17.92%
Median Target Price	56.04
Market Capitalisation (mn)	103
Return on Common Equity	40.94%
Dividend Yield	n/a
Beta (vs. CCMP INDEX)	0.64
Total Debt/Equity	0.0%

#### Comparable Analysis

Company Name	Country	Currency	Mcap (mm)	EV (mm)	P/E	EV/EBITDA	EV/Sales	P/B
Michael Kors Holdings Ltd	GB	USD	10,280	9,591	1.4x	2.1	2.0x	5.2x
Ralph Lauren Corp	US	USD	7,871	7,556	1.2x	1.0x	1.0x	2.1x
Hanesbrands Inc	US	USD	11,503	13,809	2.4x	2.4x	2.3x	9.0x
Kate Spade & Co	US	USD	2,817	2,921	1.9x	2.1x	1.8x	11.5x
PVH Corp	US	USD	6,761	9,759	1.3x	1.2x	1.2x	1.5x
G-III Apparel Group Ltd	US	USD	2,499	2,617	1.1x	1.1x	1.0x	2.8x
75th Percentile					1.8x	2.1x	1.9x	8.1x
<b>Median</b>					<b>1.4x</b>	<b>1.6x</b>	<b>1.5x</b>	<b>4.0x</b>
25th Percentile					1.3x	1.1x	1.1x	2.3x

- For the purpose of this analysis, a set of five American traded stocks were chosen. Among them the 5 largest peers in the domestic market.
- Michael Kors's P/E ratio is 1.4x, which goes accordingly to the industry median (1.4x). This represents how much investors are willing to pay for a dollar of Michael Kors. Michael Kors Holdings Ltd. reported better-than-expected earnings for the third consecutive quarter. In the third-quarter of fiscal 2016, the luxury lifestyle retailer reported earnings per share of USD 1.59, showing an increase of 7.40% year over, surpassing estimates for the company and the industry.
- When analysing the EV/EBITDA, EV/Sales and P/B, Michael Kors is trading above all of its current peers' medians: 2.1x vs. 1.6x, 2.0x vs. 1.5x and 5.2x vs. 4.0x, respectively. One of the most used multiples in the apparel & textile products industry is the EV/Sales, which does not consider the company's capital structure. Generally, the lower the EV/Sales, the more attractive and undervalued the company seems.

## 4. Mergers and Acquisitions

Analyst: João Raimundo

- After experiencing a record year high in deal value in 2015, worldwide M&A activity has been struggling in 2016, mainly due to falling oil prices, concerns regarding the slow Chinese growth and the health of the financial sector.
- M&A deals have fallen more than 23% to USD 336 bn this year when in comparison with last year's performance, US targeted cross-border M&A volume so far has reached USD 48.3 bn standing at the highest YTD total since 1999, when it reached USD 80.9 bn.
- China and Canada are the countries, which account for over 87% of cross-border acquirers in the US this year. Chinese acquirers have spent USD 23.5 bn and performed 23 deals in the US already, which is an annual record high. While Canada has invested around USD 18.3 bn.
- Regarding the European M&A activity, it has hit USD 92 bn this year, an improvement of 4% when compared to last year.
- Goldman Sachs is currently on top of the global M&A league table having performed more deals than any other competitor. JP Morgan and Barclays rank second and third.

## 5. Selected deals of February

Announced Date	Target		Buyer		TV (mm)	TV/EBITDA	Announced Premium
	Company	Country	Company	Country			
02/03/16	Swiftkey	UK	Microsoft	US	\$ 170.00	-	-
02/17/16	Ingram Micro	US	Tianjin Tianhai Investment	CN	\$ 6,143.86	14.60x	40.30%
02/23/16	ChemChina	CN	Syngenta	CH	\$ 46,311.73	16.58x	29.50%
02/23/16	Banijay	FR	Vivendi	FR	\$ 290.00	-	-
02/26/16	Prestone Products	UK	Centerbridge Partners	UK	\$ 230.00	-	-

- Microsoft has entered into a definitive agreement to acquire Swiftkey, whose highly rated, highly engaging Swiftkey software keyboard and SDK powers more than 300 million Android and iOS devices. Microsoft paid GBP 170 mm to acquire the London-based software keyboard firm.
- Tianjin Tianhai Investment Co Ltd announced the acquisition of Ingram Micro Inc for USD 6,143.9 mm. The transaction was announced on 2/17/2016 and is expected to be completed by 12/31/2016. The Chinese firm will acquire Ingram Micro for USD 38.90 per share in an all-cash transaction with an equity value of approximately USD 6,000.0 mm.
- Syngenta AG, a Swiss pesticide and seeds maker, and China National Chemical Corp, a Chinese state owned chemical group, agreed on USD 465.0 per share deal, with a total transaction value of USD 46,311.7 mm. This is the largest acquisition ever by a Chinese firm.
- Vivendi, the parent company of French pay TV giant Canal Plus and Universal Music Group, has acquired a 26.2% stake in Banijay-Zodiak for USD 311 mm, approximately EUR 290 mm.
- Centerbridge Partners has agreed to acquire Prestone Products Corp., maker of Prestone brand antifreeze and coolant products, from New Zealand billionaire Grame Hart for USD 230 mm.

# The NIC Fund

Student-run Virtual Fund - February



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## 1. Fixed Income, FX and Commodities

### Pricing-In Expectations

The latest position reflected returns of 2.30%, driven specially by the upward variation on gold prices and the yen devaluation. I will maintain my position in gold and in JPY/USD as uncertainty seems to persist, thus safe havens with momentum are more than welcome (specially due to BoJ's QE effects.) However, the exposure will be smaller due to the shift sizes which occurred already. I will be closing the position on the US 10-year Notes due to its negative performance (-1.45%).

Regarding my new positions, I will go long on the 5-year Canadian Bond due to the the recent data appointing to a stall of Canada's economy 2015's last quarter. As such, the possibility of a rate cut in order to stimulate the weakened economy is on the table and some investors already expect it to happen in March or April.

Just last month, inflation increased 30bp which is relevant in the current cycle. As expectations of an increase are growing, I will also take a long position on a 5-Year TIPS as they increase in value with lurking inflation.

As Brazil feeble state persists, specially with the recent data divulged by IBGE on March 3<sup>rd</sup>, GDP shrank by 3.8% in 2015. A level worse than the one predicted by the market, proliferating capital flight. Hence, I will go long on the USD/BRL.

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**Analyst: Luís Miguel Aguiar**

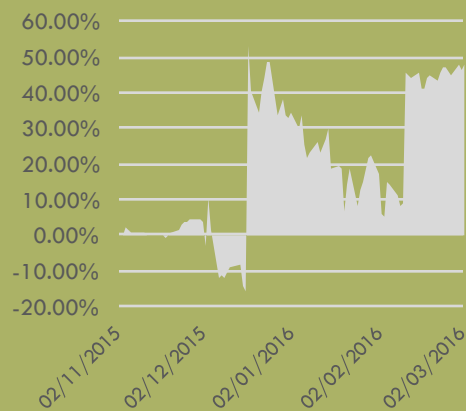
luis.aguiar@novainvestmentclub.com

### Trade Summary:

Long 20% GCJ6  
 Long 10% Canda 5y Bond  
 Long 20% JPY/USD  
 Long 20% 912828GX2  
 Long 30% USD/BRL

Asset Class: Currencies, Bond

Region: Asia, North and Latin America



## Betting on Diversification

Argentina is on the verge of a USD 15 bn debt issue in hard currency, which is particularly interesting given the current economic conditions for this country (considerable idiosyncratic risk factors such as the decrease in commodity prices and the slow growth prospects in the past few years). Moreover, the yield required for such a massive sell will likely be close to two digits, which triggered my appetite to long it once I am seeking for high yield, even though I am aware about the default history of this country. In terms of commodities, China has been flooding the market by reducing the cotton stocks, which has put strong pressures in its price. Thus, I will short cotton for the next two months as I believe both China and India to further reduce their stock holdings.

In terms of my previous trade, I will rebalance my position in the "safe heavens" as a hedge for the riskiness embedded in my new positions (less weight on gold besides a 20.00% return and a slightly higher weight on T-Bills) as I do not expect volatility to remain as high as last months. In terms of bonds, I will keep my positions in Brazil and Venezuela (slight rebalance in the latter) but I will close the Portuguese bond trade (even though the return was positive) once the prospects for the recent left wing Government, besides its controversy, seem to remain better than expected, as the latest budget approval by the European commission has shown.

In terms of currencies, I will keep my long position in the USD/CNY as further tightening is predicted by the FED until the end of 2016 (even though I do not anticipate a further depreciation of the Renminbi).

**Analyst: António Damásio**

antonio.damasio@novainvestmentclub.com

### Trade Summary:

Short 10% EJ2730491

Short 10% EI2240923

Long 30% CGCJ6

Long 30% Argentine Bonds

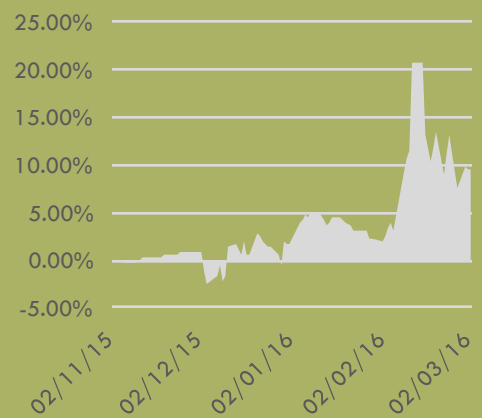
Long 40% 912828N63

Long 40% USD/CNY

Short 20% Cotton

Asset Class: Currencies, Bonds

Region: Asia and Latin America



## The Increase of Uncertainty Calls for “Safe” Measures

First of all, the last month's trading ideas have yield a positive 20.05% of return and a standard deviation of 7.23%, although the cumulative return since November is still negative (-4.32%). Regarding the USD, on a trade-weighted basis, the dollar has fallen 1.80% since the start of the year. However, should the Federal Reserve start to sound positive about rate rises in two weeks at its own meeting, then it could cause the U.S. dollar to strengthen. On the other hand, I will bet on gold, which tends to move in inverse correlation to the trade-weighted dollar, has risen 16.00% in 2016.

The countries which I was betting against (Columbia and Russia), greatly depended on the price of commodities, which have rebounded last month and will continue to be very volatile, which is why I have closed these positions. For instance, the fact that the USD/RUB decreased from 76.5 in the beginning of last month to 74.5 (entails a loss last month) has mostly to do with the vigorous increase of the price of oil and natural gas, from which Russia greatly benefits from. I will, however, keep a long position on the USD/CNY (CNYJ6) of 30% since there is an imminent risk of a sharp renminbi devaluation due to the increase in China's capital outflows. Furthermore, research shows that more than 70% of Chinese companies are generating a negative economic profit, while 80% have continued to expand their asset base, which is obviously not sustainable. Also related to the latter trade, I will open a long position on the Gold Futures (GCJ6) of 25% as, despite the fact that gold has been the best-performing major asset in the first two months, in a recent note Deutsche Bank suggested that global financial stresses (negative interest rates, for instance) continue to play in gold's favor. Although the “yellow metal” is somewhat expensive at USD 1200 an ounce there's been rising demand for a haven, with speculators raising their net-long position to the highest of the year, last weekend.

I will keep my position on the short EUR/USD of 20%, as I feel confident that the next stimulus package of the ECB (a cut in its deposit rate of 0.40% and/or possible extension in asset purchases) will drop down the Euro to USD 1.050. This stimulus is highly needed as the consumer prices in the Eurozone fell sharply (-0.20%) and core inflation (does not take into account energy prices) has decreased from 1.00% to 0.70%. Finally, I will open another new position: a 25% short GBP/USD, since this trade has great momentum, as the GBP/USD has been down 3.50% last week and analysts have priced a 45% chance that the UK will be leaving the EU. If this scenario were to take place, GDP could be reduced by 1.50% (due to extra trade cost with the EU) in 2017, placing the country at risk of recession. The uncertainty associated with the “Brexit” scenario may entail good trade opportunities until June 23.

**Analyst: João Ramos**

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### Trade Summary:

Long 25% GCJ6

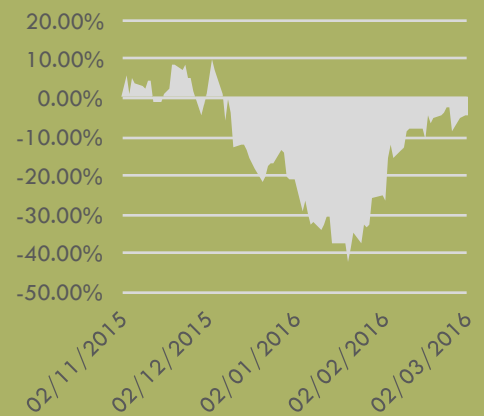
Long 30% USD/CNY

Short 25% GBP/USD

Short 20% EUR/USD

Asset Class: Currencies

Region: Europe, US and Latin America





## 2. Equities

### New Beginning

Last month my portfolio earned 1.28%. Largely contributing for this positive performance was the SPDR Gold Shares ETF, an ETF that tracks the performance of the Gold bullion, which yielded a 3.00% return. On the opposite side, there was Ryanair, with a 0.52% negative performance and the ProShares VIX short-term Futures ETF, with a negative 1.19% performance. As I do not expect volatility to increase in this next month, due to my expectations that both the Fed and ECB meetings will not produce any relevant policy changes, I will exclude the VIX ETF from my portfolio.

With US private nonfarm payrolls in February projected to increase by 182,000 jobs over the previous month and with American production showing signs of further stabilization, I believe it is time to go back to one of my previous investments: SPDR Dow Jones Industrial Average ETF.

Baidu, one of the largest search engines used in China, presented its 2015 results, with a growth of 35.30%. The growing mobile monetization and the successful integration of Baidu's search as well as location-based services and its online-to-offline initiatives were drivers for this robust revenue growth. The expectancy in the maintenance of this solid trajectory as well as Moody's support for its A3 rating prompted me to include this stock in my portfolio.

With Intercontinental Exchange exploring an offer for the LSE Group in an attempt to scuttle the company's merger talks with Deutsche Börse, the London Equity has seen its price increase since the beginning of the month. In a pure pursuit of an arbitrage opportunity to buy the target involved in a M&A deal, I will also include this stock in my portfolio, however with a short exposition.

Xerox Corporation, a company that offers business process and IT outsourcing support, document technology and solutions, is showing positive signs of recovery from a difficult past year. With a P/E ratio of 12.83 (industry avg. of 15.7) I believe it is trading cheap and with room for a further recovery.

**Analyst: Francisco Franco Nunes**

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#### Trade Summary:

Long 15% RYA ID Equity

Long 30% DIA US Equity

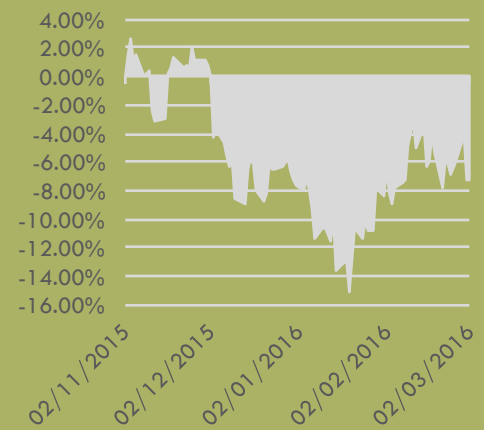
Long 10% LSE LN Equity

Long 30% GLD ES Equity

Long 15% XRX US Equity

Asset Class: Equities

Region: USA and Europe



## Searching for Value

The performances of my portfolio during the month of February were really good, with a return of 17.40%. Hence, the return since the inception is now equal to 17.66%. Anyway, even though I achieved good performances with my portfolio, I believe it is time to reallocate part of it towards more value investments. During the month of February, when the markets were full of volatility and uncertainty, finding an investment with high growth opportunity in the short term was my main objective. However, as far as I am concerned, it is impossible to rely exclusively on growth. That's why I am now closing my position in Intuitive Surgical and reduce the ones in Medtronic, Edwards Lifesciences and on the EuroStoxx ETF. Furthermore, I will add three new stocks to my portfolio.

The first one is General Motors. I believe that the US economy is now in better territory, with respect to the previous months, with the unemployment rate at the minimum since the beginning of the crisis. Hence, I think it is time to invest in consumer goods and, in particular, in durable ones. Moreover, GM represents a valid example of value investing, the company sells at a price to cash-flow ratio which is lower than its fifty closer comparables for market-cap, yet its price to cash-flow is higher than the average of its peers. The second stock that I add to my portfolio is Baidu. Baidu is the biggest search engine in the Chinese market. If compared to its peers, the company presents a P/E ratio which is really close to the bottom end of the range. Anyway, I believe that the company has a really good growth potential, especially now that the Chinese market is evolving from a country where investments in fixed assets were principal ones, to a more service-dominated economy. Yet, I perceive this stock to be quite subject to the risk that its accounts are not correctly represented. I think this is one of the main reasons why the market sells the stock at a discount.

My last pick is JP Morgan. The main reason behind my decision is that this bank represents one of the top players in the financial markets of the entire world. Moreover, I think that it is a wise decision to add it to the portfolio because, on one hand, it allows me to diversify in a new industry and, on the other hand, it represents a good source of value.

**Analyst: Roberto Tedesco**

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Trade Summary:

Long 10% WMT US Equity

Long 10% EW US Equity

Long 5% SX5EEX GY

Long 10% RYA ID Equity

Long 15% STZ US Equity

Long 5% FVSG6 Index

Long 10% MDT US Equity

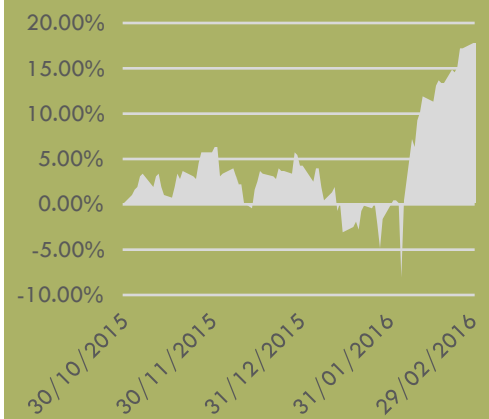
Long 10% GM US Equity

Long 10% BIDU US Equity

Long 15% JPM US Equity

Asset Class: Equities

Region: Europe and US



## Positive Ground for Equity

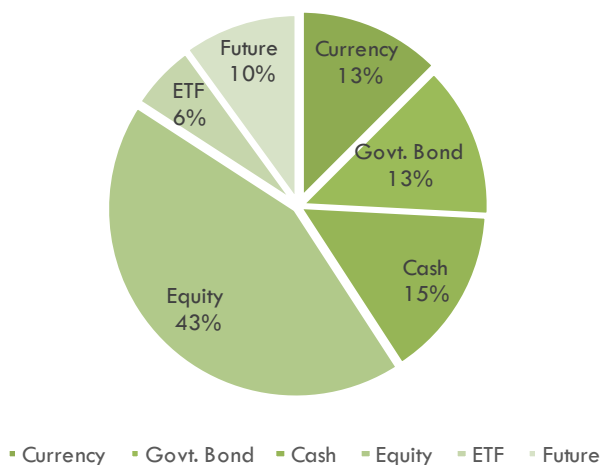
After two months of poor returns, stocks seem to slowly find their way through positive ground. This month my portfolio gained about 22.23% which pushed the total portfolio return up to 2.46% of total return. Having experienced an increase of 24.00% in its stock price, Airbus was the main driver of such a return – alone, the company contributed with 7.27%. Despite having received a significant lower amount of orders (only 2, comparing to the 16 of the previous month) and having presented earnings that did not impressed investors, the company continues on delivering reasons for confidence. Compared to 3Q data, helicopter margins rose and overall profits jumped as well (specially with the A380 break-even achievement). Based on these promising facts, I will keep my long 30.00% position. With better prospects regarding oil prices, XLE ETF accumulated returns of 5.14% during this period. Therefore, this position 30.00% long will not be changed. Supported by the favourable period that the US economy is currently experiencing, the CARZ ETF has added a solid 5.62% to this month's return.

The better than predicted recent data on US jobs creation is likely to continue on boosting this sector and, thus, I believe that this 30.00% long position is likely to continue on having a positive impact on the portfolio.

Finally reacting to its most recent expansion, Netflix stocks are now delivering what was expect earlier in January – stock prices increased by 18.00% and returns were positively affected by 6.50%. This company's growth is the underlying fundamental for the continuation of this this 30.00% position. The previous short 20.00% position on PSI 20's ETF has harmed this month's returns on about -2.29%. The Portuguese political instability and the issue on the need for further budget constraints continues on being, for me, a significantly powerful reason not to adjust this position since I believe Portuguese stocks will soon be severely harmed by the country's fiscal accounts.

## 3. NIC's Fund Composition

At the beginning of March, the composition of the NIC's fund is as follow:



**Analyst: Ana Lambiza Parda**

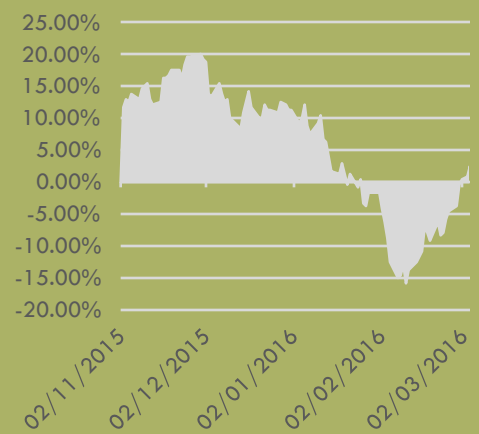
ana.pardal@novainvestmentclub.com

### Trade Summary:

Long 30% AIR FP Equity  
 Long 30% CARZ US Equity  
 Long 30% NFLX US Equity  
 Long 30% XLE US Equity  
 Short 20% PPP PL Equity

Asset Class: Equities

Region: US and Europe



## February Article

### What can be expected from a Deutsche Börse-LSE merger?

The German Exchange Group Deutsche Börse is already in advanced talks with the London Stock Exchange (LSE), regarding a merger deal that would create a global player worth at least GBP 20 Billion (USD 28 Billion). The result would be the creation of a globally competitive European champion in derivatives, clearing and financial market data, that could better compete with bigger rivals. The new group would become Europe's main answer to Chicago's CME Group, Atlanta's Intercontinental Exchange and Hong Kong's HKEx. Under rules guiding UK takeovers, Deutsche Börse has until March 22 to table a firm offer for the LSE or walkaway.

This is not the first attempt to merger these two Exchange Groups, as two other attempts have failed before. The first try in 2000 was ultimately spiked by a rival approach, and a second go in 2004 failed mainly due to the aggressive attitude of Werner Seifert, Deutsche Börse's boss at the time, and also of some of its big shareholders. Despite the failing of the first two offers, both the two groups are a lot different than then were 15 years ago a lot due to the guidance of leaders or previous leaders who highly improved the situation of the groups 10 or 15 years ago. Under the leadership of another ex-banker, Xavier Rolet, the LSE diversified away from the thinning margins available in its core share trading business, into indices and clearing. Deutsche Börse by contrast had sat back under its last chief, Reto Francioni, though Mr Kengeter compensated, spending EUR 1.5 Billion on acquisitions within weeks of taking the top job last year. Although there are other possible offers to LSE and a bidding war for it could mean bad news for the German group, as its balance sheet is already stretched out is stretched already (due to a high debt to earnings before interest, tax, depreciation and amortization ratio),

the merger between the Frankfurt and the London based Exchange Groups seems the most likely at the time. Börse's main competitor, Atlanta-based Intercontinental Exchange (ICE), faces political and regulatory hurdles and may have to make a hefty offer if it is to walk off with London's biggest exchange asset, so although it is a possibility, it is a difficult acquisition to take place, and there is still no specific offer by it. Share price increased in both Groups at the time of the announcement, with LSE shares up 15 percent and Deutsche Börse up 4.5 percent with the announcement. Also in other some other Exchange groups, the new was good received, as Euronext shares were up 4.8 percent and Spanish exchange operator BMW stock rose 2.3 percent. The numbers show confidence in the merger and support of both markets and the investors.

Global regulations have forced banks and large users such as hedge funds and asset managers to place billions of dollars of collateral and margin as insurance to back their derivatives trades. As a result, billions of dollars of capital are being held at clearing houses. Bringing the clearing houses under one roof would allow customers to net their margin for swaps and futures. That is why the London Stock Exchange and the Deutsche Börse said last week that their merger would have "significant customer benefits", including reducing margin costs by netting them within one organization. Even Moody's, the credit rating agency, said an LSE-Deutsche Börse tie-up would be positive for bondholders and a credible rival to CME and ICE, "albeit at lower relative margins". The deal would involve moving the LSE's interest rate derivatives business subsidiary SwapClear into Deutsche Börse's Eurex futures business and use the German group's technological platform.

SwapClear, as the world's largest clearer of interest rate derivatives, has emerged as one of the winners from the financial crisis. By merging it with Eurex, it would ease banks' growing capital requirements by allowing them to net their margin payments for futures and swaps trades.

Both companies have downplayed any risk from Brexit, saying last week that the proposed merger would prosper regardless of whether Britain stays or leaves and that the array of trading and services on offer in Frankfurt and London would not shrink as a result of the merger and Deutsche Börse even stated that it deliberately launched its bid for the LSE amid the political uncertainty surrounding Britain's referendum to steal a march on US rivals. It was stated by both exchanges that if the UK did vote to leave the EU the volume of trade in London and Frankfurt could be affected. However they stressed "the outcome of the referendum would not be a condition of the potential merger".



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#### Recommended Articles

Why a tie-up between Deutsche Börse and LSE makes sense \*

<http://www.ft.com/intl/cms/s/0/8d9e7aa0-ded4-11e5-b072-006d8d362ba3.html?ftcamp=crm/email//nbe/TradingRoom/product#axzz41dxfq2>

LSE and Deutsche Börse say Brexit will not derail merger\*

<http://www.ft.com/intl/cms/s/0/6060bc96-dc73-11e5-98fd-06d75973fe09.html#axzz4114wAhK>

NYSE owner ICE may gatecrash Deutsche Boerse-LSE merger

<http://www.reuters.com/article/us-lse-m-a-interconti-exc-idUSKCN0W335Q>

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