

The NIC Fund

Fund Performance Commentary

SEPTEMBER 20
2010



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Market Review

Equities

Stocks pushed higher last week in the US, with all the major equity Indices climbing up more than 1%, making this the third consecutive week of gains, and placing major averages now on the black for 2010. The S&P and the Dow picked 1,4% while Nasdaq surged up 3,3%. This movement was helped by the better than expected data that came out on China in the beginning of the week, as well as readings on retail sales for August and the industrial output Index in the US.

This contrasted with the scenario in Europe, where all major country Indices closed the week on the red, with the FTSE 100 drawing back 1%, in line with the DAX and the CAC that receded -0,8% and -1,2% respectively. The Portuguese Index PSI 20 performed along with its main references, losing -1,3%.

Asian markets followed the US trend; the Nikkei climbed 3% to 9626 points. The HSI climbed to 21970 points during the week, reflecting the data coming out and the perception of investors that the outlook may show up brighter than expected in the coming weeks.

Emerging markets continued the rally initiated in the beginning of the holiday season, as the dimmer prospects of a double dip increase the investor's appetite for risk and diversification

Fixed Income

US Treasury Yields kept steady, with the exception of the two-year, which declined 10 basis points, now trading steadily below the 0.5%. In Europe concerns over Greek and Portuguese debt pushed the CDS rates of both countries up, while the benchmark German government bonds were unaffected. The unexpected intervention by the BoJ, the first since 2004, induced noise in the indu Japanese bond markets, negatively the yields for all maturities

Commodities

Gold prices pushed to new all time highs, moving above 1282 for the first time ever. This trend is being fed by ETF trading over the yellow metal and increased demand for jewelry purposes in China and India. Silver also rose during the week, but not enough to shrink the gap between the two precious metals prices recent evolution. Brent seems to have stabilized around the \$75 a barrel mark, with WTI Crude Future fixing at \$73,8 on Friday. Agricultural in general also pushed higher, with emphasis on Cotton. The S&P GSCI Index recoiled slightly, however, reflecting the belief that the recent commodity prices escalate may have come to a peak.

Currencies

In FX the spotlight fell over the repercussions for the Yen from the intervention of the Bank of Japan. The question arising was whether the Japanese currency would continue to deteriorate or invert that trend, but evidence seems to point down, especially after the BoJ refrained from intervening a third consecutive day. The JPY dropped against all major currencies. The EUR/ USD is now trading again at the 1.30 levels. The risk-on sentiment has come back to the markets, in an overall trend for the weakness in the USD.

Diogo Lencastre

diogolencastre@novainvestmentclub.com

Nuno Luis

nunoluis@novainvestmentclub.com

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Performance Monitor

The performance evolution of the NIC Fund is evaluated since inception, meaning from September 1 to 17. The analysis is structured as a general comment on absolute return and risk statistics, followed by a discrimination of key performance drivers against the market development during that time.

Absolute Performance

Over the period under review, performance was a positive total return of 72 basis points, over a standard deviation of 0.85 (non-annualized measures). These figures reflect a strong decline in portfolio value in the end of the last week, after a peak value of total accumulated return accounting to 389 basis points was achieved in the 13th. Furthermore, we deem of the most importance the fact that there were only 25% of days with negative return.

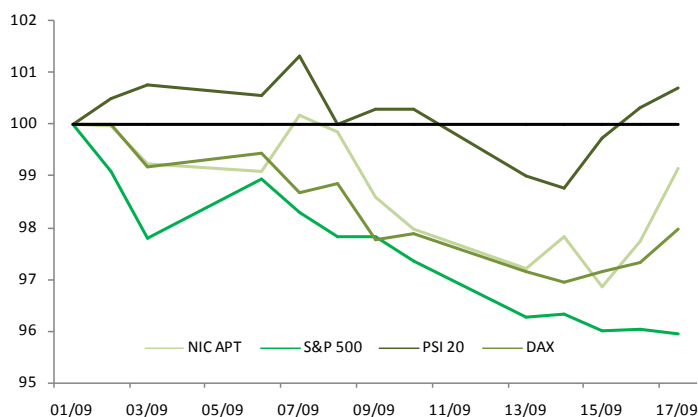
Benchmark

The main reference Indices for benchmarking had a mixed behavior over the same period. The S&P performed quite above our portfolio rounding the 4,1% mark, while the DAX stayed at a more modest 2% and the PSI 20 lost 73 basis points. This outperformance of the Portuguese index is worth our attention, and therefore we focus on this benchmark to identify performance key drivers.

Key Drivers of Performance

Asset Allocation was the most important was responsible for most of the out-performance (234 b.p.), given the general bullish trend followed by equity markets during the period. Selection also added some value, although to a smaller extent (188 b.p.), but we believe that in the medium run this effect will surge with more relevance. Currency exposure penalized the return (-180 b.p.), and we take from here as a lesson the importance of FX risk hedging for future trades. Interaction was to blame for the remaining underperformance. This scenario held true through all three weeks under review, although with changes in intensity, except for the second week when all effects had a positive contribution to outperformance of the benchmark.

Regarding selection, the securities that most drove up the portfolio overall performance were the triple leveraged indices FAS (10.87%) and UPRO (9.39%), contrasting with the straddle strategy on the S&P 500, renewable energy equities (avg. -3.9%) and the Barclays Aggregate Bond Index (-2.05%). On the second week the star performer was Raven Russia (3.89%) and S&P GSCI (3.37%) and during the last week GAM SM (2.48%) and the Gold ETF (0.91%) were the only securities with a positive total performance.



Summary Statistics

Total Return: 0.72%
Standard Deviation: 0.85
Sharpe Ratio: 1.52

Peak Return at 13/09: 3.89%
 Total Return Week 1: 1.09%
 Total Return Week 2: 1.59%
 Total Return Week 3: -3.09%

PSI 20: -0.73%
 S&P 500: 4.11%
 DAX: 2.01%