

The NIC Fund

Student-run Virtual Fund

1. Description

One of the main objectives of the **Nova Investment Club (NIC)** is to stimulate and provide knowledge regarding empirical finance research and portfolio management. In this line of reasoning the Club creates hereby a two-folded virtual fund, comprised of two separate portfolios, each with a different management approach, named **The NIC Fund**. The NIC Fund will be hereafter mentioned after the designation of Fund only, whenever appropriate.

The Nova Investment Club will develop all the documentation needed for the management of this type of investment instrument. This includes a monthly factsheet with the main Equity Research recommendations and the evolution of this portfolio's performance. The NIC report will also include the performance of the second portfolio, as well as a consolidated balance sheet of both portfolios composing the Fund. Regarding legal issues, given that this will be a virtual fund involving no real money or participants, no requirement is imposed by law. Nevertheless, minimum quality standards of information, namely regarding the Management Company, Fund Managers and Investment Policy will be published at the date of inception and updated periodically.

2. Fund Objectives

2.1. Investment Objectives

- Achieve a high real rate of return with emphasis on capital growth as opposed to stable income streams;
- Capital growth is to be obtained by any available instrument in the financial markets, with no restriction regarding the risk parameters;
- Preserve the capital of the NIC Fund, to the extent that is possible.

3. Management

3.1. Legal and Institutional Disclaimer

The NIC Fund is a pure virtual fund, with no real implications, excusing itself by this reason from fulfilling any kind of legal requirements established by law. The Management Team or any other NIC member or equity research author are not responsible for any wrong interpretation, whether it be in the form of recommendation or advisory, or other, that may be done by investors using the information and decision taken in the sphere of the Fund's activity.

The role of the decisions, research and other information done is only pedagogical and must not be interpreted as true or even as a hint. Anyone who does so cannot claim liability with the Nova Investment Club or any other intervenient in this process.

13
AUGUST
2010

nic Nova Investment ClubTM
www.novainvestmentclub.com

www.novainvestmentclub.com

Diogo Lencastre

diogolencastre@novainvestmentclub.com

Filipe Sodagar

filipesodagar@novainvestmentclub.com

Nuno Luis

nunoluis@novainvestmentclub.com

Table of Contents:

1. Description
2. Fund Objectives
3. Management
4. Participants
5. Investment Strategy
6. Performance Monitoring
7. Trading Platform

3.2. Management Company Details

The Management Company role is represented in this fund by the Nova Investment Club, recognized as a non-profit organization by the Portuguese legislation.

Due to the virtual and legally disclosed nature of the NIC Fund, the interpretation of the Management Company must not be seen from a legal perspective, but merely as the entity that develops this activity.

The Management Team is composed by all Nova Investment Club members. The role of the Management Team is to prosecute the objectives described for the existence of this investment tool and cannot be extended further than that, unless explicitly justified and approved.

4. Participants

4.1. The Investment Community

The objective of The NIC Fund is to provide members and M.Sc. in Finance students with a powerful and real learning tool that incorporates the output of their knowledge. In this sense, we see the target public as the whole investment community whose interest is sparked by this initiative and wishes to follow it on a regular basis. There are no requirements to these individuals, and if anything we strongly appreciate any help or useful comments that there may surge.

4.2. Distribution Policy and Commissions

As there are no returns from a virtual fund, there is also no rationale for distributing them. On this reasoning, the Fund shall compound returns adding them to the value of the Fund periodically.

In the same way, and as there are no participants or real capital involved, one could argue that it did not make sense to have commissions at all. Nevertheless, to keep the Fund as close to reality as possible, a commissions' table is defined, adding up to the other transaction costs, so that investments and their management are evaluated in gross terms and net of commissions, raising the challenge to a higher level.

5. Investment Strategy

5.1. Equity Research Portfolio

The NIC promotes the Equity Research Work Project, done by NOVA M.Sc. in Finance students as a thesis work project. The output of this research project is a series of investment recommendations with a price target, based on a detailed fundamental analysis, which reflects what the student responsible for the project believes to be the fair value for one share of the firm in question at that time within a certain horizon. Currently, this output set comprises the 20 constituents of the main Portuguese stock index, the PSI-20. During the semester, there are 4 periods in which the researchers have to present a report on their conclusion to that date, and justify it.

The goal of the ER portfolio is to use those recommendations to take a direct investment decision: buy, sell or stay neutral. As time goes by, these decisions will turn gradually into fine-tuning operations. We do not aim at evaluating

the recommendations or research work of the students; therefore our decisions should be blindly taken according to the report with no further consideration. Students are by no means responsible for the performance of their research output, not only because this is a virtual fund with no real financial implications, but also because we are not responsible for their evaluation and therefore cannot influence in any way or harm their academic grading based on this indicator.

The benchmark for the overall performance of this portfolio will be the PSI-20 Index. We believe that an ambitious but attainable performance objective can be drawn by pursuing a 250 basis points out-performance target. We reiterate however that there is absolutely no profit to take from this fund and therefore beating the benchmark is solely an exercise of consolation, mostly for the Equity Research authors.

5.2. Approved Periodical Trades Portfolio (APT)

NIC members are students that perform extensive research on their own in what concerns the overall financial markets. On this note, the Club will have its second portfolio based on trades proposed by Club members. This will be a more dynamically traded fund. The management philosophy is that each of the NIC members will propose trades in the club's monthly meetings and the three most voted trades by all the members present will be selected for implementation. These three winning trade proposals will be posted on the NIC website through a one minute video pitch for acknowledge of interested followers. The renewal of trades will then occur on a monthly basis, so that when proposing a trade, members must be aware that their investment horizon is as short as the next 22 business days. Exceptions may occur by unanimous approval only. Overall the APT Portfolio will follow quantitative portfolio management techniques as opposed to a fundamental equity research approach (the ER Portfolio)

The benchmark for the APT Portfolio is not pre-established, given that the trading strategies will be approved on a monthly horizon and they may differ the fund's characteristics each month. Therefore, along with the approval of the trades by NIC members, the appropriate benchmark will be selected in accordance with the type of investments selected for that month.

The APT portfolio will have overall more ambitious expected returns when compared to the ER portfolio. At the moment the NIC will not establish a specific excess return objective, but the fact is that the APT portfolio will be composed of strategies developed by NIC members that have a very high probability of out-performing the market.

5.3. Investment Matrix

Given the diversified and free of limitations nature of the strategies to be implemented in the NIC Fund, we impose no severe restrictions in what concerns the exposure to Asset Classes, Geographical Regions and Currencies or the use of Complex Financial Instruments. It is however advised to all strategy proponents to keep their choice as simple as possible in such a way that the rationale for their trades is clearly understood and their evolution can be monitored. Additionally, factors such as asset liquidity, tradability, lot size or transaction costs should be taken into account given that not only gross performance will be evaluated but also the net result, creating a more realistic scenario.

6. Performance Monitoring

6.1. Reporting

To keep track of the evolution of the two portfolios composing the Fund, a weekly video pitch will be published on the NIC website, describing the main market developments during the past week and relating them with the performance of the portfolios during that period.

Additionally, a factsheet will be published on a monthly basis, portraying the instantaneous picture of the Fund at the point in time it is elaborated, including performance, risk and composition data and indicators that provide followers and managers with important information regarding the overall behavior of this investment learning tool. This factsheet will be included in the Nova Investment Club newsletter, but will also be available in the website section dedicated to the Fund. In this publication, the Fund's performance will be portrayed along with a brief summary of the macroeconomic scenario at the time, in order to connect its performance and the global economic setting at the time.

As the Equity research project only lasts for one semester, and is then redone by new students, a more detailed publication will be forged, in similar patterns to those of a Report, including a more extensive analysis by the managers and the strategy providers on a pedagogical perspective.

7. Trading Platform

7.1. DIF Broker

Given that The Fund is composed of two virtual portfolios the NIC will simulate all the trading strategies and investment recommendations using an internet-based trading platform. This will be done in a partnership with DIF Broker, an online brokerage house. DIF Broker will act as a corporate partner of the NIC, allowing the Club to use its online trading platform in order to implement the approved strategies and ER recommendations. With this online tool the NIC will be able to execute all types of

orders, and use a wide array of financial products, such as Futures, Derivatives, or Commodities. An important characteristic of this platform is that it incorporates transaction costs as if the virtual account under management was real, allowing us to control for the real impact of our choices.

Do not forget to visit regularly **www.novainvestmentclub.com** for more updates.