# Newsletter

## December 2016


# Foreword

It is a pleasure to introduce you the December edition of the Nova Investment Club Newsletter.

Our Investment Banking team will guide you through the latest economic developments, giving you an insight on the Timer Warner and AT&T deal.

Our Financial Market division will present you their fresh trading ideas after the surprising results of the US elections.

Finally, Gonçalo Aguiar, will close December's newsletter with an article on the Argentine economy and its president Maricio Macri.

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# Investment Banking Report

December

December 2016

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**This month's detailed company reviews:**

- Gleencore plc
- AT&T Corporation

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## 1. Macro Overview

*Analyst: Filipe Carballo de Almeida*

The month of November was clearly marked by the surprising outcome of the U.S. elections. The ascent of Donald Trump as the new-elected president represented an undeniable shift for global markets and for the global economy. On one hand, it is expected that Donald Trump's presidency will intensify trade protectionism forces and, by result, hurt exported-oriented economies, such as emerging markets. On the other hand, on his first television interview as new-elected president, Donal Trump made clear that he intends to "substantially simplify and lower the taxes" in the country. This fact, together with the prospects of an increase in government spending, rose concerns regarding a higher U.S fiscal deficit.

On the aftermath of the elections, Mexico's Peso was one of the biggest losers. The currency dropped as much as 12.00% throughout the announcement of the results, reaching 20.2044 per dollar, at 8.37 a.m. in New York. According to Bloomberg, the currency headed for its worst slide since 1995, on closing basis. On the other hand, Wall Street reacted positively, in general, to Trump's victory. According to Bloomberg, with the prospect of a regulatory relief from Trump's administration, the S&P 500 Financials Index returned 13.90% in November.

In Europe, the European Central Bank (EBC) perceived Trump's victory as a potential risk for European markets, as the political instability in the U.S. might affect the investors sentiment around the globe. The Eurozone inflation, by contrast, climbed to its best rate since April 2014, this month, accelerating to 0.6%. Although this rate is far below the 2.00% target, this represents, undoubtedly, good news for Europe. Mario Draghi said, this month, that he expected inflation to reach its target by around 2018-2019.

Regarding the political scene in Europe, Brexit is still shaped by high levels of uncertainty. This month, Italy's economic development minister, Carlo Calenda, expressed his concern regarding the disagreement and lack of consensus within the U.K. government, on what deal the U.K. will seek from the European Union. This fact is further exacerbated by the overall uncertainty of how the United Kingdom is going to trigger Article 50. The overall political uncertainty in the U.K. resulted in a poor performance of the pound, which has been declining both against the dollar and the euro.

In what concerns the M&A activity, it seems that AT&T's & Time Warner deal has a good chance of passing regulatory scrutiny, under he new U.S. administration. Despite the fact that the deal was perceived by the elected-President as a concentration of too much "power in the hands of too few", the new transition team has reassured AT&T's executives that the deal will be "scrutinized without prejudice", according to the Financial Times.

More details about this deal can be found in this edition's Followed Companies and Detailed Review sections.

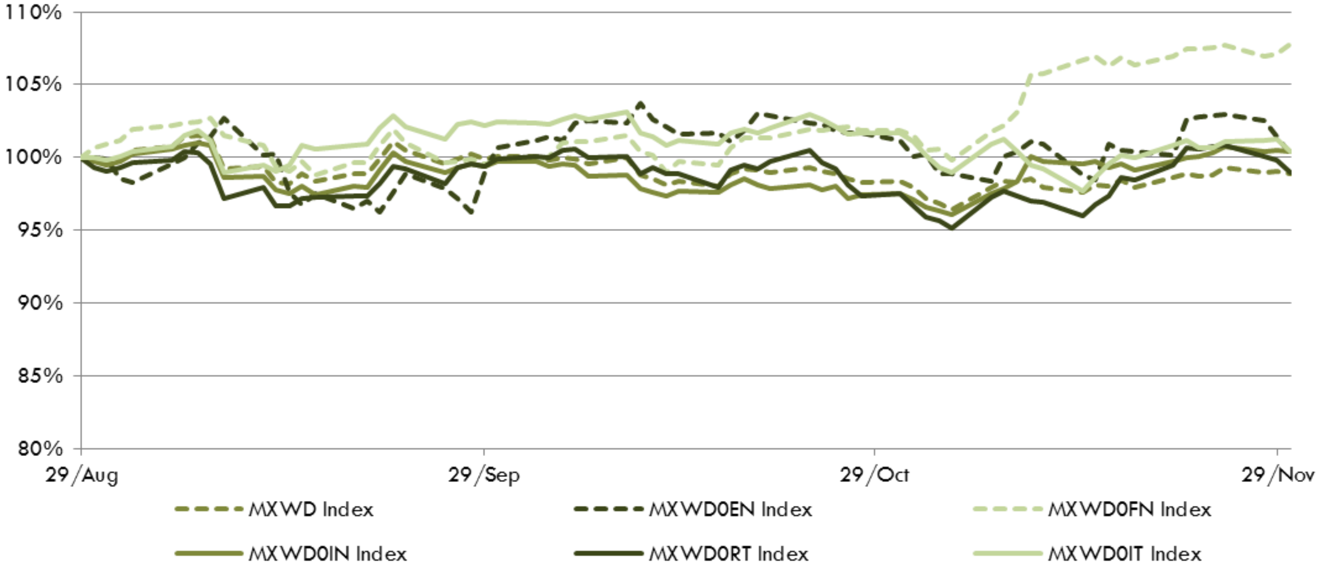
## Countries' Economic Data

*Analyst: Diogo Góis*

| Country | November Inflation (%) | | Exchange Rate | | Unemployment Rate (%) | | 10 Year Yield | |
|---|---|---|---|---|---|---|---|---|
| | MoM | YoY | USD | Monthly Change (%) | | | Current (%) | Montlhy Change (bp) |
| United States | 0.40 | 1.60 | 1.0000 | - | 4.93 | Q3 | 2.41 | 59 |
| Eurozone | -0.10 | 0.60 | 1.0622 | -3.27 | 9.97 | Q3 | 0.31 | 15 |
| Portugal | 0.30 | 0.88 | 1.0622 | -3.27 | 10.50 | Q3 | 3.72 | 40 |
| United Kingdom | 0.10 | 0.90 | 1.2636 | 3.22 | 4.87 | Q3 | 1.46 | 22 |
| Japan | 0.60 | 0.10 | 0.0088 | -8.27 | 3.03 | Q3 | 0.03 | 8 |
| Russia | 0.40 | 6.10 | 0.0157 | -0.76 | 5.23 | Q3 | 4.52 | 51 |
| China | -0.10 | 2.10 | 0.1453 | -1.71 | 4.05 | Q2 | 3.01 | 27 |
| Brazil | 0.26 | 7.87 | 0.2910 | -7.18 | 11.80 | Q4 | 11.83 | 44 |

- In the Eurozone we continue to see higher values of inflation, reaching its maximum since April 2014 with 0.6%. However, analysts generally agree that it's unlikely that this will stop ECB from announcing additional policy stimulus during the course of 2017.
- The USD is increasing in value against nearly all other currencies, due to the increased optimism with Trump's election, which relaxed investors after a turbulent period of uncertainty concerning the outcome of the presidential election.
- The unemployment rate data released is slightly lower, confirming an upward momentum in the economies, especially in the Eurozone, where it decreased from 10.10% in October to 9.97% this month.
- All interest rates increased during the month of November, reflecting, first of all, the economic uncertainty worldwide, the Brexit and US elections outcome, the Italy's referendum as well as the perspective for higher rates in the US.

## Sectors' Overview




- Overall, sector indexes showed an increase in performance during the month of November (on average, 2.72% up). The one that contributed most to this was the Financials Index (MXWD0FN Index), which had a growth of 6.17% during this month. This can be explained by the US elections that happened in the beginning of the month. Markets reacted promptly and in a negative way to Trump's win. However, the elected-president showed good prospects after the election, which helped the turnaround in the markets.
- The MSCI World Energy Index (MXWD0EN Index) faced some up and downs after the rising uncertainty faced by investors during the month due to the possible outcome of OPEC's meetings. Nevertheless, it resulted in a good outcome, as the cartel recently decided to cut oil's supply.



Source: Bloomberg (as of 01.12.2016)

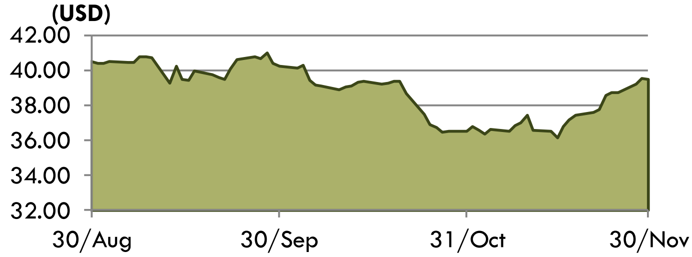
## 2. Followed Companies

*Analyst: Lourenço Alves Pereira*

### AT&T

(Ticker: T US Equity)
Industry: Telecoms

- In the sequence of the possible block of AT&T deal with Time Warner, due to "too much power in the hands of too few", the company saw a poor performance during the first quarter, since Donald Trump had publicly stated it would oppose the deal if he was elected.
- However, AT&T executives surprisingly said they are confident that the deal can pass regulatory scrutiny, which reflected in the share price, recovering 10% in the last quarter. This happened after Mr. Trump's picks for antitrust advisors were announced. Joshua Wright, a former Federal Trade Commissioner, who is said to have Republican views in terms of competition policy, and David Higbee, a former George W. Bush's administration antitrust official.

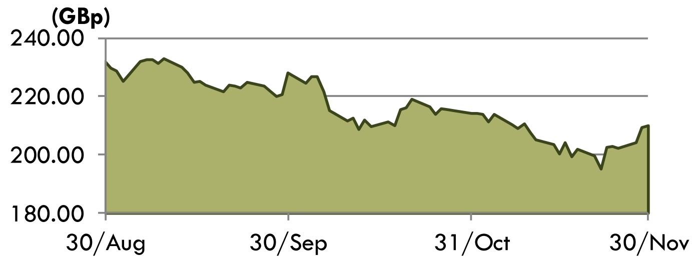



| | | |
|---|---|---|
| Price (USD): | ↑ | 38.63 |
| Target Price (USD): | | 42.00 |
| Up/downside: | | 8.72% |
| Performance 3M: | | -5.53% |
| P/E Ratio: | | 17.3x |
| ROC/WACC: | | 2.1x |

### Centrica

(Ticker: CNA LN Equity)
Industry: Utilities

- The British multinational utility company looks set to spend GBP 6 m in a system of green energy in order to transform a group of 160 homes and businesses into one independent power market. By creating a cheaper local mini-network, this innovation would allow for reduced dependability in the main electricity grid by generating, storing and selling its own power. This pioneer project is game changing for the industry, as it allows for a household to get off the energy distribution network, completely turning the business model upside down.
- Therefore, although the stable stock performance during this last month, around GBP 210, recent news might have an impact in the near future.

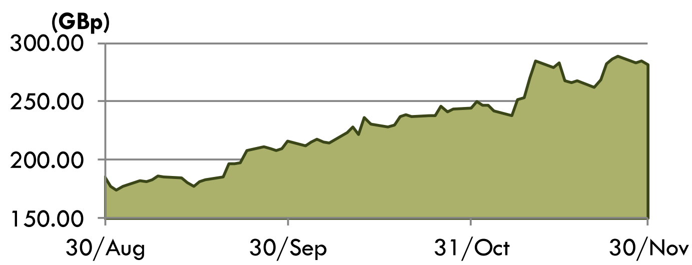



| | | |
|---|---|---|
| Price (GBp): | ↑ | 210.30 |
| Target Price (GBp): | | 240.00 |
| Up/downside: | | 14.12% |
| Performance 3M: | | -10.91% |
| P/E Ratio: | | n/a |
| ROC/WACC: | | -1.8x |

### Glencore

(Ticker: GLEN LN Equity)
Industry: Metals and Mining

- Glencore's performance kept the pace during November. After facing a debt crisis nearly one year ago, where the Switzerland-based company was the target of most hedge funds' short strategy, the firm has announced it is finishing its debt reduction programme, after an outstanding 200% share rally, since January.
- Furthermore, Glencore told investors at its annual strategy briefing that it plans to pay shareholders a dividend of USD 1 bn in 2017. Also, from 2018 onwards a new payout policy will come into effect, composed by a USD 1 bn fixed payment funded by its marketing and trading areas, plus at least one quarter of the cash generated by its mining operations.




| | | |
|---|---|---|
| Price (GBp): | → | 279.30 |
| Target Price (GBp): | | 277.50 |
| Up/downside: | | -0.64% |
| Performance 3M: | | 57.75% |
| P/E Ratio: | | n/a |
| ROC/WACC: | | 0.1x |



Source: Bloomberg (as of 31.11.2016)

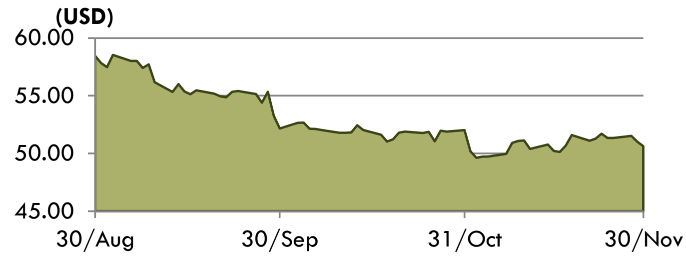
## 2. Followed Companies

*Analyst: Robert Schroeder*

### Nike Inc.

(Ticker: NKE US Equity)
Industry: Consumer Staples

- The price of Nike's share lost some 12% since September and in general underperformed the market since late 2015 after years of generating great returns for investors.
- Nike distributed a USD 0.18 dividend per share on 1st December 2016, which corresponds to an increase of 12.5% comparing it to the last paid dividend.
- Revenue grew to over USD 1 bn in Greater China in the most recent quarter from USD 0.9 bn a year ago, signaling a high growth potential.
- As popularity of technology among consumers increases, Nike introduced a partnership with Apple, showing the willingness of the management to capitalize on the upcoming digitalization industry.

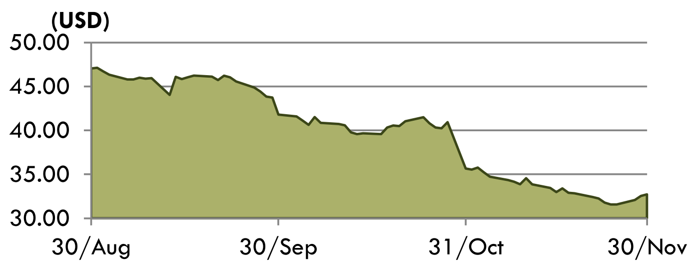



| | | |
|---|---|---|
| Price (USD): | ↑ | 50.63 |
| Target Price (USD): | | 63.50 |
| Up/downside: | | 25.42% |
| Performance 3M: | | -12.46% |
| P/E Ratio: | | 22.8x |
| ROC/WACC: | | 3.0x |

### Novo Nordisk

(Ticker: NVO US Equity)
Industry: Pharma

- Novo Nordisk focuses on diabetes & obesity care and biopharmaceuticals, being the major producer of insulin with a world market share of 47%.
- Shares dropped remarkably in the last three months (-30.58%) as the outlook for future growth was cut.
- At USD 32.72, the estimated dividend yield for FY 2016 would be some 3.2% suggesting that even with lowered growth expectations of some 5%-6% per year, at a P/E ratio of 16.1, Novo Nordisk seems to be cheap.
- Novo Nordisk announced to shift its R&D strategy moving to a higher innovation threshold for diabetes projects and to focus in areas that are adjacent to diabetes as NASH and CVD.

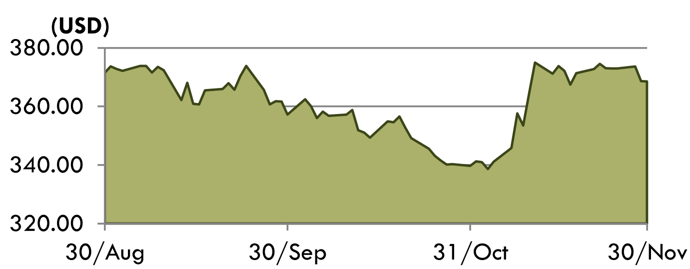



| | | |
|---|---|---|
| Price (USD): | ↑ | 32.72 |
| Target Price (USD): | | 35.10 |
| Up/downside: | | 7.27% |
| Performance 3M: | | -30.58% |
| P/E Ratio: | | 16.1x |
| ROC/WACC: | | 5.4x |

### BlackRock Inc.

(Ticker: BLK US Equity)
Industry: Financials

- BlackRock is the world's largest asset manager with over USD 4.7 tn assets under management and has a strong competitive position in the ETF market with its brand iShares.
- Unlike JPMorgan, Morgan Stanley and other asset managers, BlackRock is not considered as a systematically important financial institution. By not having the SIFI label, BlackRock faces significantly lower regulatory expenses than some of its peers.
- Blackrock bought FutureAdvisor in 2015, a robo-advisor offering online portfolio management meeting the demand of the younger generation of investors who are increasingly interested in online advice, as opposed to hiring an adviser.




| | | |
|---|---|---|
| Price (USD): | ↑ | 368.55 |
| Target Price (USD): | | 398.00 |
| Up/downside: | | 7.99% |
| Performance 3M: | | -1.38% |
| P/E Ratio: | | 19.7x |
| ROC/WACC: | | 0.7x |



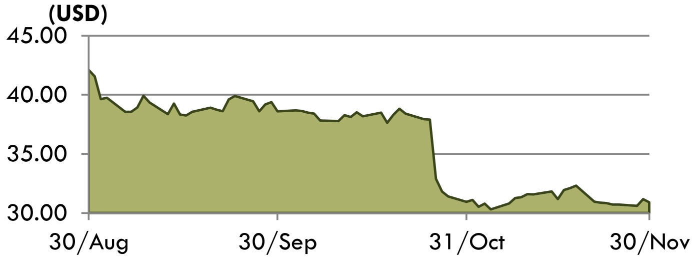
Source: Bloomberg (as of 02.12.2016)

## 2. Followed Companies

*Analyst: Nicholas Mayer*

### Under Armour Inc.
(Ticker: UA US Equity)
Industry: Consumer Durables & Apparel

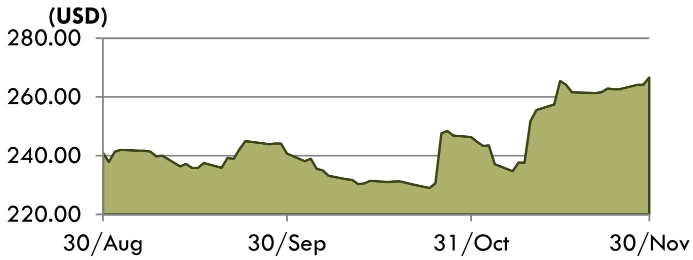
- Under Armour's pricing discrepancy between A-shares (voting class) and C-shares (non voting) got tackled by renaming the Class C common stock ticker from "UA.C" to "UA", while the the Class A common stock will change its ticker from "UA" to "UAA".
- The ticker change should lead to a convergence of both stock prices, because the media releases will trigger investors' interest. However, as of November 29th, the wide spread between Class C shares (USD 26.29) and Class A shares (USD 31.17) still exists.
- Since CEO Kevin Plank himself owns the super-voting B-shares, which allow him to control the company, there is no reason why A-shares are USD 4.88 more expensive than the C-shares.




| | |
|---|---|
| Price (USD): ↑ | 30.90 |
| Target Price (USD): | 39.00 |
| Up/downside: | 26.21% |
| Performance 3M: | -25.65% |
| P/E Ratio: | 50.6x |
| ROC/WACC: | 0.7x |

### Lockheed Martin Corp.
(Ticker: LMT US Equity)
Industry: Capital Goods

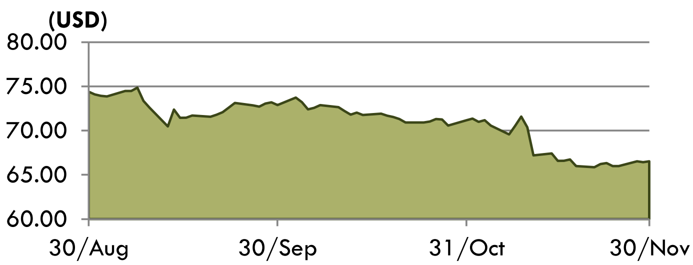
- Lockheed Martin Corp. signed a USD 1.2 bn contract with the Republic of Korea Air Force to upgrade the 134 F-16 aircraft, which is also majorly used by the United States Air Force and the four NATO partners Belgium, Denmark, Netherlands and Norway.
- Lockheed Martin Corp. received a USD 1.28 bn Pentagon down payment to continue the production of the F-35 jets, while the whole contract is worth USD 7.19 bn for 90 aircrafts. Consequently, the company's stock was up 1% at USD 256.01.
- Furthermore, Israel announced to purchase 17 Lockheed Martin F-35 jets in a USD 1.7 bn deal. As a result the company expects revenues to grow by 7% in 2017 and annual sales rising 3% to 5% over the next two years.




| | |
|---|---|
| Price (USD): → | 266.58 |
| Target Price (USD): | 275.00 |
| Up/downside: | 3.16% |
| Performance 3M: | 12.10% |
| P/E Ratio: | 21.6x |
| ROC/WACC: | 1.9x |

### Colgate Co.
(Ticker: CL US Equity)
Industry: Household & Personal Products

- Colgate-Palmolive has plunged by 9% within the last two weeks and 15% off its all-time high in September. Colgate has been characterized by low volatility since its inception, however, these declines were not surprising.
- For three consecutive years since 2013, the company's revenues are declining to end up 2016 11% lower than they were in 2013.
- Nevertheless, the company is trading at a trailing P/E-ratio of 23.8, which is not cheap by any means and does not characterize a company's stock, which posted deteriorating results in the last three years.




| | |
|---|---|
| Price (USD): ↑ | 66.53 |
| Target Price (USD): | 76.00 |
| Up/downside: | 14.23% |
| Performance 3M: | -10.21% |
| P/E Ratio: | 23.8x |
| ROC/WACC: | 3.2x |



Source: Bloomberg (as of 02.12.2016)

# 3. Detailed Review - Glencore

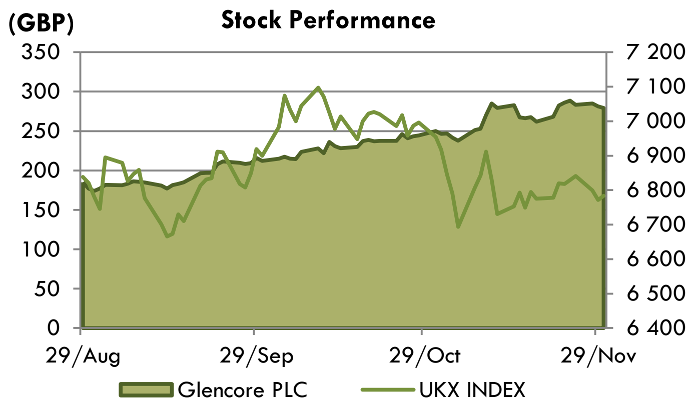
*Analyst: Bernardo Machado*

## Company Overview

- Glencore PLC (GLEN) is an Anglo-Swiss multinational mining company and commodity trader. Headquartered in Baar, Switzerland, the firm is engaged in the production, refinement, processing, storage, transport and marketing of minerals and metals as well as energy and agricultural products.

## Corporate News

- Glencore recently announced the restart of its dividends with a planned USD 1 bn payment due to investors in 2017. The end to the dividend supension implemented in September 2015 comes earlier than expected thanks to a rebound in commodity prices.
- Simultaneously, the firm, which a year ago, was struggling with a debt crisis, reported it was close to completing its debt reduction program following a USD 6.3 bn asset sale. Glencore aims to end the FY 2016 with net debt below USD 17.5 bn, a significant decline from USD 30 bn a year and a half ago.




| Glencore PLC (GBP) | |
|---|---|
| Current Price (30/11/2016) | 279.3 |
| 52-week high % change | -4.35% |
| Median Target Price | 285.04 |
| Market Capitalization (m) | 40 003 |
| Return on Common Equity | -10.80% |
| Dividend Yield | n/a |
| Beta (vs. UKX INDEX) | 2.2x |
| Total Debt/Equity | 106.55% |

## Comparable Analysis

| Company Name | Country | Currency | Mcap (m) | Enterprise Value (m) | P/E | EV/EBITDA | EV/Sales | P/B |
|---|---|---|---|---|---|---|---|---|
| **Glencore PLC** | CH | GBP | 40,003 | 86,238 | n/a | 9.7x | 0.4x | 1.2x |
| Rio Tinto Ltd | GB | USD | 70,787 | 90,448 | n/a | 11.1x | 2.5x | n/a |
| BHP Billiton Ltd | AU | USD | 95,575 | 127,458 | n/a | 24.2x | 3.4x | n/a |
| Vale SA | BR | USD | 41,805 | 23,6376 | n/a | n/a | 2.0x | n/a |
| Anglo American PLC | GB | USD | 20,059 | 35,254 | n/a | n/a | 1.5x | n/a |
| Grupo Mexico SAB de CV | MX | USD | 21,642 | 28,516 | n/a | 7.1x | 3.2x | n/a |
| 75th Percentile | - | - | - | - | n/a | 14.4x | 3.0x | 1,2x |
| **Median** | - | - | - | - | **n/a** | **10.4x** | **2.2x** | **1.2x** |
| 25th Percentile | - | - | - | - | n/a | 9.1x | 1.6x | 1.2x |

- For the purpose of this analysis, a set of five U.S. traded stocks from the Basic Materials sector were chosen. Among them large peers such as BHP Billiton Ltd, Vale SA and Rio Tinto Ltd, but also smaller firms such as Anglo American PLC and Grupo Mexico SAB de CV were included.
- By comparing Glencore's current EV/EBITDA of 9.7x to the peer group median ratio of 10.4x, it is possible to observe that the company is valued in accordance with its peers, yet slightly lower than the main competitors.
- In contrast, the same situation does not hold when it comes to the ratio between Enterprise Value and Sales. In fact, Glencore's current 0.4x EV/Sales is far below the 25$^{th}$ percentile value of 1.6x. Such an undervaluation when compared to its peers is in line with the financial difficulties the company has been facing which led to the suspension of dividends back in September 2015.
- The recent rebound in commodity prices has changed the outlook for Glencore. Its stock has become the second-best performer in the FTSE 100 over the past year and a recent poll among investment analysts covering the industry indicated that the company will outperform the market.



Source: Bloomberg (as of 02.12.2016)

# 3. Detailed Review – AT&T Corporation

*Analyst: Tomás Costa*

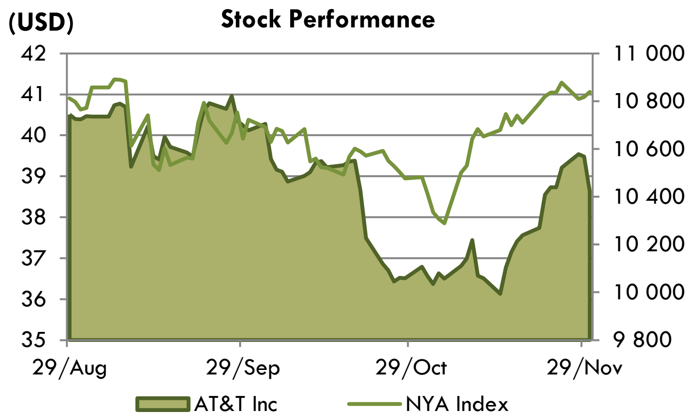
## Company Overview

- AT&T is an American company that provides phone services, wireless and data communications, satellite television, telecommunications equipment and directory advertising. It is the largest company in the communications industry in the US, by market capitalization.

## Corporate News

- The telecomunnications company has some concerns about the regulatory approval of the purchase of Time Warner Inc. since the President-elect Trump defended the cancelation of the deal during the presidential campaign. After meeting the president's transition team, AT&T executives walked away with expectations that the deal will meet the required standards to be accepted, which sent AT&T' shares surging.

- Direct's TV, the internet TV streaming service of AT&T is said to launch without CBS, the most popular TV network in the US. Questions arise about the future of the service without such player and pressions are being made to achieve an agreement with the television network.




| AT&T Inc (USD) | |
|---|---|
| Current Price (01/12/2016) | 38.63 |
| 52-week high % change | -11.98% |
| Median Target Price | 41.52 |
| Market Capitalization (m) | 237,313 |
| Return on Common Equity | 11.85% |
| Dividend Yield | 4.97% |
| Beta (vs. NYA Index) | 0.6x |
| Total Debt/Equity | 102.03% |

## Comparable Analysis

| Company Name | Country | Currency | Mcap (m) | Enterprise Value (m) | P/E | EV/EBITDA | EV/Sales | P/B |
|---|---|---|---|---|---|---|---|---|
| **AT&T Inc** | US | USD | 237,313 | 357,631 | 17.3x | 6.9x | 2.3x | 1.9x |
| Verizon Communications Inc | US | USD | 203,322 | 304,995 | 12.8x | 7.0x | 2.5x | 9.9x |
| T-Mobile US Inc | US | USD | 44,493 | 69,520 | 58.7x | 6.5x | 1.8x | 2.5x |
| BCE Inc | CA | CAD | 49,636 | 74,057 | 16.x | 9.1x | 3.6x | 4.0x |
| TELUS Corp | CA | CAD | 24,596 | 36,752 | 16.1x | 8.5x | 3.0x | 3.0x |
| Sprint Corp | US | USD | 31,492 | 62,391 | n/a | 6.7x | 1.8x | 1.6x |
| 75th Percentile | - | - | - | - | 17.3x | 8.1x | 2.8x | 3.7x |
| **Median** | - | - | - | - | **16.4x** | **6.9x** | **2.4x** | **2.7x** |
| 25th Percentile | - | - | - | - | 16.1x | 6.8x | 1.9x | 2.1x |

- For the purpose of this analysis, a set of three American traded stocks were chosen. Among them, the second-largest player in the domestic market, Verizon. Additionally, two large and publicly traded Canadian companies in the same industry were considered in the comparable analysis.

- As the table above indicates, AT&T has the biggest Market Capitalization and Enterprise Value of the selected firms. AT&T's P/E ratio of 17.3x is higher than the median of the peer group (16.4x), suggesting that the company might be overvalued. This fact might explain the performance of the company's stock price evolution in the last months.

- Comparing to its main domestic competitor, Verizon Communications Inc, AT&T's EV/Sales and EV/EBITDA ratios are slightly smaller, indicating that investors don't expect future sales and EBITDA as atractive as Verizon, even with the new services launch. This reluctence might be justified by the uncertainty around the Time Warner purchase and the hypothetical impact in the future of AT&T' business. Furthermore, the unpredictability of some ongoing projects are seemingly afecting the price and expectations about the firm.



Source: Bloomberg (as of 01.12.2016)

# 4. Mergers and Acquisitions

*Analysts: Christian Reis / Sofia Oliveira*

- Starting with North America, we could see a plunge in the number of M&A deals and the total value compared to the last months's record values. The number for deals announced in November came down 16.00%, to a new 12 months low. An even stronger declined experienced the total value: 52.00% down to USD 127.0 bn.
- Concerning AT&T's USD 85.4 bn Time Warner deal, a lawyer with close relations to Trump's transition team told the press that Trump will make it a bumpy way for AT&T but in the end the deal will probably get through.
- The strong USD, the highly likely interest rate hike and Trump's opposing attitude towards more consolidation will set pressure on America's M&A markets in the near future.
- In Western Europe, the number of deals declined to 2,001 with a total value of around EUR 60.0 bn. This represents a decrease of 34.00% in value and 19.00% in volume compared to the last month. UK remains the most targeted country with 409 deals worth more than EUR 13.0 bn.
- In the Middle East and North Africa region there has been a steep decline in the number of deals and total value. All in all, there were 30 deals announced (46.00% down MoM) with a total value of USD 656.0 m (75.00% down MoM).

# 5. Selected Deals

| Announced Date | Target | | Buyer | | TV (m) | | TV/EBITDA | Announced Premium |
|---|---|---|---|---|---|---|---|---|
| | Company | Country | Company | Country | | | | |
| 08/11/2016 | OfficeFirst Group | DE | Blackstone | US | $ | 3,644 | 45.0x | - |
| 14/11/2016 | Harman International | US | Samsung | KR | $ | 8,000 | 37.7x | 28.00% |
| 14/11/2016 | KeVita | US | PepsiCo | US | $ | 500 | 14.1x | - |
| 22/11/2016 | Bai Brands | US | Dr Pepper Snaple Group | US | $ | 1,700 | - | - |
| 22/11/2016 | Mentor Graphics | US | Siemens | DE | $ | 4,500 | 21.4x | 21.00% |

- November was a highly diverse month in which concerns M&A deals. On the Private Equity market, the leader Blackstone agreed to acquire German property OfficeFirst Group for USD 3,644 m on the 8th of November. It is worth noting that Germany's property market offers comparatively high yields in the current low interest rate environment.
- On the tech field, Samsung has changed its growth-focused strategy to one that can diversify its business. On Monday, November 14th, Samsung agreed to spend USD 8.00 bn to acquire the automotive equipment maker Harman. This will not only allow for diversification but also an immediate foothold in the car parts industry and relationships with key carmakers brands, such as BMW and VW.
- PepsiCo has seen its soda revenues struggling in recent years. As consumers are shifting to healthier options, soda sales have struggled during the latest years. The beverage company has responded with the announcement to buy KeVita, a deal that will diversify both companies' portfolios. As for PepsiCo, the acquisition accounts for one more brand on the portfolio, but one that taps consumer interests in healthier options.
- Dr Pepper has also decided to keep up with the above mentioned tendency. On November 22, Dr Pepper announced that it was paying USD 1.7 bn to buy Bai Brands, a maker of flavoured water and other healthy drinks. Investors seem to agree with this move, as Dr Pepper's stock price was up by more than 2 per cent on the day of the announcement.
- At the developed world, companies that do not use technology as the fundamental driver of the business, will be left behind. Acknowledging this fact, Germany-based Siemens announced its acquisition of software maker Mentor Graphics for USD 4.5 bn. As its competitors General Electric Co and Robert Bosch GmbH, the leader of the Industrial Internet aims at digitalizing its own manufacturing processes and develop original software platforms to sell to major industrial players.



Source: Financial Times; Bloomberg; BVD

# The NIC Fund

Student-run Virtual Fund - February

Nova Investment Club

www.novainvestmentclub.com

## 1. Fixed Income, FX and Commodities

### US inflation picking up

Last month's performance was not the one expected, with the portfolio yielding a return of -1.31%. The pair trade long 10 year German Government Bond and short 10 year Treasury performed quite well with a return of 2.78%, however both BOND and the 10 year Spanish Government Bond had a negative return of -2.36%, which cancelled out all gains.

The recent political changes in the US, with Donald Trump being elected President, brought back the spectre of inflation with the promise of tax cuts and enhanced public spending. As I stated in the previous month, the US economy is recovering, which combined with a tighter labour market, commodities' prices rising (especially oil) and the Fed deliberately rising rates slowly, will lead to higher inflation in the US. Consequently, US Government Bonds will keep falling especially in longer tenors. Therefore, I decided to keep the short position on the 10 year US Treasury. To have a diversified and constant source of income and to hedge for the short position in US Treasuries, I will also keep my position in the Pimco ETF BOND.

In Europe, two strong movements have been seen: on one hand Government Bonds have been following the same trend of the US, with the US exporting inflation to Europe through the appreciation of the USD against the EUR; on the other hand we have seen an even stronger decline in the periphery, which includes Portugal, Spain and Italy, due to the uncertainty related with the Italian Referendum that is taking place on the 4th of December. Since I believe the Referendum will not pass, it may generate some turbulence in the bond market. However, this turbulence will most likely not take extreme proportions, since the ECB will probably intervene. In this context, and considering that the Yields have already risen considerably, I will increase my long positions in Portugal and Spain, from 15% to 30% each, and take a similar long position in Italy, through the 10 year Italian Government Bond. Additionally, to hedge the interest rate risk, as I believe that Europe will probably continue to follow the US, I will also take a short position in the 10 year German Government Bond.

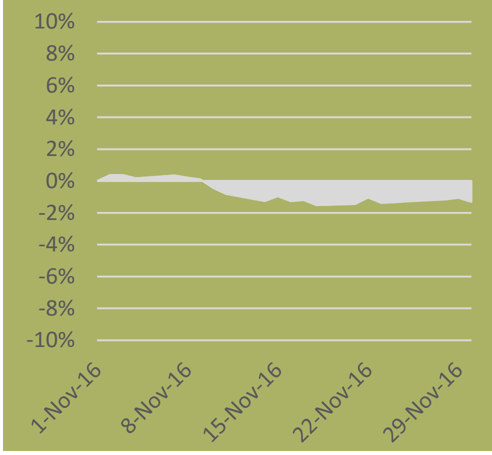
### Table of Contents




**Analyst:** Tomás Lameira
tomas.lameira@novainvestmentclub.com


**Trade Summary:**
Short 30.00% 10Y German Gov
Short 30.00% 10Y Treasury
Long 30% 10Y Spanish Gov
Long 30.00% 8Y Portuguese Gov
Long 30.00% 10Y Italian Gov
Long 70.00% BOND ETF

**Asset Class:** Fixed Income
**Region:** USA and Europe



# Trumponomics and Europe's boot shaking markets

Trumponomics! That's the global consensus and we have to adapt quickly. Markets were surprised by the nomination and the Mexican peso was the greatest collateral damage. US treasury yields rose and the emerging markets were not exception to this contagion.

The overall performance of the portfolio in November was -3.49%. The best performer was the Deutsche Bank Floater with -0.8% and the worst performer was the Century Bond from Petrobras who took a very hard hit given the US elections outcome.

Municipal bonds took a deep dive after Trump's election. Markets are concerned that promises of huge infrastructure spending might launch a series of new bonds to the street, devaluing the older ones. More importantly, on the verge of having a tax reform by Mr. Trump and the GOP-controlled congress, munis are one step further of becoming less attractive due to their tax free feature, condition which appears to already be priced in. For all these reasons, the Municipal Bonds fund took a hit of -4.12%, thus I am lowering my exposure to such uncertain future.

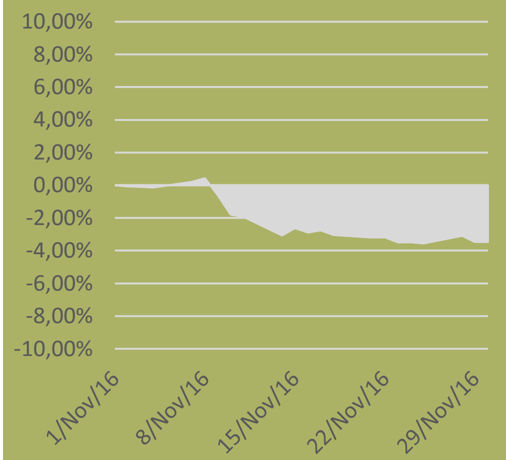
Although this volatility showed the worst side of my portfolio, I am confident that there was some overreaction by the markets. I maintain my confidence in the structure of this portfolio for its year of existence and that some of the worst performers will align with the current economic expectations. Ultimately, emerging markets show signs of resilience to the possible policies to come from the US, which shows the increasing flexibility of central banks to tailor their policy responses.

The new addition to this portfolio is a 4.2% Monte Dei Paschi bond that matures in early March 2017. Despite the outcome of the 4th of December referendum in Italy, in so short-term there are few probabilities that the bank will be unable to refinance itself, at least for the payment of these bonds. Given so, the appealing yields consider a good opportunity to benefit from short-term returns.

**Analyst:** Sebastião Fernandes
sebastiao.fernandes@novainvestmentclub.com

**Trade Summary:**
Long 20.00% GSDIX
Long 15.00% GSMTX
Long 20.00% NUSTBIU
Long 20.00% DB 0 11/21/19
Long 10.00% PETBRA 6.85 06/05/15
Long 10.00% MONTE 4.2 03/01/17

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



# An emerging threat: how will countries evolve to Trump's economic and trade policies

The overall performance of the portfolio in November was -1.42%. The main drivers of this performance were the US Government Bonds and the Canadian Government Bonds, which were affected by the increase in yields that followed the unexpected election outcome.
As the Fed meeting of December approaches, a Fed hike seems clear (currently priced at the likelihood of 94.9%). For this, I will increase the short position on US Government bonds and reduce the long position on Canadian Government bonds.

Still in the elections context, Donald Trump´s victory raised expectations of higher inflation in the US, through fiscal stimulus as well as immigration and trade policy. For this reason, I will maintain my long position on Treasury Protected Inflation Securities (TIPS) alongside the short position on US Government Bonds, in order to protect the portfolio from an increase in US yield (higher than the increase in inflation).

The short position on China proved to be profitable (the index increased by 3.00%), however it did not impact significantly the performance of the portfolio given its low allocation. Since I continue to expect the Chinese yields to go up (big Bonds sell-off) as a result of outflows towards the US, I will increase my (short) exposure to Chinese sovereign debt.

Emerging markets suffered from Trump´s victory under fears of deteriorating trade partnerships with the US. Even though, some countries could benefit from this election. For this, I will go long on Russian´s debt, given Trump´s campaign rhetoric of seeking a rapprochement with Moscow which might include a lifting of sanctions regarding Russia´s involvement in Ukraine.

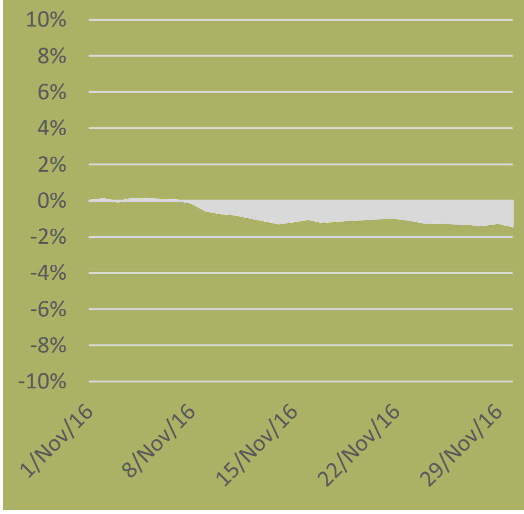
I will also go long on Brazil government bonds, since it is one of the few emerging economies relatively closed (13.04% of exports to GDP in 2015), which may prove a "safer heaven" under the current uncertain environment. Furthermore, Brazil might actually be able to boost its iron ore exports to meet the demand set by the infrastructure-spending program of President Trump.

Given that I have to be fully invested, I will allocate the remaining portion of the portfolio to US treasury bills, which offer very safe returns.

**Analyst:** Pedro Tomé
pedro.tome@novainvestmentclub.com

**Trade Summary:**
Long 85% USGG6M
Long 40% TIP US
Long 15% VSB CN
Long 10% DWSRUBD
Long 10% DWSBRZB
Short 40% BSV US
Short 20% 3199 HK

**Asset Class:** Fixed Income
**Region:** US, Canada, China, Russia and Brazil



## Trump, the world catalyst

The results of the US Elections were a big surprise for the market and indeed my portfolio experienced a downside trend. Nevertheless, this month the portfolio has registered a cumulative return of 1.90%, mainly supported by the short position in the EUR against the USD and also because of the MXN's high volatility.

On the day of Trump's victory, I changed for a short position of the MXN against the USD, so I minimized the risks of my position during the month. However, this month I expect the market to adjust MXN's price because it is too high compared with its true market value and that is why I retook a smaller position.

On the other hand, the RUB increased its value after the election but has rapidly adjusted to its true value when the expectations of a higher cooperation between Russia and US decreased. I decided to close this position because now I expect the RUB to stay flat in the following month since, even after OPEC's decision to cut the oil production, which could have a positive effect on Russia, I believe there are other risks in the market.

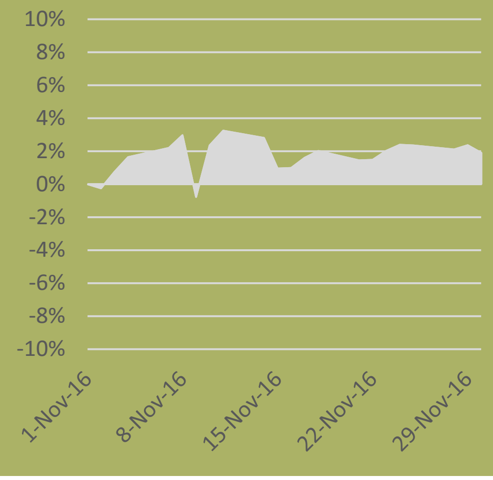
My GBP final position against the USD improved due to a better international environment but also since the Hard Brexit possibility decreased. I decided to close my position and open a new long position of the GBP, but now against the EUR, due to the political crisis but also the uncertainty of the ECB, Italy, Austria, etc. These are also the reasons why I increased my position on the USD against the EUR.

Finally, I decided to open two new positions in order to diversify my risk. The first one is a short position of the JPY against the USD, because of the current situation of the Japanese economy but also taking into account the interest rate raise of the FED. Lastly, I consider the BRL has been increasing its price during the last months, but it was not adjusted enough after Trump's victory. I decided to go long on the EUR/BRL in order to diversify my weight in the USD and I opine that the EUR is going to appreciate.

**Analyst:** Luis Zarate
luis.zarate@novainvestmentclub.com

**Trade Summary:**
Long 30.00% USD/EUR
Long 40.00% GBP/EUR
Short 25.00% JPY/USD
Long 40.00% EUR/BRL
Long 15.00% MXN/USD

**Asset Class:** Currencies
**Region:** Asia, Europe, US and Latin America



## Chasing the Dollar

Last month's performance was fairly disappointing, yielding a return of -5.52%. The main explanation for this negative outcome is my portfolio's high exposure to the US Presidential Elections. Trump's unexpected victory led the Mexican Peso to devalue significantly, as well as the Brazilian Real and the Japanese Yen.

The general sentiment is that the USD will gain strength under a Trump administration due to a shift in American policy, since the President-elect is expected give the economy a significant fiscal boost. In turn, this would lead to a higher inflation and a stronger Dollar. Since the greenback is expected to continue appreciating, I closed my position in the BRL and my short on the USD/JPY cross.

Moreover, for the reasons formerly mentioned, I will open a long position of 35% on the USD against the JPY. Also, since I expect the market to readjust the devaluation on the MXN as the country's fundamentals are still solid, I will maintain my position but will, nonetheless, reduce my exposure to the currency.

On another note, the Riksbank unexpectedly announced that further rate cutes were no longer expected. This led the SEK to appreciate against the Euro, so this position yielded a return of -1.24%. Since the Swedish Central Bank is no longer expected to continue with the looser monetary policy, I will close this position.

The Sterling has recently gained strength following the statements of two members of the English Government, David Davis and Philip Hammond. They stated that the British government should keep the door open to the single market and, as such, investors are flocking back to the Sterling as fears of a "hard" Brexit begin to disappear. Thus, I decided to open a long position on the GBP against the USD.

The Turkish economy is particularly sensitive to oil prices and, as OPEC agreed on production cuts, the Lira is expected to devalue. Despite recent economic growth, foreign investment has been decreasing, and the country's sovereign debt was rated as junk by Moody's and S&P. President Erdogan doesn't seem inclined to take measures against devaluation, stating that he "won't bow down to those who use FX as a weapon". Thus, I will short the TRY/USD cross.

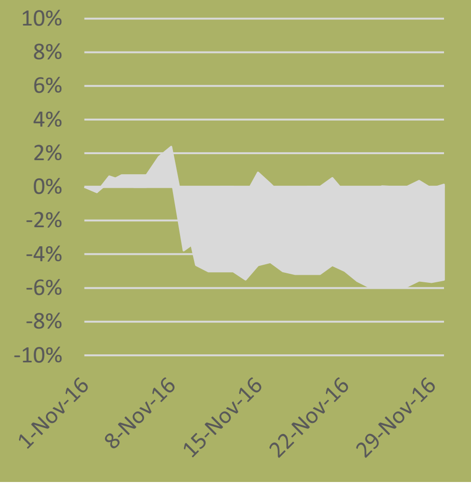
Lastly, the dollar has been pressing the renminbi downwards. The increase in capital outflows from the country have been large and, despite the PBoC's regulatory efforts, once the currency exits China it is no longer subject to Chinese regulation. As such, I opened a long position on the USD against the CNY.

**Analyst:** João Rato
joao.rato@novainvestmentclub.com

**Trade Summary:**

| | | |
|---|---|---|
| Long | 10.00% | MXN/USD |
| Long | 40.00% | USD/JPY |
| Long | 35.00% | GBP/USD |
| Short | 20.00% | TRY/USD |
| Long | 35.00% | USD/CNY |

**Asset Class:** Currencies
**Region:** Asia, Europe, Latin America and US



## Turning Point in Commodities

During the month of November my portfolio had a negative performance of -8.75%. This was mainly caused due to the significant impact of my investment in the VelocityShares 3x Inverse Natural Gas ETN, that has an inverse exposure to the Natural Gas' prices. There was a turning point on the 17th of November that changed the course of returns of this ETN and was the cause of its negative return of -32.7%. Platinum and Wheat had also disappointed returns of -8.65% and -6.77%. However, Zinc has performed very well during most of the month and had a return of 9.82%.

Prices of Natural Gas are much related with weather forecasts. Until the 17th of November, my investment against Natural Gas was going well with a cumulative return of 16.36% due to the warm autumn and the prevailing expectation of a warm winter which would decrease demand. Nonetheless, there was a shift of expectation towards cold temperatures regarding December that looked very different from what it was in beginning of November. This new expectation have raised the possibility of an increase in demand which caused the rise on prices. Due to this reason, I will change my investment and go short on the ETN.

Platinum had a disappointing return and the oversupply is expected to continue. For that reason, I'm replacing it for Silver. Silver is below both of its key moving averages, and is locked in a down-trending channel and I see this as a buy signal and a change of direction for the prices of Silver.

Returns on Wheat were disconcerted since there is a pertaining uptrend of oversupply from the Southern Hemisphere and for that I decided to replace it for Oil due to the recent OPEC agreement. Despite the risk of Russia and other non-OPC countries not complying with its promises, I see this OPEC agreement as a good chance to invest in Oil since the expectation of a decrease in supply increases its price and that can turn Oil into a valuable driver of my portfolio.

Zinc performed extremely well due to an unexpected increase of demand from consuming industries, particularly China's renewed demand from the automotive sector. Also, major miners have announced production cuts. For those reasons, I'm increasing my portfolio exposure to Zinc.

**Analyst:** Inês Montalvão Cunha
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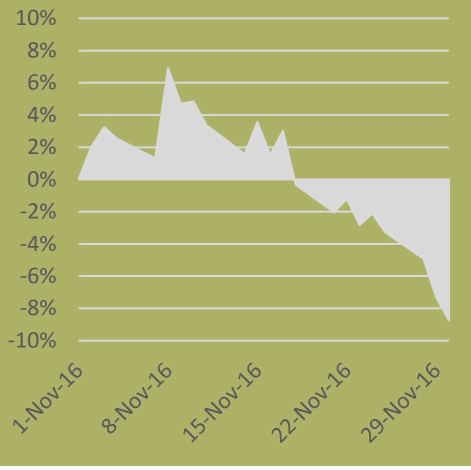
**Trade Summary:**
Long 60.00% ZINC
Long 20.00% SLV
Short 10.00% DGAZ
Long 30.00% OIL

**Asset Class:** Commodities
**Region:** U.S.; Europe



## A restrained Start

Over the month of November, my portfolio yielded a negative total return (-2.28%) although some of the commodity picks temporarily performed well.
Overall, the past month was quite trendsetting for the commodities market. Major influencers have been the US Presidential Elections as well as the recent agreement of the OPEC cartel to cut crude oil supply.

Mr. Trump's victory over Hillary Clinton introduced some waves of volatility in the market leading the price of gold to rise since investors are seeking a save haven to place their funds in during such events. This movement paid off for the portfolio because we included a 25% long position in SPDR Gold Shares (GDL). Even though markets readjusted faster than expected in the aftermath of the election, I have chosen to keep a 20% position in GDL, only replacing a 5% share by a more profitable commodity.

The most profitable contributor to the overall performance of the portfolio has been the position in United States Oil Fund (USO) with a return of 3.35% percent. The OPEC has "fueled" the price development of the fund over the month with their ongoing negotiations about a possible shorting of crude oil supply. Most recent news from the night of the 30/11/2016 is that OPEC has eventually agreed on a production freeze, which marks the first such agreement since 2008. As an initial reaction, oil prices rose by 8% within hours and further increases are expected. In this context we go long (55%) in our position of USO to capitalize on this market trend.

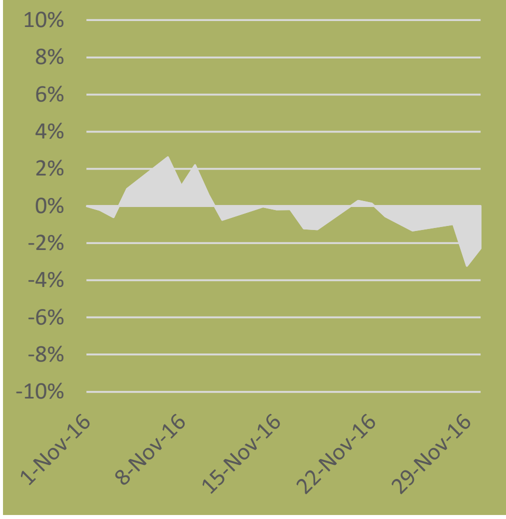
The most disappointing position has been our investment in iPath Bloomberg Coffee Subindex Total Return ETN (JO). Having been called a promising pick by the beginning of the month due to a significant divergence in demand and supply of coffee, the index rather performed poorly during the last 30 days (-10.34%).
This suggests that coffee seems to be at a critical bullish reversal point even tough this cannot really be justified when looking at market conditions. Since the position introduces increased levels of risk to our portfolio, we decrease our position to 5%.

As a last position, we chose to erase Cashew kernels from our portfolio since they have not been traded very actively in the last month. Instead, we went long in Stowe Global Coal Index (COAL) which is designed to serve as a measure of the performance of the Global Coal Industry, and strives to include all companies over a certain size that are significant participants in this market. We did so as a response to the recent developments in the energy market since we wanted to account for the potential increase in demand for alternative energy resources substituting crude oil. In this context, COAL seems to be a promising choice with a YTD return of 178.68%.

**Analyst:** Victoria Engels
victoria.engels@novainvestmentclub.com

**Trade Summary:**
Long 55.00% USO
Long 20.00% GDL
Long 5.00% JO
Long 20.00% COAL

**Asset Class:** Commodities
**Region:** US, Asia



# 2. Equities

## Building up the Banks

Well, It is safe to say that just about everyone expected a Democratic victory in the US Presidential elections, and was surprised when Donald Trump came out on top. Markets were equally surprised, with futures falling sharply as the news of a Trump victory initially broke before stocks traded higher as part of a three-week post election winning streak.

Due to heavy exposure to Infrastructure, Financials, and Consumer Discretionary stocks, my portfolio rose 6.69% for the month vs 3.42% for the S&P 500. Given the positive performance and long-term nature of the selections I am not recommending any changes to the overall allocation at this time.

Infrastructure stocks were some of the biggest winners of the month as Donald Trump reaffirmed his intentions to invest up to one trillion dollars in infrastructure over the course of the next ten years. AECOM rose sharply post-election as expectations of the end of grid-lock in Washington and the potential for a large-scale stimulus package set in. Shares in the firm gained 30.03% on the month as the firm announced they expect to capitalize on renewed state-level infrastructure spending even before any potential 'Trump Bump' in Federal spending.

Financials rose on the back of expectations of higher inflation and an instant upward shift in the yield curve. UBS and Credit Suisse posted large gains, 15.97% and 6.66% respectively as investors bet on their abilities to increase lending margins in a rising rate environment, coupled with a potential loosening of regulation on financial institutions.

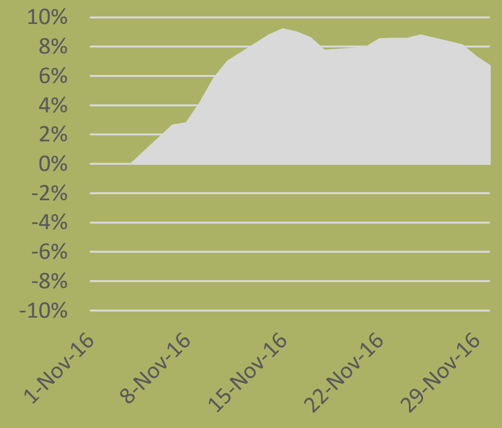
Renewables posted losses as details of the potential future US energy plans began to emerge. The President-Elect has stated that he will invest heavily in coal and fracking and has even signaled that he may pull the United States out of the landmark Paris agreement on climate change. First Solar traded down 6.88% for the month and also revised earnings expectations for 2017 significantly lower.

It should be noted that one of the few Renewable stocks trading higher for the month, TerraForm Power, rose 10.25% largely based on rumors of a potential buyout of SunEdison's controlling stake in the firm's equity.

**Analyst:** Andrew Borts
Andrew.borts@novainvestmentclub.com

**Trade Summary:**
Long 7.50% AAPL
Long 7.50% CHUY
Long 7.50% F
Long 10.00% FRAN
Long 10.00% FSLR
Long 7.50% IBM
Long 10.00% LANC
Long 5.00% TERP
Long 10.00% UA
Long 5.00% UBS
Long 5.00% AMZN
Long 5.00% CS
Long 10.00% ACM

**Asset Class:** Equities
**Region:** US, Europe



## New Trends after US Elections

This month my portfolio gained 2.89%. The worst performer during November was Takeda, which lost 8.49%, whereas the best performer out of the four stocks was Celgene, with an increase of 13.97% in its value. Moreover, over last month, AT&T also performed quite well, gaining 6.20%. Following this, I would suggest keeping part of the portfolio unchanged, meaning that I will keep my 35% long position on Celgene Corp. as well as the 20% bet on AT&T. On the other hand, I would recommend selling Takeda and Henkel due to their negative returns.

Furthermore, small caps in the U.S. have rallied around 12% in the three weeks since Donald Trump won the elections. Indeed, long term interest rates have been rising, which has conducted to a stronger dollar, which will probably jeopardise large multinational firms and its exports whereas it will favour smaller companies operating only in the US. Taking this into account, my suggestion is to invest 15% of the portfolio in Stamps.com which has an implied growth potential of 34% for a target price of USD 149.33.

Last but not the least, a 30% long position will be taken in Pentair. The US water-equipment maker is expected to increase its earnings by 15% in 2017, thanks to a deep cost cutting. Moreover, Trump's plan to boost investment in infrastructures may be a bonus.

**Analyst:** Carlota Fidalgo Graça
carlota.graca@novainvestmentclub.com

**Trade Summary:**
Long 15.00% STMP US Equity
Long 30.00% PNR US Equity
Long 20.00% T US Equity
Long 35.00% CELG US Equity

**Asset Class:** Equities
**Region:** US

## A Long-term Play

My portfolio returned 10.28% since its inception (November 3, 2016) until the end of the month, which compares to a return of 2.25% on the MSCI World Index, for the same period.

The good performance of the fund is mainly due to the surge in Acadia Pharmaceuticals stock price (29.32%), after Nuplazid's (their approved drug to treat Parkinson's disease psychosis) strong showing in the third quarter. I am keeping the stock on the portfolio as I believe that Nuplazid will become a blockbuster drug. In fact, there are around one million Parkison's disease patients in the U.S. alone and that number is almost five times bigger for the Alzheimer's disease. If Acadia also gets the drug approved for treating Alzheimer's psychosis, then it could open up a great new market where there are no approved drugs.

My positions on Ambarella and the Internet of Things ETF also paid off – 9.33% and 6.79%, respectively. Despite the outcome of the US Presidential Elections, shares on Cemex SAB fell on concerns about the implied damage of renegotiating NAFTA, even though Cemex could be the supplier of choice to build a Wall at the U.S. border with Mexico. As a result, my short position on the company returned 8.96%.

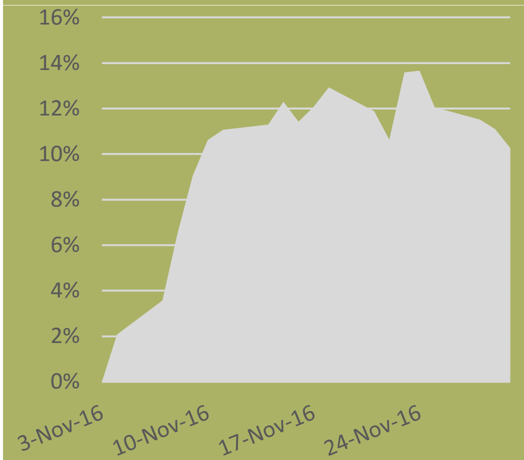
The aftermath of the U.S. Presidential Election led to a rally on the S&P 500, as investors turned to riskier assets on concerns of higher expected inflation. Indeed, proposed expansionary fiscal measures, renegotiation of trade agreements and central bank's action pressured US Treasuries. Therefore, my short position on the SPY ETF lost 5.26%.

I consider all these stocks to have strong long-term value, so I am only closing my position on the SPY ETF. Allocation was adjusted in order to benefit the most from the individual upside potential.

**Analyst:** Manuel Gonçalves
manuel.goncalves@novainvestmentclub.com

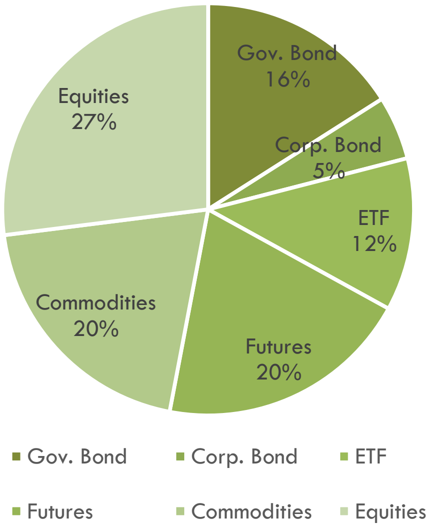
**Trade Summary:**
Long 30% ACAD
Long 25% SYT
Long 25% AMBA
Long 20% SNSR (ETF)
Long 10% LYXIB (ETF)
Short 10% CX

**Asset Class:** Equities
**Region:** Global




## 3. NIC's Fund Composition

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



# December Article

## The Case For a New Argentina

When, in December 2001, Argentina officially defaulted on USD 93 bn, world investors expected the worst for the country. A new hope was now found in Mauricio Macri, a former business tycoon who was elected President in November 2015.

Before the Great Depression, Argentina was one of the richest economies in the world. Its exports-based model worked perfectly in a time the world needed food supplies, which Argentina provided. After the Great Depression, a wave of protectionism spread across the globe and crisis burst in the country. The rest of the 20th century was not short of troubles for the Latin American giant. Populist governments and military dictatorships constantly changed in power, and a new long term economic plan was never carried out in the country.

In the 1990s, the Argentinians decided to peg the USD to the Peso, in a move which sharply increased public debt and damaged exports. Eventually, this lead to the 2001 default. What came after the default, however, was even worse. The economic turmoil cleared the way for the election of Nestor Kirchner in 2003 and his wife Cristina in 2007. Both of them were Peronists, meaning they would impose lots of populist measures. When Cristina left office in 2015, the country was an economic and social wreck: inflation was around 30% per annum, there was virtually no foreign investment due to capital controls and the once striving agricultural sector was devastated by export taxes. Utility prices were distorted by public subsidies, the State was responsible for employing a big portion of the population and the national statistics bureau was controlled by the government – inflation was officially only 2% per annum. On top of this, corruption levels grew dramatically.

In November 2015, the Argentine people cast their votes to elect a new President, and chose a different path by electing Mauricio Macri, the former Governor of the city of Buenos Aires who, for 13 years, was also the President of Boca Juniores, one of the renowned Argentinian football clubs.

Immediately after Mr. Macri took office, change was felt in the country. In less than 6 months he managed to bring currency trading back to normal, with the Peso devaluing quite significantly to its "true" market value, normalize multinational companies' activities in the country, get foreign investors promising to invest more than USD 30 bn in Argentina and, to the surprise of international markets, settle the default with the so called "vulture funds", the only ones who had not accepted the debt restructuring terms Argentina had proposed back in 2005, thus finishing a legal battle that lasted for more than a decade. Mr. Macri and his team have also launched a large scale programme to renew the country's infrastructure, building roads and restructuring airports, in an attempt to help exporters.

Argentina has the potential to be one of the biggest food producers in the world, with great geographic and climacteric conditions, and a strategic location which allows the country to export its products. It also has one of the biggest shale oil reserves on the planet and a considerable potential for renewable energy production. Nonetheless, this is not going to be an easy path to trail. Inflation is still stubbornly high and it will take time until the Argentinian families feel the results of Mr Macri's structural measures. This represents a big challenge, as Argentinians have traditionally shown low levels of patience. It is up for them to decide: will they want to grasp this opportunity, or will they fall for the populist trap once more?


### Author

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