The NIC Fund

The first round of trades is out

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Nova Investment Club

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Market Outlook

As Summer Holidays came to an end, uncertainty returned to the markets during the beginning of September…

Mixed data coming out on the main indicators in the US and Europe, together with the monetary policy changes in Japan and the cooling down of the Chinese economy, point in no concrete direction for the near future. The political scenario adds up to this climate surrounding the financial markets, namely through the worsening of geo-political tensions and conflicts in the Middle East and South America.

…with the end of the silly season marking the beginning of a strong rally in commodity prices…

namely cotton, wheat and precious metals reflecting the strong demand of developing countries amid their increasingly solid recovery when compared with more developed economies.

…while Equity Indices in general keep underperforming…

the bullish sentiment that was rising months ago is now being replaced again by fears of a recovery longer than expected, triggered by the difficult conditions observed in some European countries. Regarding the business world, August was the hot month for M&A operations.

…and interest rates remain at abnormal levels.

mirroring the lack of confidence that investors still have on the recovery of the economy. Rating agencies keep a negative outlook for Portugal, Spain and Greece in particular.

Investment Strategy

The NIC members, faced with this outlook, adopted different views on how to take advantage of the expected upcoming market developments. The sentiment was in general bullish, the asset classes diversified, and the logic quite straightforward.

There were four major approaches. The first one was commodity related, amid the strong bullish sentiment surrounding this market, namely the securities chosen. There were also some cherry picked equity sectors and/ or geographical regions. Still in equities, Index correlated trades were also among the preferred strategies, whether across countries or across sectors. Lastly, a bet on volatility using derivative instruments was proposed by one member, aiming at capturing movements in either direction in the markets.

Our expectations for this first set of strategies combined is quiet modest, given the limited knowledge and access to market information that NIC members have. We do believe however that during the next four weeks it will be likely that there is a strong correlation between the major financial headlines and the key drivers of success of our portfolio, showing a correct assessment of the current scenario by the members that constitute this Fund.

This report is organized as follows: each strategy proposed is summarized in one page, according to the instructions given by the proposing member. A contacts section is contemplated in the end for any further clarifications.

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Renewable Energies Undervalution

Diogo Lencastre

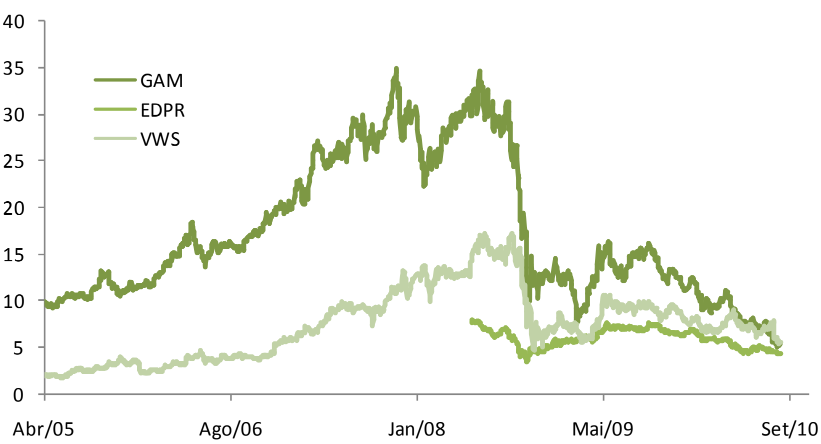
The rationale behind the trade hereby proposed is the undervaluation of the Renewable Energies sector in Europe, which is expected to lead in the medium run to a rally towards fair price.

After a bright start in the early 2000's the sector experienced a period of uprising investment that lasted until the burst of the sub-prime crisis. Afterwards, investors retreated from equities in general and this sector specifically with more emphasis for the high risk it bears, and in my opinion penalized more than was due some of the main Renewable Energy companies. A simple fundamental analysis supported by the observation of prices evolution hints at the fact that the potential that some companies have is not being recognized in the traded price. (See chart)

On the other hand, and to mitigate the price risk inherent to the undiversified equity exposure, this trade comprises a currency component.

The reasoning for this FX bet is the expectation of a fastening recovery by the European countries in comparison to the United States economy. Although in the last 12 months the US apparently recovered stronger than Europe, I believe that this was due mostly to the fact that the crisis first started there and only gradually spread to Europe (and the rest of the world). If this is true, the European economy is one step behind the American and in this line of reasoning is only now entering the boom phase of the recovery process that the US experienced in the recent past. Moreover, the EU countries will benefit from the fact that this step of the recovery will take place for them at a time where the world economic environment is not so deeply in crisis as it were months ago. This will be obviously felt with more intensity in countries with stronger economies, such as Scandinavian countries and Germany.

As a benchmark for this trade, I propose Eurostoxx 50. In absolute terms, given the normal evolution of world markets according to expectations, this should mean a positive return for a 22 trading days period in the range of 3 to 10 percentage points. The annualized daily standard deviation should not underpass 35%. These estimates have no concrete foundation.



Trade Summary

Asset Class: Equity + Currency
Region: Europe
Sector: Renewable Energies
Benchmark: DJ Eurostoxx 50

Positions

Gamesa Corporacion: Long 30%
Vestas Wind Systems: Long 20%
EDP Renováveis: Long 20%
DKK/ USD: Long 15%
EUR/ USD: Long 15%

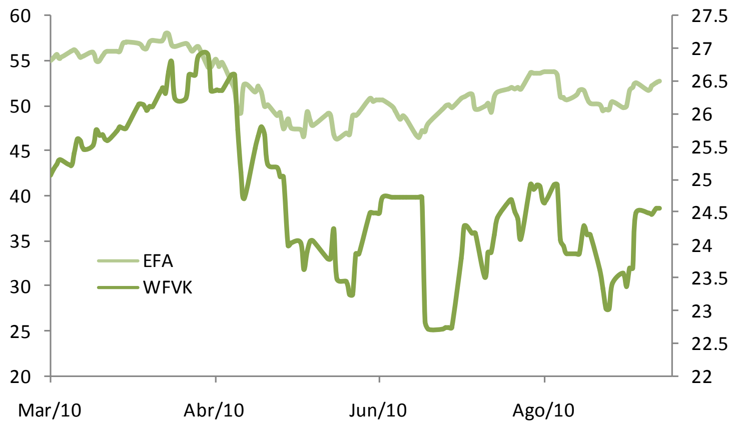
Simple US Equity with ETF's

Filipe Sodagar

Given the fact that this is the first strategy proposal, I opt for something very low risk and simple, betting bullish on Equities worldwide with a strong focus on the US market. A fixed income component is also inserted as to diversify the strategy, focusing also in the North American Market.

The instrument chosen are all broad ETF's, aiming at reducing the risk inherent to each position by means of the diversification effects achieved in this sort of vehicle.

For the future I would like to explore more complex ETF's, namely Merger's Arbitrage related ones, for I think that "August was the booming month for M&A" and that will reflect in a lot of opportunites for arbitrage arising in the markets.



Trade Summary

Asset Class: Equity + Fixed Income
Geographical: US
Instrument: ETF Indices
Benchmark: S&P 500

Positions

Wilshire 5000 ETF: Long 60%
iShares MSCI EAFE ETF: Long 20%
BarCap Aggregate Bond Index: Long 20%

Emerging Markets and Commodities

Jorge de Mello

With the recent announcement of the $50 Billion budget by President Obama, I would be more risk averse during this period. If on the one side this kind of policy could mean that we are living the begining of the end of the crisis and this kind of policies will finally boost the economy, some other people are more skeptical about it and consider it just another desperate attempt to show that the American Government is doing something.

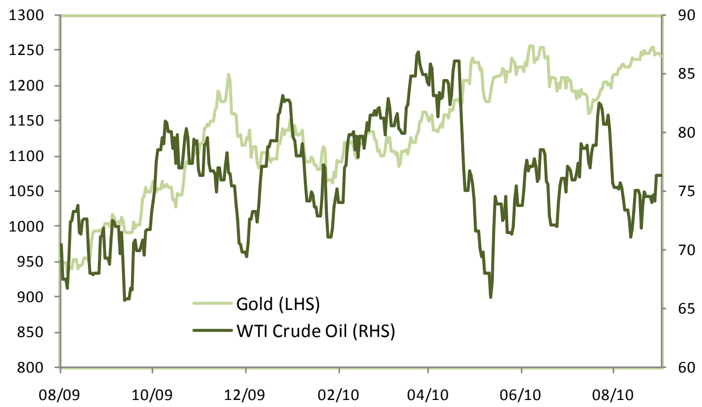
Therefore I would go for:

- 40% long on gold: it has gone up 14% since the beginnig of the year and since uncertainty is here to stay, I believe gold's price will still rise;

- 20% long on ETF Chile: Chile is the 1st copper exporter wolrwide and the price of the mineral has been rising, and is expected to grow even further;

- 20% long BRIC ETF: those are the countries that totally recovered from the downturn (even Russia, which had a more difficult recovery, is expected to grow 4,3% this year)

- 20% short on oil. I saw an article today on the newspaper stating that the price of oil would decline since normally, before summer the oil price rises due to an increasing demand caused by people's holidays and trips. Since the "driving season" is now over, there is a big expectation of increasing stocks and therefore the price is expected to rise. I found this theory interesting but I don't know how reliable it is...



Trade Summary

Asset Class: Commodity + Equity ETF
Geographical: Emerging Markets
Sector: Metals
Benchmark: NA

Trade Summary

Gold: Long 50%
Chile ETF: Long 40%
BRIC ETF: Long 40%
Oil: Short 30%

Real Estate and Restructuring

Mariana Marques

With every downturn, there is always a nearby

Although most countries seem to be economically stagnated, there are still opportunities to take advantage of the recent tragedy that has anguished the markets. My 50/50 equity position is underpinned on the market recovery of two important players in the world economic environment: United Kingdom and Russia. I intend to deviate from the most perceived movements in the most attractive markets by having a more heterodox approach.

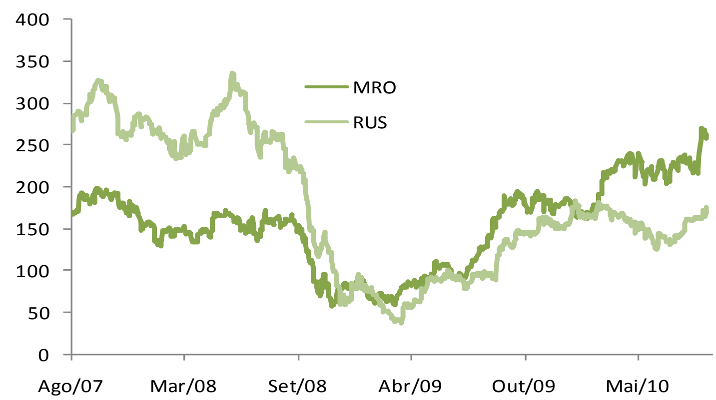
The need for understanding and expertise is now greater than ever

There are different aspects that will challenge the UK economy in the near future like rising energy and materials costs, taxation and government policy shifts. Still, as confidence in a sustainable recovery grows, the UK capital goods sector is likely to see high levels of M&A activity.

Melrose (MRO PLC: London) is a British based company that acquires under-performingc industrial businesses. It intends to invest in them to fully exploit their operational and strategic strengths so that in the end businesses can be sold and deliver value to shareholders. As it is stated in the company's official website "external economic and financial factors are far from settled and as such have the potential to cause a setback to the recent economic recovery". Its interim results were much better than expected, namely in terms of EPS and operating profit. With signs that the market for disposals is gradually returning, the management team continues to actively seek acquisitions. Therefore, Melrose is one of the expected top picks in the UK capital goods sector.

The need for a solid position to capitalize on the market recovery

Russian last month slowing pace of production and investment that reflected the adverse weather conditions is believed to be a one-time-effect. Due to the recovery in oil prices and the increased macroeconomic stability, real estate investments in Russia are expected to increase this year by a significant amount. In addition, real estate transactions are quoted and paid in US dollars. Since the ruble is expected to continue to appreciate over the next months, property prices and rents will definitely increase. Raven Russia (RUS: London) is an investment company, focused on acquisition and development of Class A warehouses in Russia. According to BofA Merrill Lynch Research, it is one of the best investments in Russian real estate mainly because of the "de-risked defensive income stream, which should translate into compelling dividend yield in the next 12-18 months". Its sound strategy of gradual expansion underpinned on long-term debt maturities provides balance sheet capacity to capitalize on the market recovery.



Trade Summary

Asset Class: Equity
Geographical: UK + Russia
Sector: Real Estate + Private Equity
Benchmark: DJ Eurostoxx 50

Trade Summary

Melrose Plc: Long 50%
Raven Russia: Long 50%

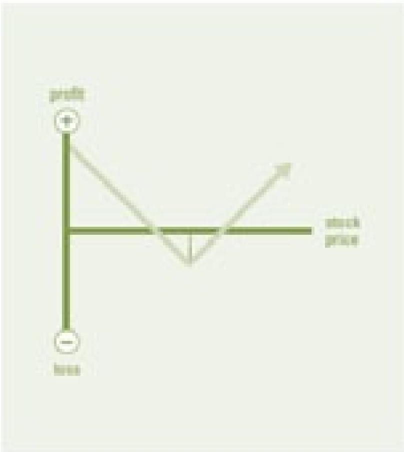
Volatility on the US

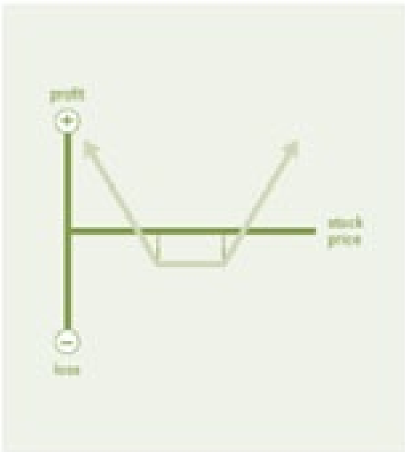
Martim Cantante

For this month of September right after the end of the Summer holidays I propose a very simple strategy that consists in trying to take advantage of the higher volatility perceived in the Equity Markets these days. By Equity Markets I rmean the S&P 500 for I believe the options available over this Index are more liquid than for any other.

I have no specific reason or argument strong enough as to to justify this bet in the increasing volatility, unless perhaps for the fact that holidays just ended and traders all around came with an "eargerness to press the button", increasing trade volume and market depth, which leads to uncertainty in their actions. Besides, I think that the impact of news coming out will be deeper than usual.

The strategy I propose is therefore a long straddle and/ or a long strangle as depicted below.





Trade Summary

Asset Class: Options
Geographical: USA
Arbitrage: Volatility
Benchmark: NA

Positions

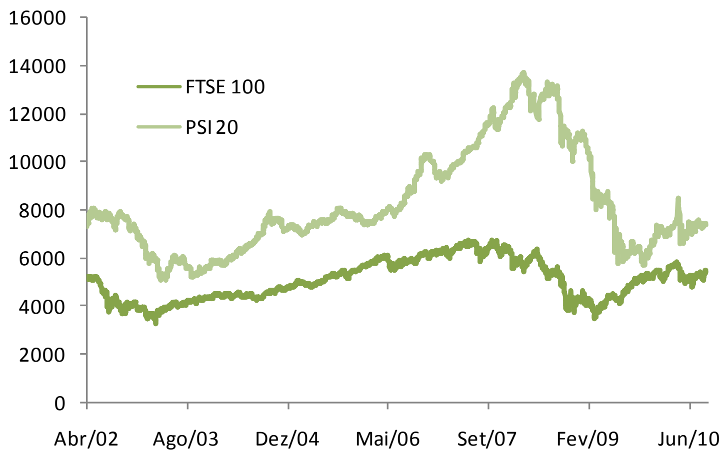
Call Option S&P 500: Long 50%
Put Option S&P 500 : Long 50%

European Equity Spread

Nuno Ibérico Nogueira

We should take a long position on FTSE100 ETF's along with a short position on PSI20 ETF's, in a 1-year time horizon.

This comes from the expected impact of the almost opposite political situations in Portugal and the UK - the Portuguese PM has shown to be prone to get involved in harsh political clashes while succeeding in barely any significant reform, while the British PM is clearly set on a striding reformist path that seems to be pointed towards creating a sounder economical environment. This will probably be felt in the markets in a not so distant future, and the main risk we would be exposed would be the devaluing of the British Pound Sterling. The historical record of the Bank of England shows that it tends to keep low interest rates for longer periods than the European Central Bank in order to give additional stimulus to the economy, thus devaluing the GBP, and we should hedge this risk by selling GBPEUR Futures.



Trade Summary

Asset Class: Equity + Currency
Geographical: Europe
Instrument: ETF's + FX Futures
Benchmark: DJ Eurostoxx 50

Positions

FTSE 100: Long 100%
PSI 20: Short 100%
GBP/ EUR: Short 100%

Another take on Commodities and EM

Nuno Luís

The disappointment in the pace of the economic recovery of developed markets has led investors to seek some diversification.

The fading possibility of a global double dip and the sustained solid outlook for the emerging markets raises to prospect for a reshaping of the demand pattern for commodities.

One can clearly see pressures for the build up of commodities' prices, a market still depressed after the events of 2008. Physical demand in these areas for metals (investment in networks, equipment and infrastructure) and grains and livestock (as a result of improving quality of a life and a fast population growth rate) s likely to increase in the short to medium term, driving prices upwards.

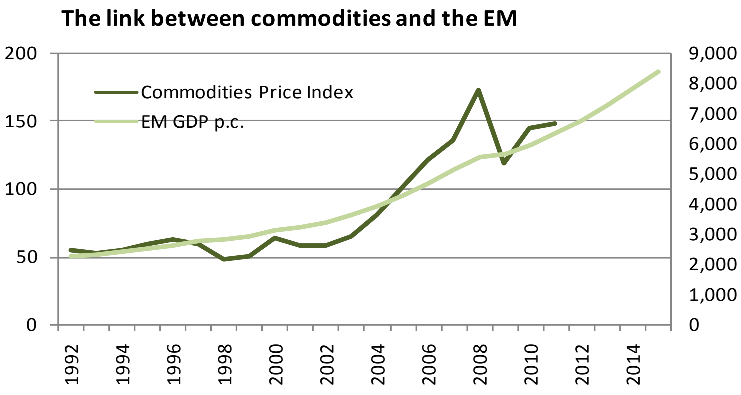
My suggestion is to get exposure to a liquid tracker of commodity flows (such as the S&P GSCI), in order to capture the leading role of the EM in the aftermath of the economic crisis.

Trade Summary

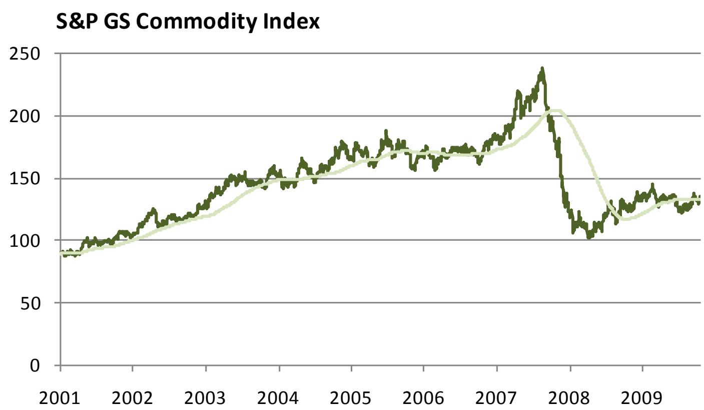
Asset Class: Commodity
Geographical: Emerging Markets
Instrument: Indicator Tracker
Benchmark: NA

Trade Summary

Long 100% S&P GSCI Index



Source: IMF (WEO); Note: Estimates from 2010 onwards.

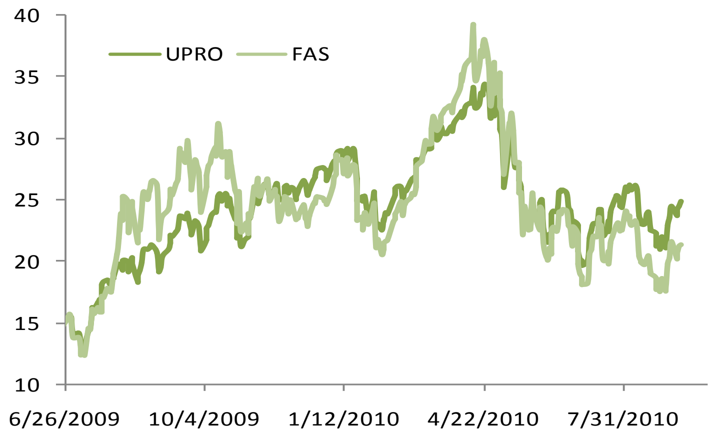


Financials Spread

Tiago Lourenço

I believe FAS' (3x Financials ETF) current level is too low, when compared to UPRO (3x S&P ETF). As one can observe in the picture, the correlation between FAS and UPRO is very high. Since mid-2009, this correlation was around 92%. While UPRO is very close to its average level from the last year, FAS is considerably below. The UPRO/FAS ratio is almost 2 standard deviations above its 1-year historical mean.

Thus, my trade proposal is Long FAS + Short UPRO (hedging eventual market drawdowns as well, as when using 3x ETFs these are highly amplified). I'm expecting to see the ratio converge again to its average level as the financials (portrayed on FAS) will stay highly dependent on the state of the economy (which moves UPRO).



Trade Summary

Asset Class: Equity ETF's
Geographical: US
Sector: Financials
Benchmark (absolute): 15%

Trade Summary

FAS: Long 100%
UPRO: Short 100%

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