SIERRA

SHARD FUND

A JOURNEY ACROSS FINANCIAL MARKETS

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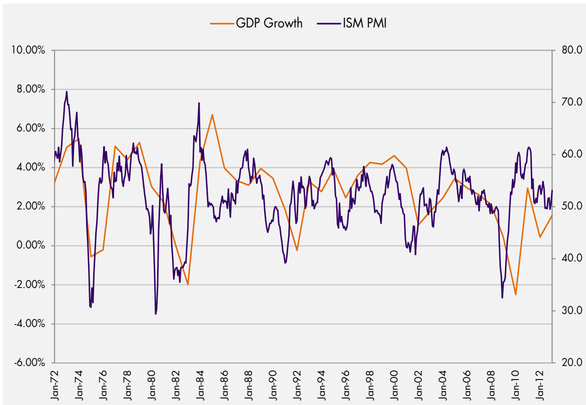
USA

Are we there yet?

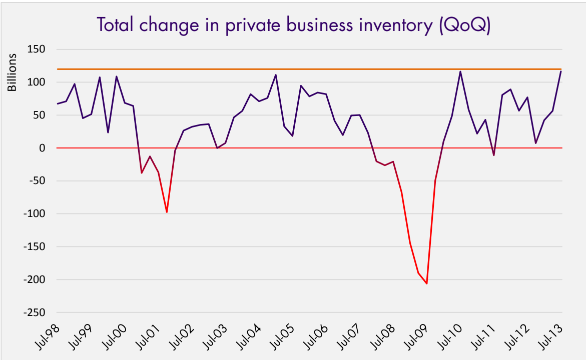
As we promised in the previous issue of Sierra, the past week has been really busy and quite frankly, really exciting. We've looked at a ton of data, most of which exceeded expectations. The past week came at a very interesting time, when US indices (specifically the S&P 500) looked quite overbought from a momentum's perspective. So, everything suggested that it would be a crazy week. In terms of performance, major indices were trending down throughout the week, but registered strong positive gains on Friday after the job's report and consequently finished the week unchanged. Only the Dow Jones Industrial Average registered a slight decrease by 0.41%.

Utilities	1.08%
Technology	0.37%
Consumer Staples	0.16%
Energy	-0.03%
Healthcare	-0.07%
Industrials	-0.12%
Materials	-0.16%
Financials	-0.42%
Consumer Discretionary	-0.72%

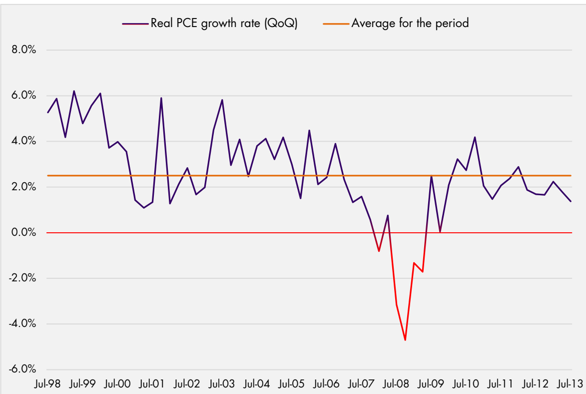
A quick look at the sectors tells us that it has been a bearish week, despite all the positive data. However, this is not a new information. Nothing lifts markets more than bad data (in the past six months).
So let's jump right into the numbers and try to analyse what they mean. The main headlines from the week were: growth in manufacturing sector accelerated, while services continued to grow at a slower pace; Q3 GDP revised up to the highest level (3.6%) since Q1 2012; unemployment rate went down to 7.0% after strong jobs report; consumer sentiment continued its uptrend. We could state comfortably that December started with a BANG, as even the bulls didn't expect such positive data. The ISM Manufacturing index continues to expand with a faster pace (57.3). Last month, we expressed some caution about a potential slowdown in the index (we also gave potential catalysts for further expansion), but we have been proven wrong. All constituents of the index, excluding supplier deliveries, grew at a faster pace, with New Orders at an almost 3 year high. Moreover, comments from respondents state that demand is unusually stronger and orders for 2014 have increased significantly. While services make around 80% of the whole economy, the ISM services index still isn't that relevant, so even though its expansion rate decelerated (53.9) the effect on the market and the economy wasn't notable.



On the other hand, the manufacturing index is closely correlated with GDP and could be used as a good leading indicator. Considering the further acceleration of the index in Q4 and comments by specific industries, we believe the GDP print for the last quarter won't be below 1.5%, as predicted by many institutions. The revised GDP number confirms a very strong third quarter as well as year. It is the third consecutive increase on a quarterly basis, as well as the highest since Q1 2012. The upward revision was solely driven by private inventory investment. This questioned immediately the relevance of the number, as quarterly growth excluding inventories is 1.9% compared to 2.1% in the previous quarter. However, why would anyone measure economic activity without inventory?



It plays an essential part of the business cycle and also reflects overall business sentiment. Companies generally expand their inventories on positive economic outlook and consumer confidence. That being said, current private business inventory is at a point which corresponds to the positive tail of the distribution (for the period used). So, normally, a mean reversion is quite typical and inventory is expected to fall.



However, simple maths tells us that even holding inventory growth at 0 for next quarters, if personal consumption expenditure returns to its average of 2.5% (for the period used) expansion per quarter, real GDP growth (QoQ) should be around 2.3–2.5% (holding everything else constant).

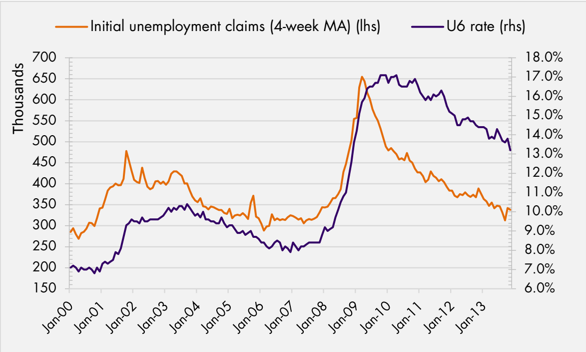
Of course, that is easier said than done, but if the general economic trend is upwards, we should see such an event in 2014. As for Q4 2013, many express worry because of the shutdown, however, neither job data, nor sector data (ISM) suggests that the influence was as severe as anticipated. Our conclusion: we expect inventory growth to slow down and consumption expenditure to stay relatively unchanged, which brings us to a number of 2.0–2.2% growth (QoQ).

This brings us to the job's report, which came quite strong, with 203 thousand jobs added and an unemployment rate of 7.0%. The trend underneath the basic numbers is also quite positive. The labour force participation rate ticked up to 63%, while the U6 rate decreased by 0.6% (to 13.2%), which is the largest drop since 1994. All this suggests that the economy is gaining pace, people are more motivated to look for work and businesses are looking to expand beyond the part-–time work force, which shows confidence. This trend is also supported by initial and continuing jobless claims, which continue to decrease. Combine that with a second consecutive increase in consumer sentiment, measured by the University of Michigan, and we get a self–fulfilling cycle. More jobs in the economy increase consumer sentiment, so demand

Companies generally expand their inventories on positive economic outlook and consumer confidence.

expands, which positively influences business sentiment and companies start creating more jobs, and so on. The current cycle still isn't as strong as needed, but we feel confident in the underlying trend.

The main question now is, what does all that mean and have we reached the point sustainable growth that allows the Fed to taper. During the summer, we expressed an opinion that the lack of consistently strong data would influence strongly the statement of



the meeting in September. Our thesis proved correct, judging by the comments made by Mr Bernanke. However, the current state of the economy tells a different story. ISM indices have been increasing since the summer and jobs creation have accelerated in the fall and prints above the yearly average (190,000). Also, quarterly GDP have seen consistently faster growth throughout the year, regardless of inventory build-up. Thus, we believe the economy has shown consistency and the Fed should act in its meeting in December or January. Moreover, officials in Washington must agree seamlessly on a long-term (more than 1 year) budget deal, which would lift confidence among businesses and consumers. However, judging by comments from Fed officials, it looks like recent data still isn't as strong as expected, thus we don't expect tapering in December. On the other hand, we haven't seen any sign of consistent compromise in Congress, so why change this time. Sadly, this may cost the economy. A lot.

Day	Country	Indicator	Actual	Forecast	Previous
Monday	United States	ISM Manufacturing index	57.3	55.0	53.2
Wednesday		ISM Services index	53.9	55.0	55.4
		New Home Sales	444K	428K	354K
		ADP Employment Change	215K	173K	184K
Thursday		GDP QoQ	3.6%	3.0%	2.8%
		Initial Jobless Claims	298K	325K	321K
		Continuing Jobless Claims	2,744K	2,820K	2,765K
Friday		Nonfarm payrolls	203K	180K	214K
		Unemployment Rate	7.0%	7.2%	7.3%
		Personal Income (MoM)	-0.1%	0.3%	0.5%
		Personal Spending (MoM)	0.3%	0.2%	0.2%
		Michigan Consumer Sentiment	82.5	76.0	75.1

EUROPE

The ring of fire.

The last 5 trading days have seen the largest negative rally in 6 months. Highly volatile and insecure, the stock market performance of the biggest economies in Europe strongly disappointed in unison with the US equity drop. The major looser this week was the CAC 40 (matching our belief about the economic sickness in France), declining by 3.86%. The DAX decreased by 2.48% and FTSE went down by 1.48%. During the week, the main pressure sources came from two directions.

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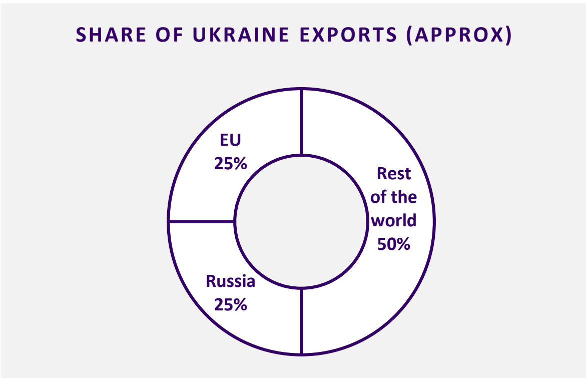
The first, as you can follow from the US part of the wrap was the publishing of some extremely important economic data, which came out strongly (increasing the speculations about the upcoming tapering from Fed), thus sinking stock markets all over the world. The second source of stress came from the ECB, on December 5th:

“Developments in global money- and financial-market conditions and related uncertainties may have the potential to negatively affect economic conditions,” Draghi said.

So, the expectations from the ECB regarding the economic development of the Continent are starting to get more negative. Moreover, it was stated that increased commodity prices, weaker domestic demand and slow export growth all posed downside risks to the outlook for the Euro area’s economy. That is providing some headwind regarding the future development of the equity markets. We believe that the investors are going to switch to “safe mode”. They are not going to take much risk before obtaining more clarity surrounding central-bank policies and more U.S. economic data for further clues on when to expect the start of tapering. There’s a bit of nervousness on the market with a bit more volatility: we head towards the end of the year with investors thinking ahead to what may await them.

The situation in the Easter Europe is not developing in the best way. The Geopolitical rivalry between the EU and Russia over

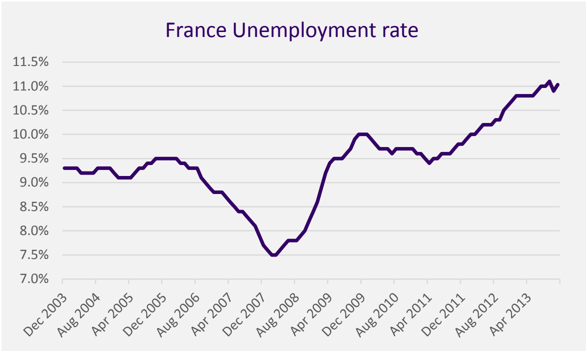


Ukraine’s future has brought Europe’s second-largest country by area to the brink of an economic crisis. Ukraine failed to sign an EU free-trade accord last week, spurning conditions attached to proposed financing from the IMF, and triggering the biggest protest since the 2004 Orange Revolution as President Viktor Yanukovych succumbed to warnings from Russia over trade and energy supplies. Russia supplies 60% of the Ukraine's natural gas. However, both stocks fell strongly. We believe that if the crises environment keeps applying pressure, we might witness new drops during the upcoming weeks. Perfect rational to start the week with some short positions in those parts of the world!

FRENCH SICKNESS

Looking at the Europe's second largest economy, France has now seen its unemployment rate rise unceasingly for 9 quarters in a row. Currently, at 11.03%, French unemployment has not been higher since Q3 1997. Despite of this the falling PMIs President Hollande is hopeful that things are turning around as he notes, France is "now in a phase of stabilization that remains very fragile." If you wonder why the rating of Mr. Hollande is going down dramatically- this gives a perfect example!

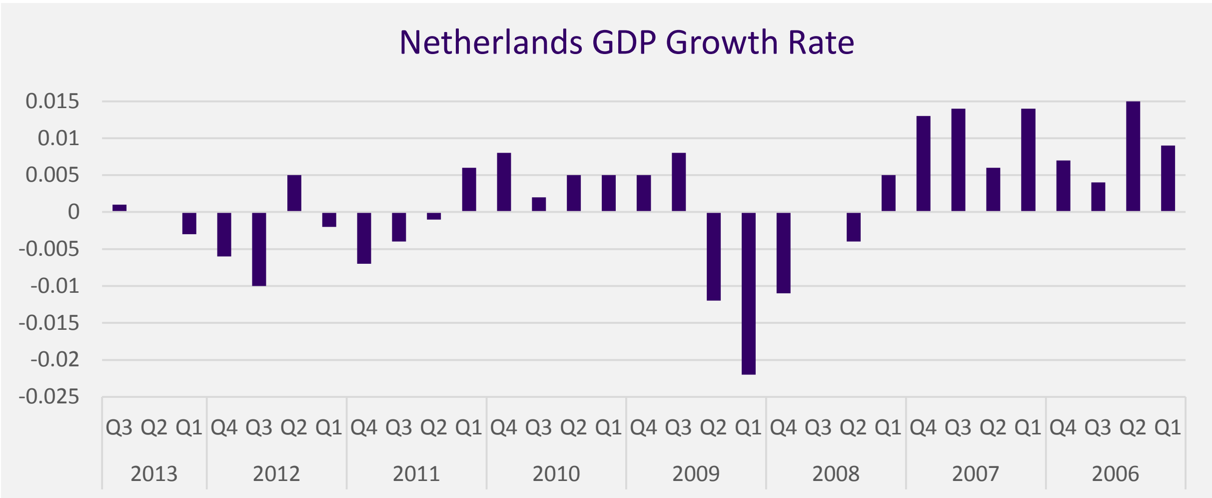
Overall, France is more likely to continue to lag behind in the Eurozone upturn. It is unlikely to descend into a deep economic or financial crisis of its own while its major neighbors and its global export markets strengthen.



However, still there is strong possibilities for short positions within the French equity market.

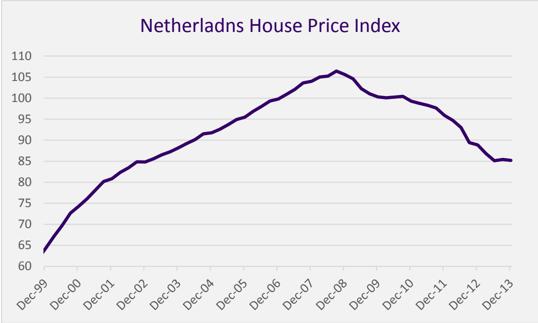
ONE MORE AAA CUT

So currently the only 3 euro-area countries with top credit rating from the three major rating companies are Germany, Luxembourg and Finland. That happened after the Netherlands loss their AAA rating from S&P, last week. That decision was prompted by a slower growth outlook triggered by falling house prices and subdued consumer spending. Regulations designed to restrict changes of opinion by credit-rating companies



are triggering a flurry of rulings on euro-area nations as their year-end introduction approaches. However, Niraj Shah, Bloomberg Economist, gives a couple of reasons why the recent cut occurred, which we consider very accurate:

- The Netherlands managed to escape its third recession since 2008 by expanding 0.1 % in the Q3. Despite that Standard & Poor forecasts GDP will remain below its 2008 level until 2017. The expectation from the IMF is that Dutch output would grow an average 1.1 % a year between 2013 and 2018, compared with 2.6 % in the 10 years before the crisis. The Dutch economy accounts for 6.3 % of euro-area output.
- The housing situation is not the best one, as well. The Netherlands is suffering the consequences of the bursting of a housing bubble. The Dutch Prices fall is the second biggest one, after Spain (28.2 % drop since 2008), fallen by 20.3 % since 2008. Related to that, the Dutch house prices rose 61.7 % between 2000 and 2008 as homeowners took advantage of mortgage interest being fully tax deductible.



- Dutch household debt was 250 % of disposable income in 2011, according to Eurostat, compared with about 125 % in Spain in the same year. The IMF forecasts the Netherlands' debt-to-GDP ratio will rise to 74.4 % this year from 45.3 % in 2007.

Day	Country	Indicator	Actual	Forecast	Previous
Monday	EU	Final Manufacturing PMI	51.6	51.5	51.5
	United Kingdom	Manufacturing PMI	58.4	56.5	56.5
Tuesday	Spain	Unemployment Change	-2.5K	49.3K	87.0K
	United Kingdom	Construction PMI	62.6	59.3	59.4
Wednesday	EU	Final Services PMI	51.2	50.9	50.9
	United Kingdom	Services PMI	60	62.1	62.5
	EU	Revised GDP q/q	0.1%	0.1%	0.1%

ASIA & OCEANIA

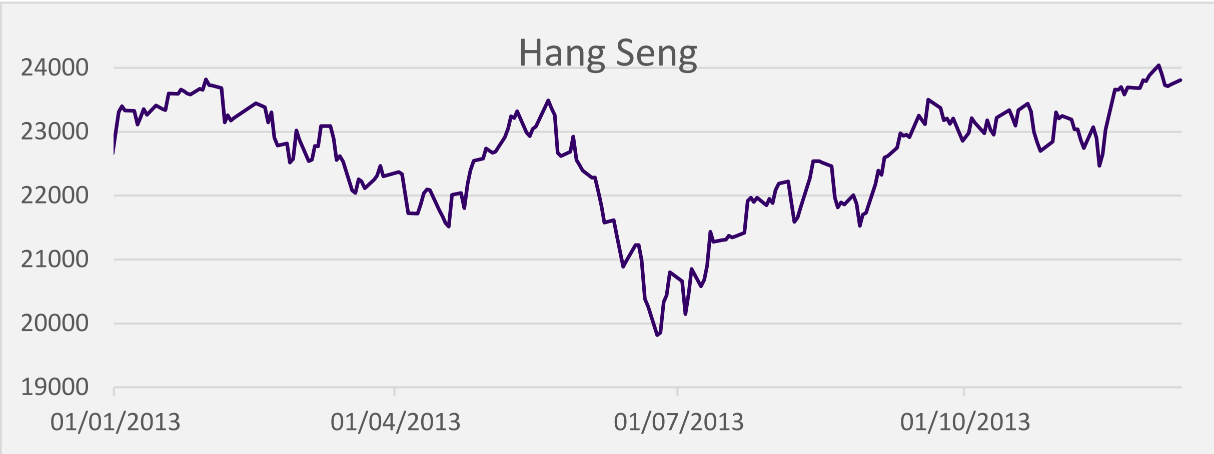
Stimulus - the new normal.

CHINA

A very politically intense week took place in China. Events such as the US, Japanese and EU governments applying pressure to the topic of the air defense identification zones and pollution issues in Shanghai, and of course FED taper expectations, pulled the Hang Seng index 0.57% lower.

Shanghai reported record levels of pollution this week, which had severe implications on markets, as well as renewing high expectation for future policy reform. China is heavily reliant on coal energy production and petrol vehicles. Hence, coal dependent stocks edged lower. We expect even further increases in the subsidies and incentives for the electric/ alternative powered vehicles and green energy producers. China's commercial hub- Shanghai is cutting back on manufacturing, trade, transportation etc. until the smog above the city is cleared. This will lead to unfavorable economic consequences.

Big news for Bitcoin investors/ speculators from China this week. We saw a BTC depreciation across the board, as Chinese officials banned BTC trade for financial institutions. The Chinese were the major players in BTC market. We see further downside potential in the longer term.



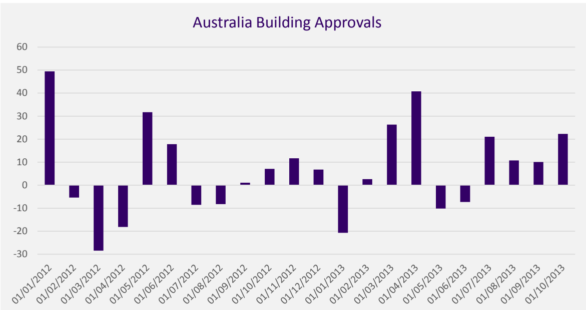
JAPAN

Japanese wages saw a decrease of 0.4%, which is a leading inflation expectations indicator. Major concerns perpetuated the market in Japan on fear that the 2% inflation target cannot be reached. The Nikkei is down 2.3% for the week ended 6th Dec.

Japan's prime minister announced on Thursday his approval of a total of 18.6 trillion yen (5.5 trillion newly assigned) boost package, aimed to reduce the impact of the tax hike next year. The spending measures will target deflationary pressures and are forecasted to translate in 1% GDP growth.

AUSTRALIA

Numerous events on the Australian horizon this week. The market edged lower this week, following its Asian counterparts. As governor Stevens of RBA stressed again this week “The Australian dollar, while below its level earlier in the year, is still uncomfortably high. A lower level of the exchange rate is likely to be needed to achieve balanced growth in the economy”. Somewhat disappointing were the GDP figures posted this- 2.3% YoY growth, 0.6% compared to last quarter. In our opinion further rate cuts from the RBA’s lowest rate of 2.5% are to be expected in the medium term. On the other hand savings are seen at very high levels, with a savings ratio of 11.1%. This paired with a rate cut in the near future would spur consumption and investment and result in higher 2014 GDP growth.



The low rates are seeing some ripple through the economy’s interest- sensitive sectors like construction. Building approvals are up 23.1% YoY (-1.8% MoM). RBA sees further increases in demand for financing. Supply of houses is limited and Chinese investments are driving prices higher (60% of household wealth), creating certain predispositions for a housing bubble. Detailed analysis of Australia’s housing market will be brought to your attention in future issues of the report. Some of the headlines this week also included renewed talks of the possible Australia- New Zealand monetary union. The possible union would exert downward pressure on the value of the Australian dollar. Both countries share a common target of devaluing their currencies.

> **“The Australian dollar...is still uncomfortably high. A lower level of the exchange rate is likely to be needed to achieve balanced growth in the economy”.**

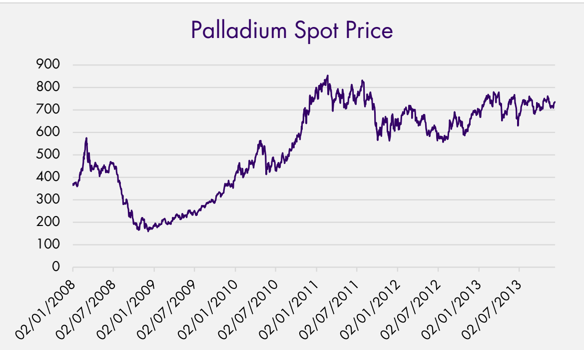
Day	Country	Indicator	Actual	Forecast	Previous
Saturday	China	Manufacturing PMI	51.40	51.20	51.40
Monday	Australia	Building Approvals m/m	-1.8%	-4.3%	16.9%
		Company Operating Profits q/q	3.9%	1.1%	0.4%
	Japan	BOJ Gov Kuroda Speaks	-	-	-
Tuesday	Australia	GDP q/q	0.6%	0.7%	0.7%
Wednesday	Australia	Trade Balance	-0.53B	-0.38B	-0.27B

COMMODITIES

Palladium shortage?

METAL

Metals have had a relatively quiet week, although the positive non-farm payroll data from the United States did cause a price reaction. Additionally, the positive data provided more incentive for the Fed to possibly begin its tapering program. This uncertainty is likely to keep metals volatile but range bounded. One of the most significant effects of the data was the fall in gold (yet again). This was significant since the further fall of gold has caused mining companies to consider hedging by selling gold that has yet to be mined, therefore locking in prices. A potential snag with this strategy, however, is that it's likely to depend upon the operating costs of the company. Since interest rates are still low, and gold liquidity isn't great, it is unlikely central banks will currently lend over the long term and as a result, options hedging is likely to be relatively expensive.



Strong demand from the auto-sector and unpredictable supply suggests a physical shortage in the Palladium market could take place as early as next year. In recent years Palladium has been in deficit as demand from the auto industry has consistently outweighed supply. Currently there is no shortage, as above-ground stocks are filling the gap. Palladium is up 4% year to date the only precious metal to

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be up. Platinum is down 12% and gold and silver have both declined more than 20%. In November, Johnson Matthew said palladium will be in deficit of 740,000 ounces this year compared to a 1.15 million ounce shortfall last year. It's likely that the deficit will widen next year; however in line with the expectations of a physical shortage. The logic behind this widening deficit and potential shortage are that it's likely there will be an increase in holdings used to back palladium ETFs, and an uncertain supply from physical owners of the metal. There are approximately 1.7 million ounces of palladium in vaults owned by ETFs in London, Zurich and NY, and the number is down 5% year to date after a 13% gain in 2012. In addition, pressure will be put onto supply as Russia's palladium stockpile has been depleted, and the high mining costs in South Africa suggested production there was unsustainable. Russia and South Africa are the number 1 and 2 producers of Palladium respectively.

ENERGY

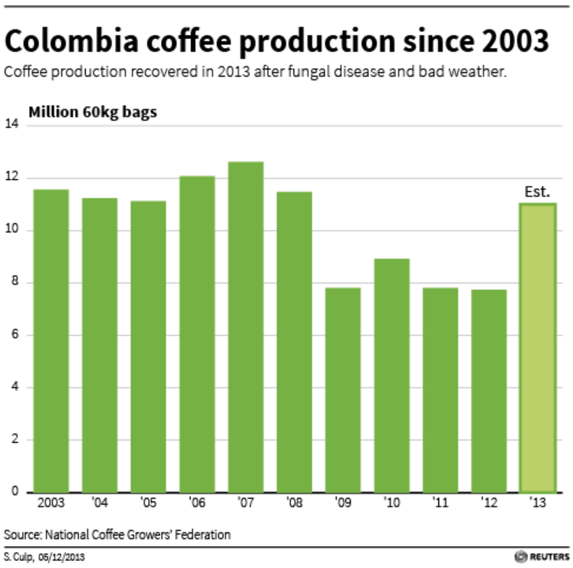
This week, U.S. government data showed Crude inventories declined for the first time in 11 weeks. Brent crude oil futures fell and U.S. crude oil futures gained, narrowing the gap between the two benchmarks to a two-week low, due to the positive U.S. economic data. This suggests a resurgence of demand for oil in the world's largest consumer. Severe winter weather has put a dent in oil and gas production, as temperatures in North Dakota are expected to reach -40 degrees Fahrenheit, following a winter storm. It's likely that these freezing temperatures and precipitation will cut power, make roads inaccessible and impede access to drilling facilities and hence a further cut in production.

One of the key issues in the coming future for the energy sector could be the emission limits that the Environmental Protection Agency (EPA) must set for coal. President Obama has directed the EPA to finalise regulations on the amount of CO2 emitted by existing coal fire power plants by June 2015, as part of the White House Climate Action plan. Drafts have been published that would limit emissions. Coal accounts for 40% of U.S. power generation, and so, if these cuts are implemented or plants are run less, it's likely to have a large effect on prices.

AGRICULTURAL

Columbia harvested 1.1 million 60kg bags of Arabica coffee at the end of November, the highest amount this year, and a 45% jump in output compared with last year according to the National Growers of Coffee association. Coffee output in Columbia, the world's largest producer, has rebounded strongly this year, as its plantations rebounded from a run of poor weather conditions, and as millions of new roya fungus-resistant trees planted in the last few years have started reaching a productive age.

India is looking to provide incentives to increase the production of raw sugar. Farm minister Sharad Pawar said "we want to encourage the production of raw sugar". Pawar explains that he favours raising sugar production to at least 4 million tonnes in 2013/2014. The increase in the production of raw sugar is largely due to liquidity reasons. Typically, India produces white sugar which is difficult to sell on the world markets; on the other hand raw sugar is much more liquid meaning it can be easily sold on the market.

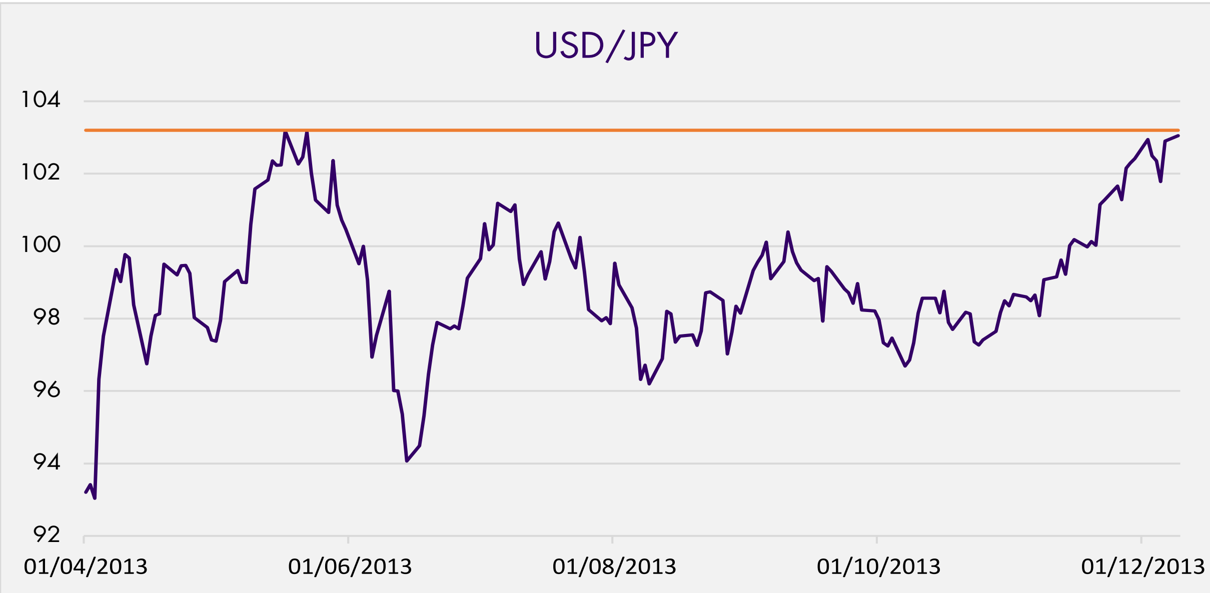


FOREX

Pair	Open	Close	Weekly %	Monthly %	YTD
EUR/USD	1.3586	1.3702	0.85%	0.85%	4.89%
USD/JPY	102.4	102.87	0.46%	0.46%	16.69%
USD/CHF	0.906	0.8981	-0.87%	-0.87%	-2.86%
USD/CAD	1.0611	1.0638	0.25%	0.25%	7.80%
AUD/USD	0.9107	0.91	-0.08%	-0.08%	-13.20%
NZD/USD	0.812	0.8276	1.92%	1.92%	-0.47%
USD/CNY	6.0932	6.0817	-0.19%	-0.19%	-1.49%
GBP/USD	1.6362	1.6343	-0.12%	-0.12%	1.76%

JPY

After breaking the summer–long pennant, USD/JPY has been increasing ever since. The pair added another 0.46% last week and finished at 102.87. Currently we are at a critical resistance point, which was tested 2 times back in May, as well as last week. The pair fell below 102, but then recovered on Friday after the strong employment report. This week we expect another test, which might be successful, if data in Japan disappoints. Also bear in mind that the FOMC meeting is next week, so in the event of no tapering, there might be more upside movements. If the price breaks that resistance, it could easily go to 110, which is a level last seen in 2008.



PORTFOLIOS

MAVERICK

security	L/S	date
Volkswagen AG	Long	03/09/2013
Starbucks Corp	Long	03/09/2013
Roche Holding AG	Long	03/09/2013
Datang International Power Generation Co. Ltd	Long	03/09/2013
ENN Energy Holdings Ltd	Long	03/09/2013
China Longyuan Power Group Corp. Ltd	Long	03/09/2013
Tracker Fund of Hong Kong	Short	03/09/2013
Microsoft Corporation	Long	15/10/2013

security	L/S	date
Nike Inc	Long	15/10/2013
SPDR Financials Sector	Short	28/10/2013
Corning Inc.	Long	23/10/2013
INR/USD	Long	04/11/2013
CNY/USD	Long	04/11/2013
BMW	Long	07/11/2013
ProShares UltraShort Lehman 20+ Yr(ETF)	Long	04/11/2013

CORTEZ

security	L/S	date
Pandora A/S	Long	03/09/2013
Aviva PLC	Long	03/09/2013
Valeo SA	Long	03/09/2013
Furmanite Corp	Long	03/09/2013
Aspen Technology Inc	Long	03/09/2013
China Suntien Green Energy Corp Ltd	Long	03/09/2013
Beijing Enterprises Water Group Ltd	Short	03/09/2013
Prudential Plc	Long	30/09/2013
USD/JPY	Long	07/10/2013
Dixons Retail Plc	Long	15/10/2013
Standard Chartered	Short	15/10/2013
Lloyds Banking Group	Long	15/10/2013
Chico FAS	Long	15/10/2013
OZ Minerals	Long	15/10/2013
Aeropostale Inc	Long	15/10/2013

security	L/S	date
H&M	Long	15/10/2013
Restoration Hardware	Long	23/10/2013
Greenhill and Co. Inc.	Long	20/10/2013
Crest Nicholson Holdings plc	Long	20/10/2013
Foxtons Group plc	Long	20/10/2013
Countrywide plc	Long	20/10/2013
Bellway plc	Long	20/10/2013
Easyjet plc	Long	20/10/2013
Chuy's Holdings Inc	Short	28/10/2013
magicJack VocalTec Ltd	Short	28/10/2013
Claymore/AlphaShares China Real Est ETF	Short	04/11/2013
GBP/USD	Long	04/11/2013
PDR Barclays High Yield Bond ETF	Short	18/11/2013
Distribuidora Internacional de Alimentacion SA	Long	19/11/2013

EVENTS

USA

- FOMC Officials' Speeches
- PPI
- Retail Sales m/m

EUROPE

- BOE Gov Carney Speaks
- ECB President Draghi Speaks
- EU Employment Change q/q

ASIA & OCEANIA

- China: Trade Balance & CPI
- Australia: Unemployment Rate
- Australia: NAB Business Confidence
- New Zealand: RBNZ Rate Statement

REFERENCES

NBS, Federal Reserve Bank of St. Louis, Bank of Japan, Bloomberg, Reuters, Seeking Alpha , National Bureau of Statistics, Berenberg, Reserve Bank of Australia

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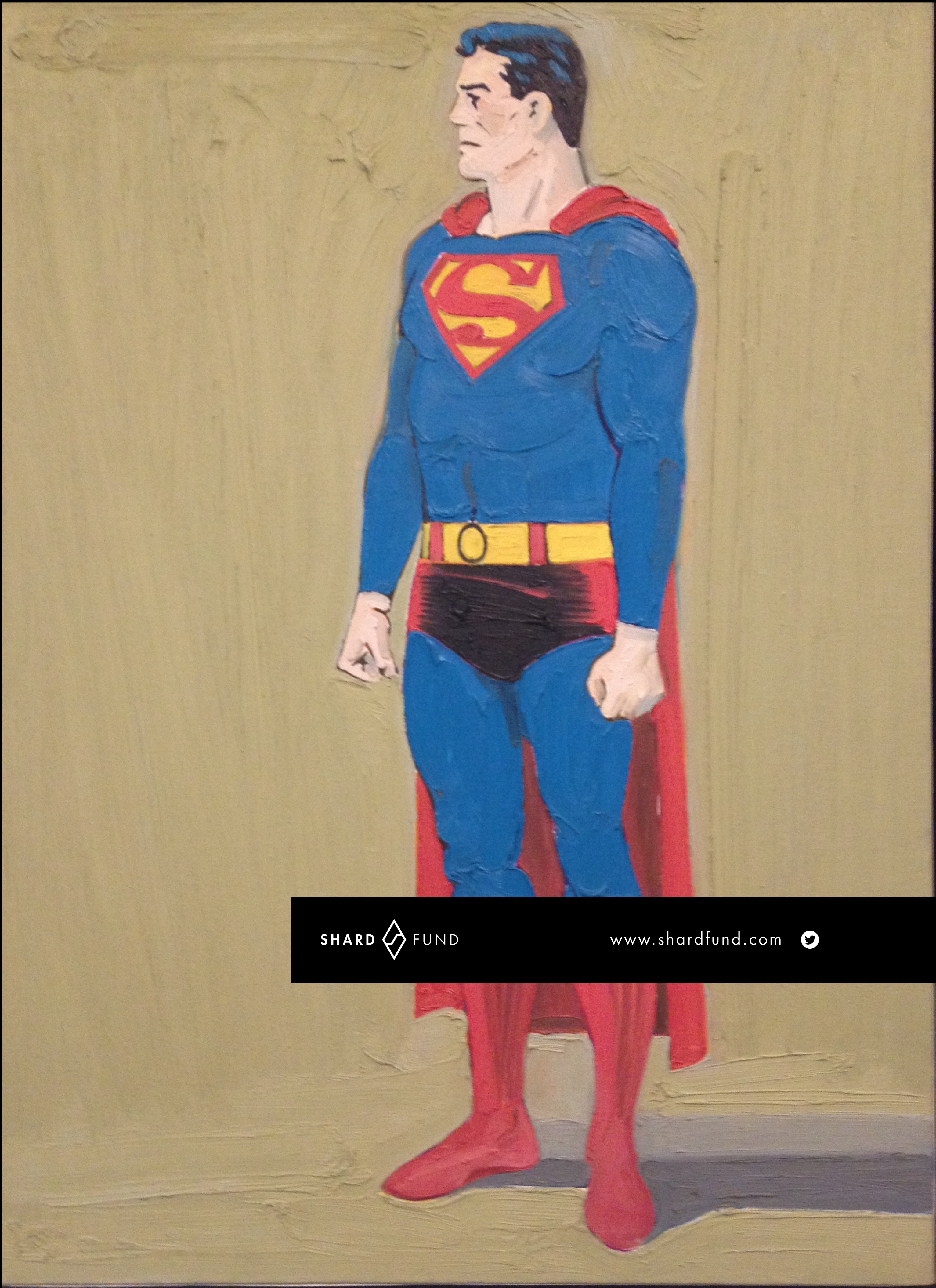

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