The NIC Fund
Performance Commentary

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Nova Investment Club

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Market Review

Last Friday, the 15th, Ben Bernanke was the centre of all attentions, once again, stating clearly the position of the majority of the FOMC: to get inflation higher. The target is to drive CPI beyond the 2% threshold and retain that sustainable position. International players cheered this announcement, and stocks are expected to reflect that during the coming weeks. The other highlight of the week was the materialization of the currency war upcoming. As the Federal Reserve pushes the dollar down to boost exports, eyes are turned to the international pressure put on Chinese authorities to let go of the Yuan strict policy; and aside from that the BoJ recently intensified the QE plan lasting since '09.

Equities

Stocks rose for a sixth time in seven weeks with the Dow Jones adding 0.5% to 11062, while the S&P 500 tacked on 0.9% and Nasdaq 2.8% thanks to the positive results of the earnings season, mostly for tech companies. Other markets followed this trend, namely in Europe where the Eurostoxx 50 drove up 1,8% mirroring a similar behavior by every major country Index. The PSI 20 was no exception and pushed higher to 7811 points. Emerging markets, namely China seem to be losing some momentum as investors capitalize on the gains and search for safer investments under increasingly uncertain conditions.

Fixed Income

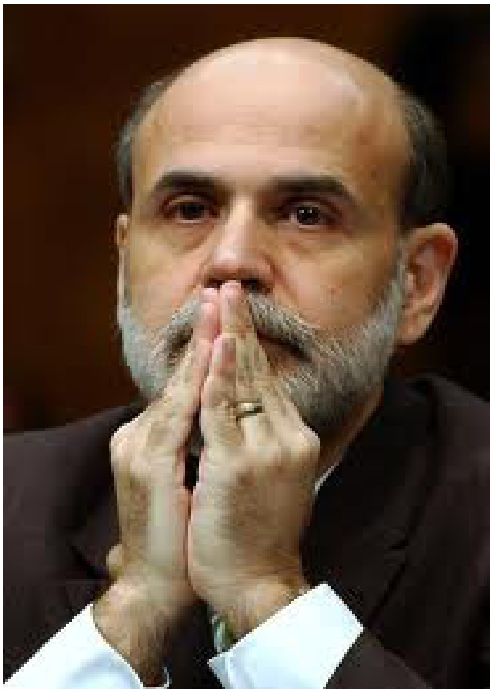
Long – term rates have hit the bottom low in the US, with the 30-year reference mortgage yield hitting 4,19%. On this scenario, investors are starting to sell treasuries and the yield on the 10-year rose from 2.39% to 2.57% this week, also because of some lousy Treasury auctions that lifted yields across the spectrum, . Deflation fears are being revealed and investors anticipate a weak impact from upcoming monetary easing policy actions. A recognized financial commenter recently accused EU investors of letting animal spirits affect their judgment and artificially increase the sovereign risk effects on bond prices. Japan seems to be losing the momentum induced by last month's central bank intervention, and the markets expect a further move, towards the '82 level.

Commodities

Commodities prices continue to surge, although companies start having a hard time on passing these increased costs to final consumers, anticipating the end of this rally. Cotton, copper, corn, wheat, sugar, all hit historical maximums last week. The scenario for food is slightly different, being motivated by bad crops mostly in the US and Brazil which are raising fears of a world supply crisis. Finally, a major oil trader has cursed the price to hit the $100 barrier soon, while gold seems to be stabilizing around the $1350/oz mark.

Currencies

The major currency war that everybody tried to avoid lately seems to be here to stay. As the FED juices exports and anticipates easing monetary policies, China seems the only country in position to face the US in this battle. While the Chinese government stared patiently earlier this year when the Euro zone was hit by a major crisis and took the necessary fiscal measures to solve it, they do not seem willing to take the same passive and cooperative attitude this time. In the meanwhile, effects of the BoJ selling of 2 Trillion Yen last month seem to begin losing shape. These are troubled times we are leaving in.



Performance Monitor

Overall Portfolio

Over the period under review, performance translated into a positive total return of 229 basis points, over a standard deviation of 2,38% (non-annualized measures). Positive days accounted for more than half of total under observation, and the peak daily return was achieved in 5 of October at 1,7%.

Benchmark

The main reference Indices for benchmarking had a strong bullish behavior over the same period. The S&P performed at the 260 basis points level, as well as the european reference Index the Eurostoxx 50, and the PSI 20 leveraged on international gains summing up 2,9% during the period in consideration. The MSCi Emerging Markets index gained 2,8% during these 11 days, but we find it worth noticing that only one quarter of those days were positive, showing high volatility levels and gain concentration.

Key Drivers of Performance

This month, after the terrible impact of currency exposure induced in our portfolio by the use of ETF's, we fully hedged our position through the use of currency trading. Therefore, currency effect played no role in our performance, so it was all due to Allocation, Selection and Interaction. We deem it more relevant therefore to emphasize the value addition of strategies and not effects in this case.

The highest over performance in terms of absolute return was achieved by Nuno Luís, whose strategy benefited from a single day natural gas price drop of more than 13%. The lowest volatility belongs to Mr. Sodagar, whose apparently volatile M&A etf concentrated strategy shown up quite stable with no variations over 0,5%. The highest Sharpe Ratio was attained by Diogo Conceição however, managing to combine two different strategies with positive and complementing returns in Oil companies and M&A arbitrage. All other members performed considerable well, contributing to the excellent overall outcome of our portfolio so far.

Summary Statistics

Total Return: 2,3%
(annualized: 54,1%)
Standard Deviation: 2,4%
(annualized: 11,5%)
Sharpe Ratio: 4,69

Highest Performers:
- Return: Nuno Luís (16,5%)
- Low Vol: Filipe Sodagar (5,4%)

Benchmarks:
- PSI 20: 2,9%
- S&P 500: 2,6%
- Eurostoxx 50: 2,6%