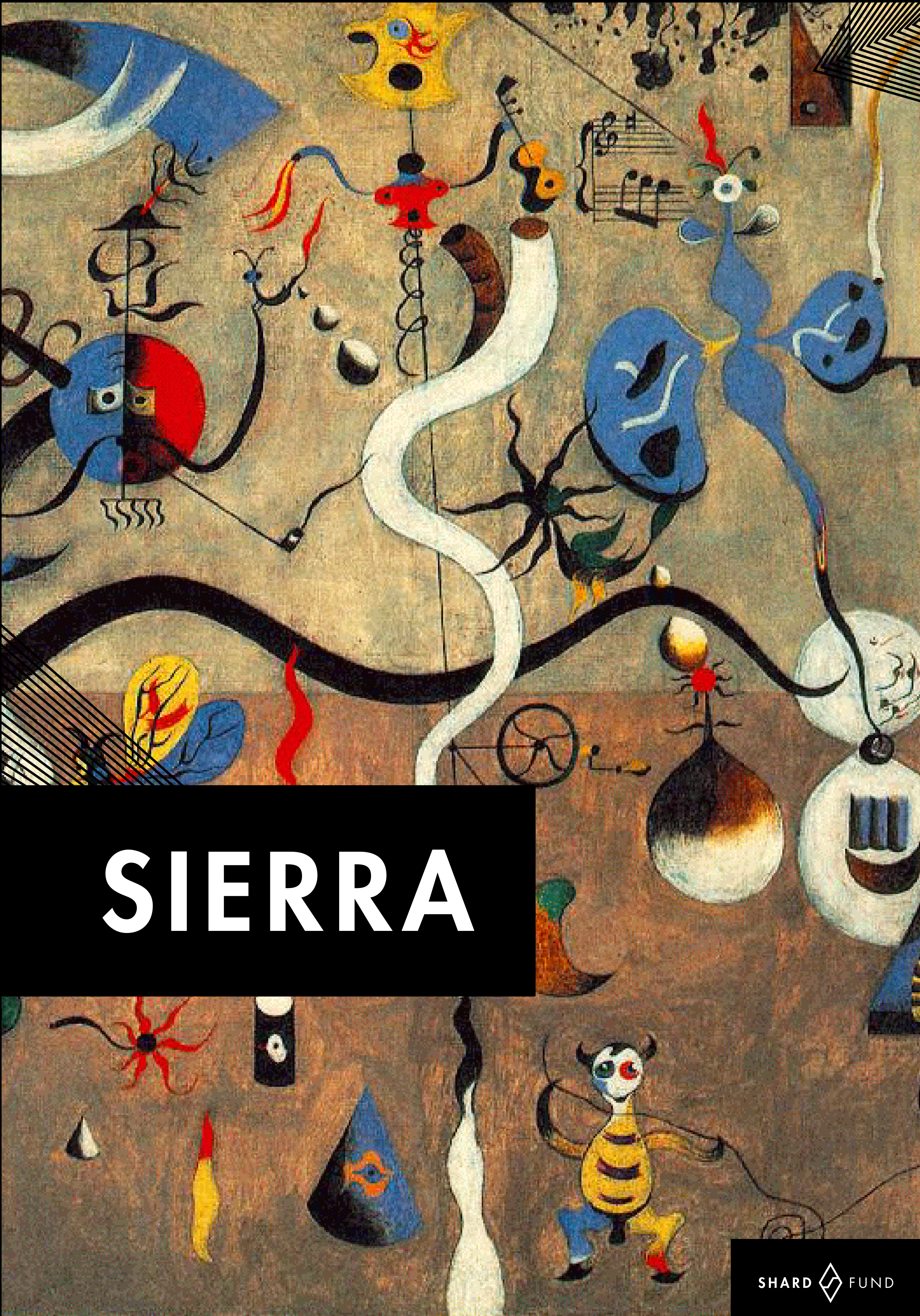

SIERRA

SHARD FUND

A JOURNEY ACROSS FINANCIAL MARKETS

January 18th - January 24th, 2013 | Issue 4

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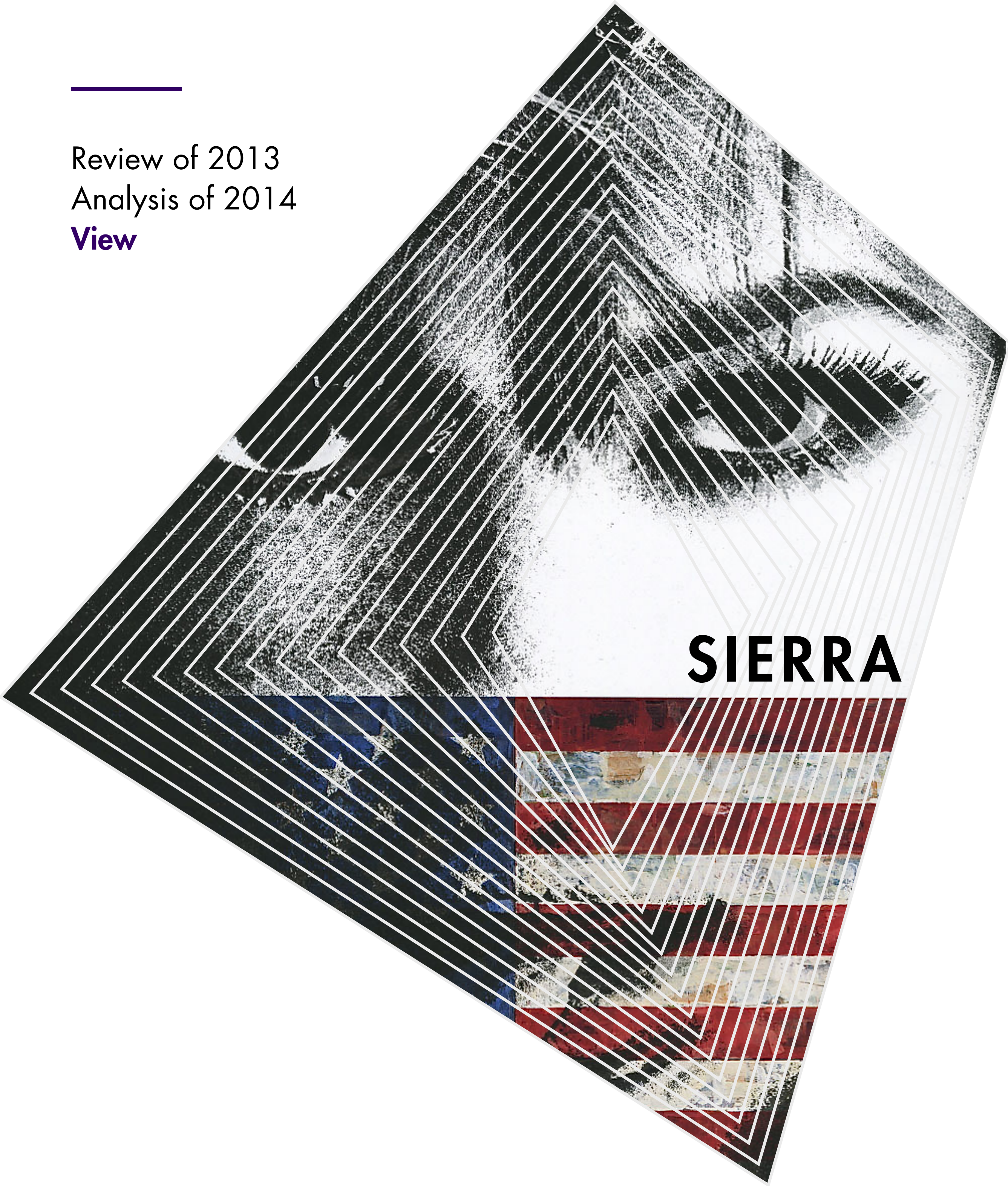
SIERRA
End of 2013

Review of 2013
Analysis of 2014
View



USA

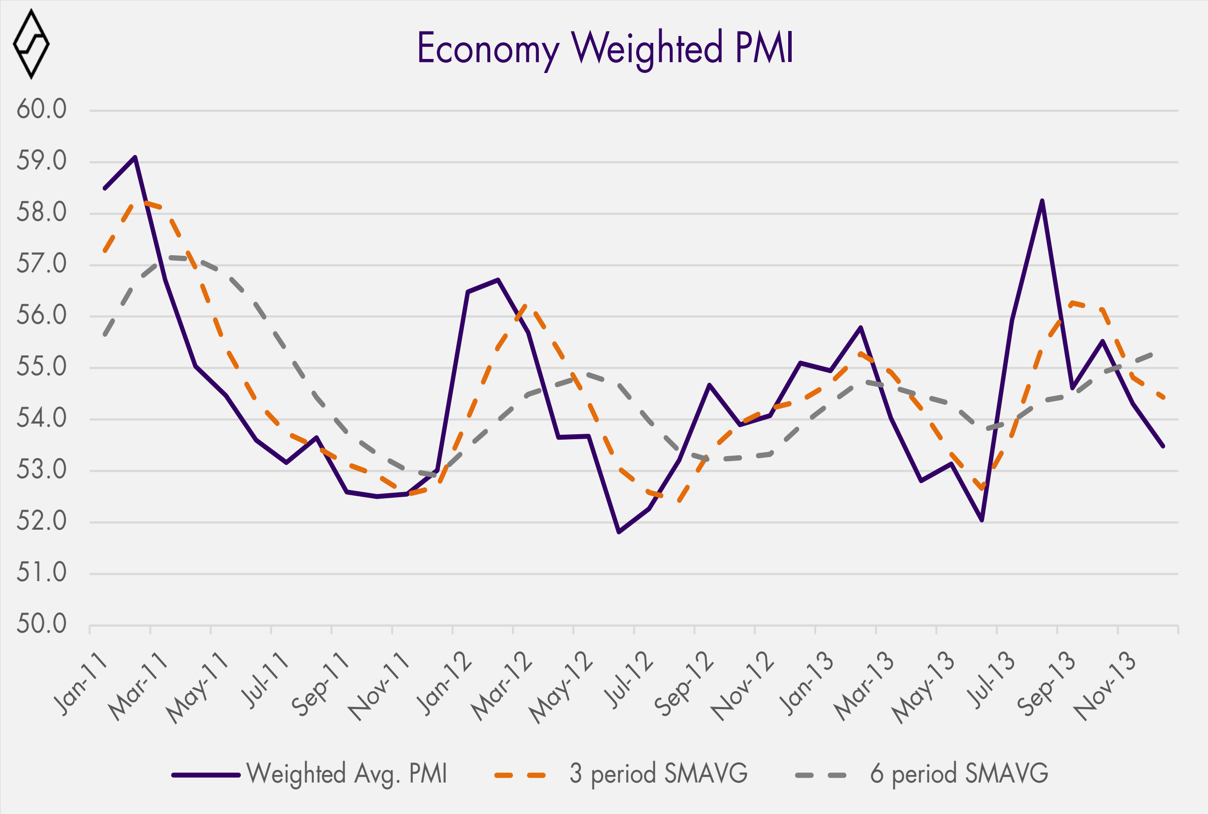
New year, new "luck".

Remember that time almost a month ago when you were celebrating the end of a great year and welcoming the next big adventure? Well, those cheerful moments seem far in the past now, the new year starting with a nice big slap in the face for everyone who thought everything is going to remain the same. Major world indices have performed badly so far this year (especially this Friday, 24th of January). One positive aside is that small countries like Bulgaria, Slovenia and Bangladesh don't seem to be affected that much and have performed very positively. Looking at the US, the S&P 500 is down 3.14% since the start of the year. The 10-year treasury yield is down 30bps (0.3%), while Gold is up 5%. The relationship shouldn't surprise anyone.

Consumer Discretionary	-4.98%
Healthcare	0.40%
Industrials	-4.69%
Financials	-3.43%
Energy	-4.72%
Technology	-1.71%
Consumer Staples	-3.49%
Materials	-5.08%
Utilities	0.03%

Meanwhile, the USD ($DXY) has been trending upwards, except in the last two days of this week, when pressure coming from emerging markets started a global sell off.
Looking at fundamentals, it won't be hard to find a reason for this negative performance in the US stock market. The Bureau of Labour Statistics reported a weak payrolls growth in December, which was significantly below consensus. On the other hand, consumer sentiment decreased in January and the PMI for the economy (weighted average) increased at a slower pace once again in December. All that raises concerns about consumption, which is the largest part of US GDP. So far, we believe that there is no actual reason for panic, but we are definitely concerned. The fact is that December and January provided very bad weather within the US, which has significantly influenced the services sector and consequently employment and sentiment. This is very significant since services account for close to 90% of the overall economy. Despite this, the deceleration in the expansion of services is not just a December outlier print; it's been a trend since the summer. While Q3 services PMI was still standing strong above 56, Q4 dropped to 54. As is evident, this has influenced the overall activity in the economy, which has had a shift in the short term trend in Q4, as measured by the 3 month simple moving average. Thus, we expect GDP growth to slow down in this last quarter, but nothing too dramatic. This slower trend might continue in Q1 2014 given the bad start of the year, but then we expect further acceleration.

While Q3 services PMI was still standing strong above 56, Q4 dropped to 54



Additionally there are other reasons for the bad start of US indices. After a very strong year with historically high returns, many investors would want to take their profits and rebalance portfolios to match their view for the new year. Not to mention that mutual funds would generally have a target equity and fixed income exposure and thus after a very strong year for equities and poor year for fixed income, portfolio managers would have to begin selling a considerable amount of equity and purchase bonds. This partly explains why treasuries have performed so well this past 26 days. On the other hand, net cash flow in strictly bond mutual funds in the first half of January has been a positive USD 3.6 billion, compared to an average monthly outflow of USD 25 billion since June 2013. Meanwhile, domestic equity mutual funds have had just USD 1 billion inflows in the first half of January. This has been reflected in the market indices, with the S&P 500 being mostly unchanged until recently, with big divergences in sector performance. However, this past week has been a completely different story, as the HSBC Flash China PMI printed negatively for the first time in six months, which increased the concerns about global growth and sent major indices into a free fall. The S&P 500 reported a drop of 3% in the last two days of the week.

Day	Country	Indicator	Actual	Forecast	Previous
Wednesday	United States	MBA Mortgage Applications (WoW)	4.7%		11.9%
Thursday		Existing Home Sales	4.87M	4.94M	4.82M
		Initial Jobless Claims	326K	326K	325K
		Continuing Jobless Claims	3,056K	2,930K	2,751K

EUROPE

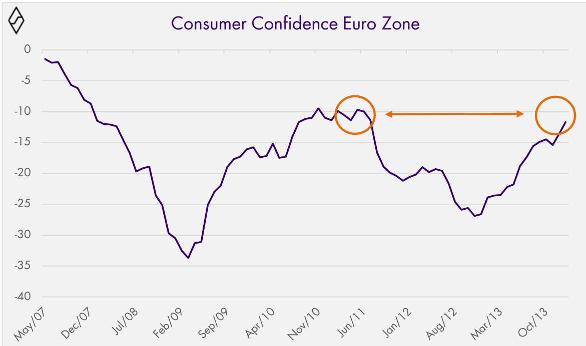
The data speaks for itself.

Europe, as noted in our previous publications, is a preferred investment geographic for 2014. This week we saw confirmation of strength across the old continent, even though the stock market was dragged down amid concerns of emerging markets slowdown and the US approaching important decisions from the Fed and Congress.
The figures that came out in Europe this week like the PMI and consumer confidence both beat estimates by a large margin.

The EU periphery is posting strong performance year to date and the stock market is outperforming most of the other countries globally

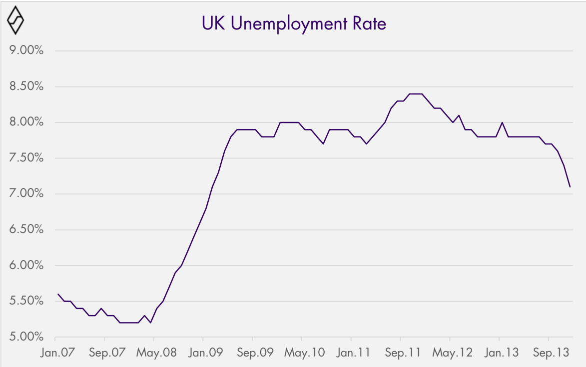
consumer reinvigoration across the board. Nevertheless countries which were hit harder by the recession are taking more time to heal and need to rely on exports and sufficient investments to overcome difficulties. In that line of thought precisely, exporting manufacturers posted a 53.2 PMI reading compared to 51.9 for domestic services. Exports and investments are leading the EU recovery.

Consumer confidence in Europe reached a level of -11.7 versus a -13.5 reading in December and above the -12.7 long- run moving average, which sets this month at the highest level since July 2011. A very important detail is the fact that consumers are holding an increasing sum of cash reserves since 2012. This paired with low interest rates and financing availability should be a strong boost to domestic consumption in the medium to long term.



The PMI reading was 53.2 from 52.1 in December, the largest rise since July, pointing to an acceleration of growth. As we have written before, we believe that the EU auto manufacturers have very well reached their volume bottoms and there is significantly more upside potential. A similar trend is observed in other sectors, suggesting

The EU periphery is posting strong performance year to date and the stock market is outperforming most of the other countries globally. Sovereign bong yields are falling harshly and confidence is improving. Spain, Italy, Portugal and parts of Eastern Europe are posting strong improvements suggesting a bright year ahead for the whole of Europe. Sadly though, Greece is facing further difficulties along with neighbouring Turkey, on political and structural issues, which may take more time to resolve.



A controversial situation in the UK has emerged this week, with unemployment reaching 7.1%, just 0.1% above the BOE monetary policy target, and inflation already at the 2% target level mark. This came as a surprise to officials, who were foreseeing such unemployment levels in the much more distant future. Therefore, there is now an unexpected situation for the BOE to make – it risks damaging its credibility (if it chooses to change its targets) or damaging the economic stability if it doesn't. A rate hike paired with a Fed taper may be devastating for the UK, wiping out the recovery progress it has achieved up to date. BOE governor Mark Carney has proclaimed that the central bank should start targeting inflation only.
Nevertheless, as employment suggests, the UK economy is performing strongly, but inflation may be a difficulty in the face of recovery. House prices are rising 8% per year, which is already out of hand, so a rate increase or decrease in the asset purchase program of the BOE in eminent. The question remains: When and how quickly?

Day	Country	Indicator	Actual	Forecast	Previous
Tuesday	Germany	ZEW Economic Sentiment	61.7	63.4	62
Wednesday	United Kingdom	Unemployment Rate	7.1%	7.3%	7.4%
Thursday	Spain	Unemployment Rate	26.0%	26.0%	26.0%
	EU	Current Account	23.5B	19.2B	22.2B
		Consumer Confidence	-12	-13	-14
Friday	United Kingdom	BBA Mortgage Approvals	46.5K	47.2K	45.4K

ASIA & OCEANIA

A twofold view of China

CHINA

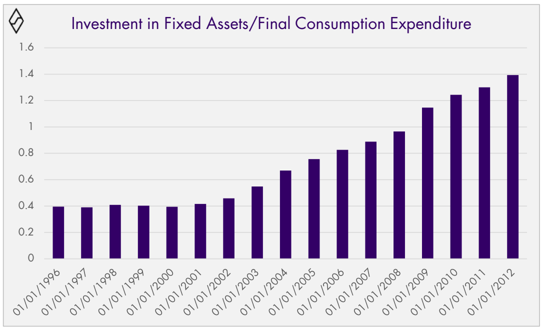
China entered 2014 with data for slower GDP growth of 7.7%, compared to 7.8% in the previous quarter. This came to no surprise for investors, as estimates were for 7.6%, therefore the lower data technically exceeded expectations. Either way ...the Hang Seng dropped 2.59% during the week.
As a massive global trader, the Chinese GDP is on a close watch by almost everybody in the industry, including ourselves. We do not view the deceleration as a bad sign. In the past two decades, the country has been growing very strongly yet unsustainably, making careless investments towards the end. The current government's desire, as shown by the Third Plenum in November, is to put China on the road to sustainable growth. We view this road to be one with lower GDP growth, not higher. Therefore the deceleration, as long as it is smooth, potentially decreases the current risk and is in line with the current reforms.
To understand this better we look at two China scenarios, a bullish and a bearish one.

BULLISH

- Chinese leaders have shown strong commitment to the reforms being implemented
- Low government debt (even though rising), along with strong FX reserves, reduces the probability of a financial crisis
- Bank deposit rates liberalisation and broader financial markets are likely to contribute towards rebalancing the growth

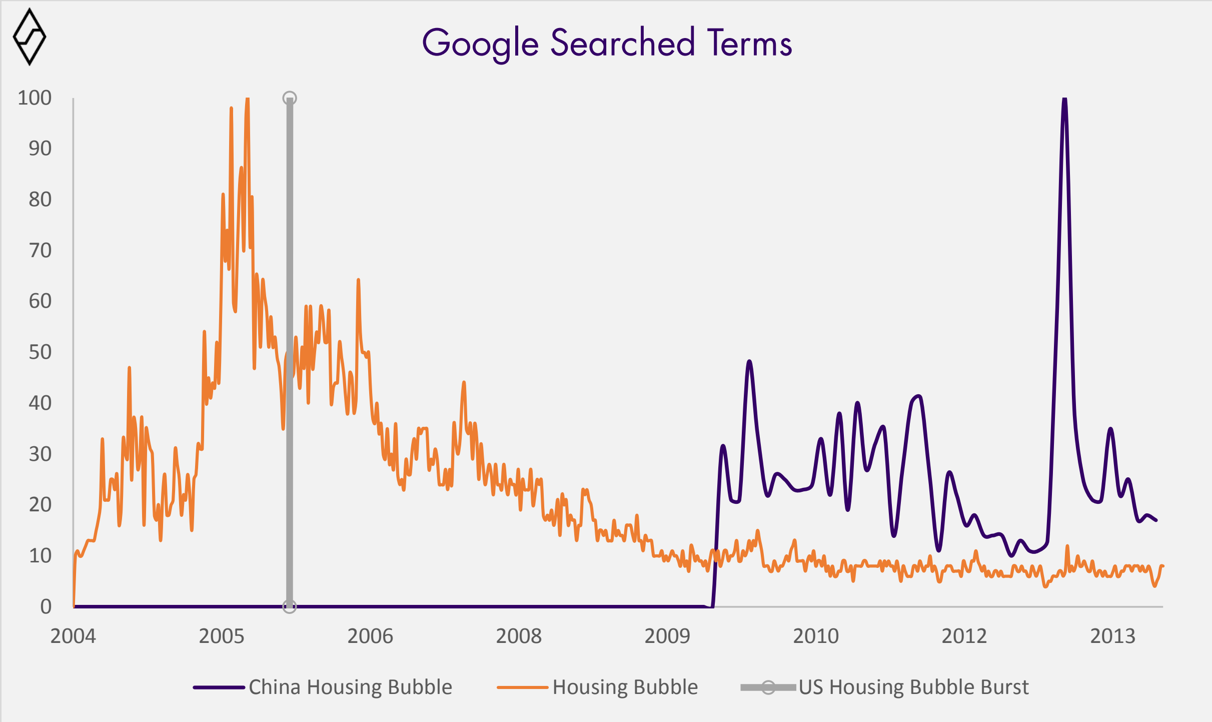
BEARISH

- Credit growth seems to be the biggest stimulus for Chinese GDP
- The current mechanism was to utilise household resources into manufacturing, infrastructure building and real estate development. This made investment increase 3.5 times quicker than consumption as shown on the graph.



  This investment/consumption imbalances are planned to reverse. Which again contributes to the GDP cut.
- During the large credit growth in China, as discussed numerous times, this has led to large amount of bad debts being made. Someone is cleaning up the mess now.

Looking at another negative factor, one for which we had positioned our portfolios since early November, is the Housing situation. This is a topic we have discussed earlier on, so there is not point of repeating ourselves, however we managed to dig out an interesting chart. On the top of the next page, we have plotted the Google searched terms "housing bubble" & "Chinese housing bubble". From



the first term, we see how the peak of its search has indicated the investors' awareness of the abnormally high housing prices. Shortly after, in the beginning of 2006 was when prices started crumbling. A similar peak was observed last year but for China. Yes, it's true that this "indicator" is not as elaborate as the traditional ones, however it makes one wonder, how can this simple search be a leading indicator to the Great Recession and everything else fail?

Day	Country	Indicator	Actual	Forecast	Previous
Monday	China	GDP q/y	7.7%	7.6%	7.8%
		Fixed Asset Investment ytd/y	19.6%	19.9%	19.9%
		Industrial Production y/y	9.7%	9.8%	10.0%

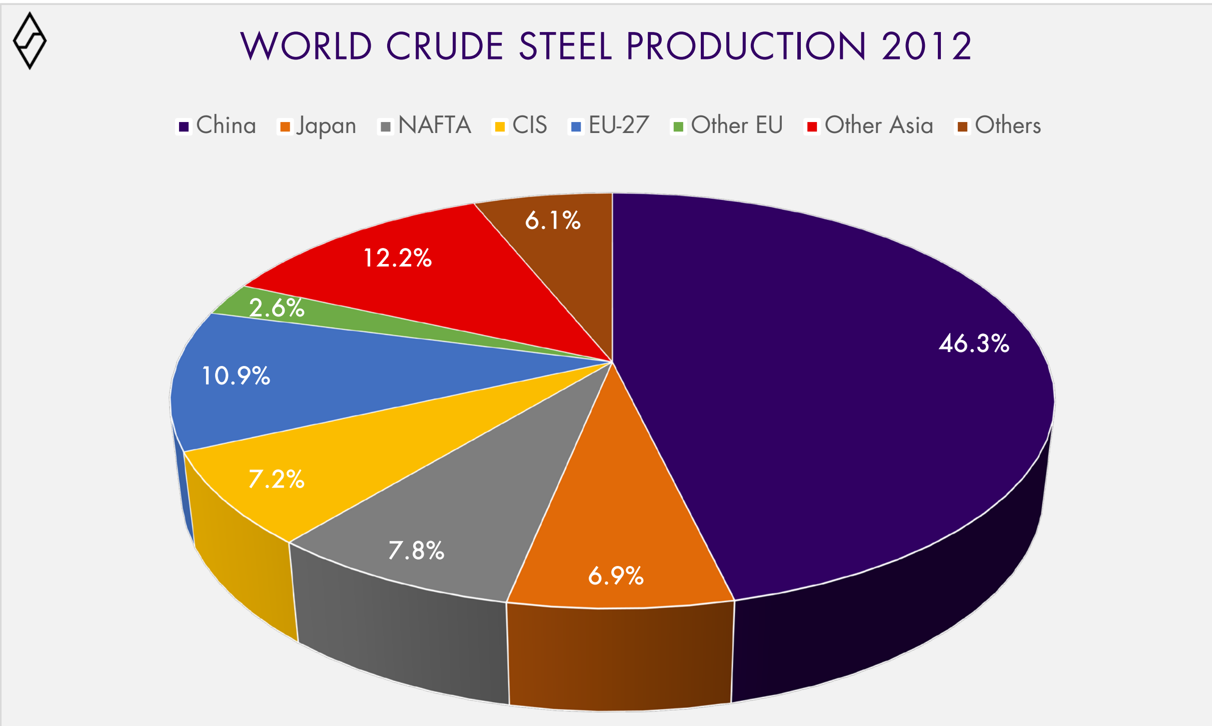
COMMODITIES

Palladium shortage?

METAL

2013 saw record production on a global scale for steel with growth speed up in Asia offsetting contraction in Europe and the United States, the World Steel Association has shown. Global output has increased by more than 3.5% (2012 saw a rise of just 1.2%). The record comes despite low prices and weaker demand in previous years. Confidence in the sector, a major industrial indicator, has recently improved. As mentioned, Asia was the main driving force in this increased steel production: Asia as a whole increasing by 6%. China was unsurprisingly the world's largest producer seeing a 7.3% jump. As a result its global share of supply increased from 46.3% in 2012 to 48.5% in 2013.

Improving global economic health is likely to see further woes for gold, as investors shy away. It's expected gold prices will fall around 13% despite the 2013 crash. Signs that the US loose monetary policy, which helped to push gold to record highs in 2011, is being scaled back more quickly than expected could lead the metal to break lower temporarily. Therefore, it seems that gold prices need new drivers, these appeared to kick in last year with physical demand. It's likely that the $1200 is going to be a long-term price floor according to investors. If prices do slide, it's likely that strong buying of physical gold will kick in to keep the metal pegged above last year's low of $1,180.



Copper edged up following a weaker dollar, but was on track for its biggest weakly fall since mid- November as slowing growth in China's factories fuelled worries over demand in the world's top metals consumer. Copper prices fell to the lowest in more than a month following the soft Chinese PMI numbers. The numbers suggest the slowing momentum that we saw throughout December is likely to continue.

ENERGY

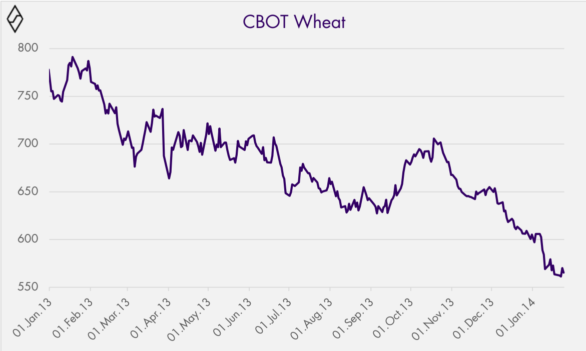
U.S oil crude futures rose narrowing the discount to European Brent to the lowest level in two months: this due to a larger than expected draw in distillate stocks caused by the sustained cold.

Rapidly growing populations and rising incomes will drive an enormous rise in car use and greenhouse gas emissions

The Iranian oil minister has said that Iran will have a new attractive investment model for oil contracts by September, in an effort to win back Western business. Fossil fuels were also stressed with global energy demand rising. The Canadian Transportation Safety Board and the National Transportation Safety Board have added pressure on regulators to improve safety on the tracks after a series of oil-by-rail accidents in recent months, e.g. the Lacmegantic crash. The North Sea Buzzard oilfield, plays a role in pricing global crude exports, and is aiming to further improve its reliability this year. This should reduce volatility in the Brent oil benchmark. Unplanned shutdowns lead to higher price premiums of Brent futures and boost Brent prices. U.S. demand for petroleum products rose 5.8% in December, the report by the American Petroleum Institute showed. The API also showed the demand for petrol rose 4.5% last month year on year. Distillate year on year production rose 5.7%. Rapidly growing populations and rising incomes will drive an enormous rise in car use and greenhouse gas emissions across Latin America, Africa, the Middle East and Asia by 2050. Car-use in developed countries appears to be slowing. But in fast-growing emerging markets, car-use will develop in line with GDP unless policymakers provide a strong steer in the opposite direction, according to the OECD's international Transport Forum. By 2050 car-use in the developed countries is predicted to be around 55% higher than in 2010. In emerging markets however, car-use is projected to rise by 4.0 to 6.5 times. According to the ITF's Transport Outlook 2013 the result will be critically dependent on oil prices. This week has seen traders on high alert as the new oil pipeline from the Midwest to the Gulf Coast could see a flood of crude oil, and potentially depress prices.

AGRICULTURAL

Chicago Wheat rose for a second consecutive session, set for its biggest gain in two months after the cold weather conditions in the USA have caused significant worry about crop damage. Both corn and soybeans ticked lower.



The cold weather within the USA has stalled truck and rail shipments, and ice build-up on rivers has impeded grain barges from moving from the farm belt to export terminals in the Gulf Coast. These severe weather conditions are expected to continue for a while, and so prices for wheat could continue to reach new highs. ICE Cocoa futures had their biggest one day gain since September 2012 this week, due to preliminary industry data causing supply worries. Both Sugar and Arabica coffee ticked upwards, as dry weather in Brazil is causing concerns.

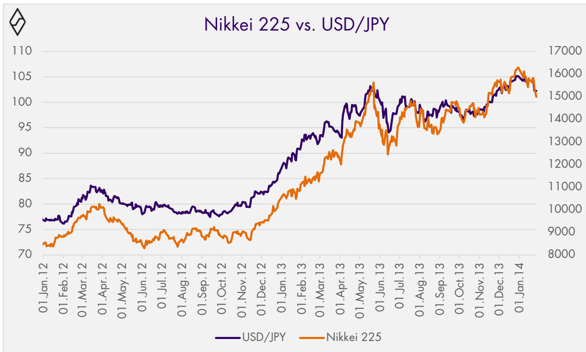
Leading U.S. grain groups have asked Syngenta AG, the crop company responsible for the production of the genetically modified corn currently unapproved in China, to stop commercial use. This comes as little surprise after multiple cargoes of corn has been rejected by China for containing the unapproved strain. It's estimated that over 600,000 tonnes have been rejected since November.

FOREX

Pair	Open	Close	Weekly %	Monthly %	YTD
EUR/USD	1.3539	1.3675	1.00%	-0.51%	-0.51%
USD/JPY	104.29	102.28	-1.93%	-2.87%	-2.87%
USD/CHF	0.9099	0.8945	-1.69%	0.19%	0.19%
USD/CAD	1.096	1.1087	1.16%	4.40%	4.40%
AUD/USD	0.8778	0.8681	-1.11%	-2.60%	-2.60%
NZD/USD	0.8257	0.8211	-0.56%	0.06%	0.06%
USD/CNY	6.05	6.0486	-0.02%	-0.08%	-1.49%
GBP/USD	1.6421	1.6481	0.37%	-0.45%	-0.45%

JPY

After the Yen slipped by 18% in 2013, the currency is currently has currently risen the most against the US dollar – 2.9%, compared to the 16 major peers. This was due to the deepening selloff of emerging-market currencies, which spurred demand for safer assets. We are maintaining the view of a weaker yen in the long run and view this as an opportunity to time another entry in the position. This puts more pressure on BoJ to increase the stimulus, hence we are as determined as Mr. Abe to keep the current fundamental view of the Yen.



AUD

The AUD/USD has been performing incredibly well as a short positions. The Australian dollar depreciated against the US dollar because CPI date for Australia came above expectations. Recalling our chart from the End of 2013 Sierra edition, we noted that CPI was close to the lower RBA target bound, thus giving the bank more room for further easing... well this is no longer valid. As the CPI increased, the AUD/USD is approaching more appropriate levels in order to stimulate Australia exports. Even if it is still "uncomfortably high", the bank has now less room to cut rates, as this may put pressure on inflation. We are looking forward to seeing the next RBA monetary policy report and see if RBA is still looking to see a lower AUD or no.

PORTFOLIOS

MAVERICK

security	L/S	date
Volkswagen AG	Long	03.Sep.13
Datang International Power Generation Co. l	Long	03.Sep.13
ENN Energy Holdings Ltd	Long	03.Sep.13
China Longyuan Power Group Corp. Ltd	Long	03.Sep.13
Tracker Fund of Hong Kong	Short	03.Sep.13
Nike Inc	Long	15.Oct.13
SPDR Financials Sector	Short	28.Oct.13
Corning Inc.	Long	23.Oct.13
INR/USD	Long	04.Nov.13

security	L/S	date
CNY/USD	Long	04/11/2013
BMW	Long	07/11/2013
ProShares UltraShort Lehman 20+ Yr(ETF)	Long	04/11/2013
Tracker Fund of Hong Kong	Short	17/12/2013
SPDR Utilities Sector	Short	17/12/2013
Hengan International Group Co Ltd	Long	24/12/2013
Orange SA	Short	02/12/2013
Telefonica SA	Long	02/12/2013
iShares MSCI Emerging Markets	Short	24/1/2014

CORTEZ

security	L/S	date
Pandora A/S	Long	03.Sep.13
Valeo SA	Long	03.Sep.13
Aspen Technology Inc	Long	03.Sep.13
Prudential Plc	Long	30.Sep.13
USD/JPY	Long	07.Oct.13
Aeropostale Inc	Long	15.Oct.13
OZ Minerals	Long	15.Oct.13
Greenhill and Co. Inc.	Long	20.Oct.13
Easyjet plc	Long	20.Oct.13

security	L/S	date
Chico FAS	Long	15.Oct.13
H&M	Long	15.Oct.13
Claymore/AlphaShares China Real Est ETF	Short	04.Nov.13
Claymore/AlphaShares China Real Est ETF	Short	17.Dec.13
Royal Caribbean Cruises Ltd.	Short	17.Dec.13
Royal Caribbean Cruises Ltd.	Long	13.Jan.14
Carnival Corp	Long	13.Jan.14
Red Robin Gourmet Burgers Inc	Short	13.Jan.14
Bloomin' Brands Inc	Short	13.Jan.14
SPDR S&P Emerging Latin America	Short	24.Jan.14

EVENTS

USA

- New Home Sales
- Durable Goods Orders
- Consumer Confidence
- FOMC meeting
- Q4 GDP

EUROPE

- UK Preliminary GDP q/q
- BOE Gov Carney Speaks
- Spanish Flash GDP q/q
- EU Unemployment Rate

ASIA & OCEANIA

- Japan Trade Balance
- Japan Retail Sales
- Australia Private Sector Credit

REFERENCES

Reserve Bank of Australia, Bank of Japan, Bloomberg, National Bureau of Statistics, China Federation of Logistics and Purchasing

DISCLAIMER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