SIERRA

SHARD FUND

A JOURNEY ACROSS FINANCIAL MARKETS

February 8th - February 14th, 2013 | Issue 7

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USA

"Mirror, mirror on the wall, who is the fairest of them all?"

The US stock market recorded a strong week (for all the wrong reasons), with the S&P 500 climbing 2.32% and almost reaching its all-time high recorded at the beginning of this year. The week won't be remembered by anything specific, except maybe with the testimony of the new chairman of the Federal Reserve – Mrs. Janet Yellen. She didn't mention anything specific (or anything we didn't know) and yet, investors 'came out' of that meeting very cheerful and the market rallied all week. Maybe once again we are witnessing the case of 'finding something that really isn't there. Oh well, the chickens will come home to roost sooner or later (no matter who plays the role of the chicken this time). In other news, the dollar ($DXY) continued to fall and is now -1.43% since the beginning of February. But hey, who cares, the S&P is up!

Utilities	3.60%
Healthcare	3.30%
Materials	3.18%
Technology	2.76%
Energy	2.37%
Consumer Staples	2.22%
Industrials	1.78%
Consumer Discretionary	1.69%
Financials	1.64%

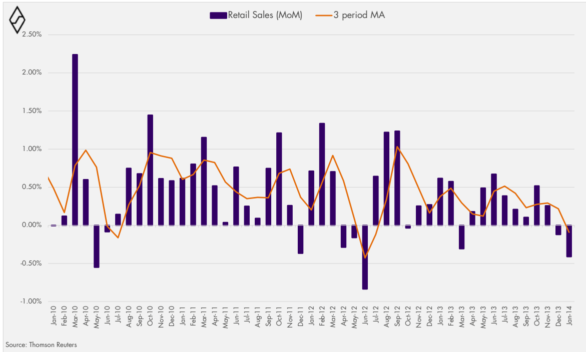
This will be one of those issues that discusses what is happening on the market, or at least what we think is happening. After the big selloff at the end of January, the US stock market seems like everything is just fine now. However, we see some weird things going on, which are definitely not a sign for a healthy growing market. First of all, what is up with the sector performance?! The top two sectors this week are the so called 'defensive' sectors, which are considered 'immune to economic cycles' , thus they typically won't experience volatility as high as cyclical sectors. While one week might be just an outlier observation, we have seen this outperformance of defensive sectors since the beginning of the year. In fact, this dominance is even clearer when we look at the performance in the past month and a half. In an economy that largely depends on personal consumption, why would Utilities and Healthcare be dominating the market? The economy doesn't grow because people are paying their bills or buying medicine. It grows when people are buying new clothes, cars, etc. So, instead of buying growth stocks, which dominated the market last year when growth was booming, investors are relying on the high dividend yield play that defensive stocks provide.

Utilities	6.08%
Healthcare	5.00%
Technology	0.92%
Materials	-0.22%
Financials	-1.01%
Industrials	-2.48%
Consumer Discretionary	-2.48%
Consumer Staples	-2.65%
Energy	-2.80%

This could be looked at from another angle. Why is gold up close to 10% so far this year (many other commodities are up more than that)?! The two reasons for a surge in the price of gold (keeping supply constant) are expectations for accelerating inflation or 'cheap money' chasing yield, or both. Both scenarios explain the surge in Utilities well, as high commodity prices drive profits up, whilst 'cheap money' usually looks for yield, which is not hard to find amongst the high dividend payers that are Utilities. Then of course, last but not least, all of this means that the market has lost faith in US growth (at least in the intermediate term). And we don't blame him.

The two reasons for a surge in the price of gold (keeping supply constant) are expectations for accelerating inflation or 'cheap money' chasing yield...

There hasn't been one very positive print so far this year. Retail sales became negative (on a 3 month smoothed basis) for the first time in a year and a half. On the other hand, we



talked about market inflation expectations last week, when we used the commodity CRB index and the 5 year breakeven rates, but this week we see a confirmation about inflation even from normal people. Michigan Inflation Expectations (for next 12 months) are up to 3.3% in the last month and a half, from 3.0% in December. We don't want to set the alarm off. This is just what we see happening on US soil, which we believe will be a significant drag on Q1 (for now).

Day	Country	Indicator	Actual	Forecast	Previous
Thursday	United States	Retail Sales	-0.4%	0.3%	-0.1%
		Core Retail Sales	0.0%	0.1%	0.3%
		Continuing Jobless Claims	2,953K	2,960K	2,971K
		Initial Jobless claims	339K	330K	331K
Friday		Michigan Consumer Sentiment	81.2	80.6	81.2
		Michigan Inflation Expectations	3.3%		3.1%
		Industrial Production	-0.3%	0.3%	0.3%

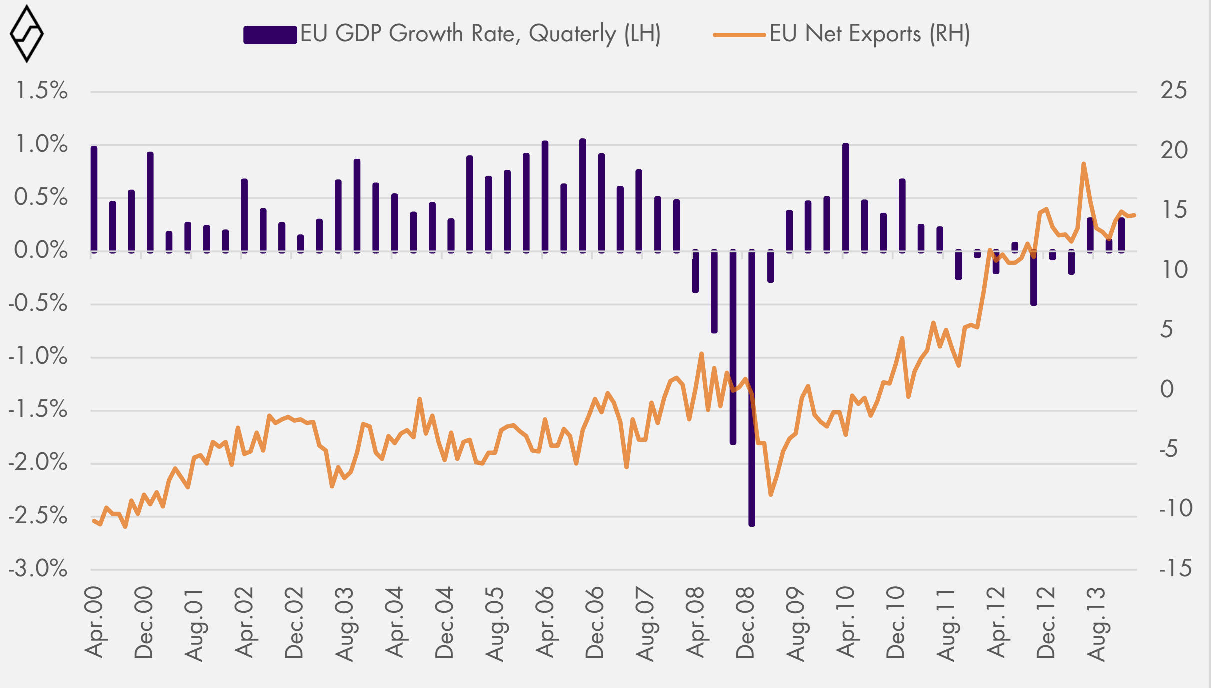
EUROPE

The new adventure

We have seen definitely one of the most confident weeks of late for the Old Continent. The last 5 trading days were marked by positive macro data, stability within the financial markets (not on the political scene – Italy) and some new all- time highs reached by European equities. Despite the poor calendar of indicators observed the week before, this week has experienced some determined figures growing. The UK house prices rose to a new record high in January, the UK construction increased by 0.2% from the previous quarter and the euro-area Sentix investor confidence rose above the 10-year average level. Thus, tying together with better than expected GDP growth, European equities showed strong boosts: the German DAX value increasing by 3.88%, the FTSE 100 by 1.4% and the French CAC 40 reaching an all-time-high by climbing 2.65% (on a weekly basis).

The Eurozone concluded 2013 in the best possible way, laying strong fundamentals for further growth in 2014. After the GDP publication for Q4, three positive factors grab the attention:

- The euro currency zone left the long recession crisis behind, with growth accelerating to 0.3 % on a quarterly basis. This was the third successive quarter of growth and an improvement from only 0.1% QoQ in Q3;
- Divergence between the core and the periphery is reducing, due to the positive growth rates from all of the countries;
- Exports and investment are the key drivers of growth.



Source: Eurostat

Additionally, looking at the numbers: the German GDP rose 0.4 % from the third quarter, when it had only increased by 0.3 %, French GDP rose 0.3 % after stagnating in the third quarter, (0.2 % more than economists predicted) and the Dutch economy grew by 0.4% more than forecasts. The former crisis countries reported a similar range of rates. Portugal, the Eurozone's new growth star with the highest annual growth rate at 1.6%, led the way again with a healthy 0.5% QoQ rise. Spain's output grew by 0.3%.

Portugal, the Eurozone's new growth star with the highest annual growth rate at 1.6%

Having said this, we expect investment and exports to remain key drivers of the recovery in 2014 and beyond, while a stabilization in public and private consumption should help, too. Thus we consider that the business activity might rise dramatically in 2014, having a lot of impact in different economic areas. For instance, the banking sector would be a natural beneficiary, and finally we might witness a decreasing unemployment rate - something that everybody is expecting and hoping to happen.

TTIP

Transatlantic Trade and Investment Partnership – TTIP, is the name of proposed free-trade agreement between the European Union and the United States. Due to the fact that the topic is extremely interesting and opens some further investment opportunities, in the current and subsequent issues of Sierra we are going to describe the settlement.

The EU-US negotiations for the TTIP started in summer 2013 with the main aim of removing trade barriers in a range of economic sectors to facilitate the sale and purchase of goods and services between the EU and the US. The talks about free trade agreement started from July 2013 and may be finalized by the end of 2014, which means that we are right on time for the party.

If the Partnership is established successfully the estimated outcomes are tremendous: annual GDP growth in the EU of 68-119 billion Euro by 2027 and annual GDP growth of 50-95 billion Euro in the US. Despite this, the time frame is extremely big regarding the national economic development, we might witness better earnings results from companies right after the agreement takes place (if it happens anyway). Looking into the details of the agreement, we believe that the most affected sectors will be sectors where transatlantic goals of trade and regulation overlap: pharmaceuticals, agricultural products, and financial services.

We believe that the development of this trade partnership may affect the stock market, sooner that many expect. Expect more details in the next issue of Sierra regarding the agreement.

Day	Country	Indicator	Actual	Forecast	Previous
Monday	Italy	Industrial Production m/m	-0.9%	0.0%	0.3%
Wednesday	EU	Industrial Production m/m	-0.7%	-0.2%	1.6%
Friday	Germany	Prelim GDP q/q	0.4%	0.3%	0.3%
	France	Prelim GDP q/q	0.3%	0.2%	0.0%
	EU	Flash GDP q/q	0.3%	0.2%	0.1%

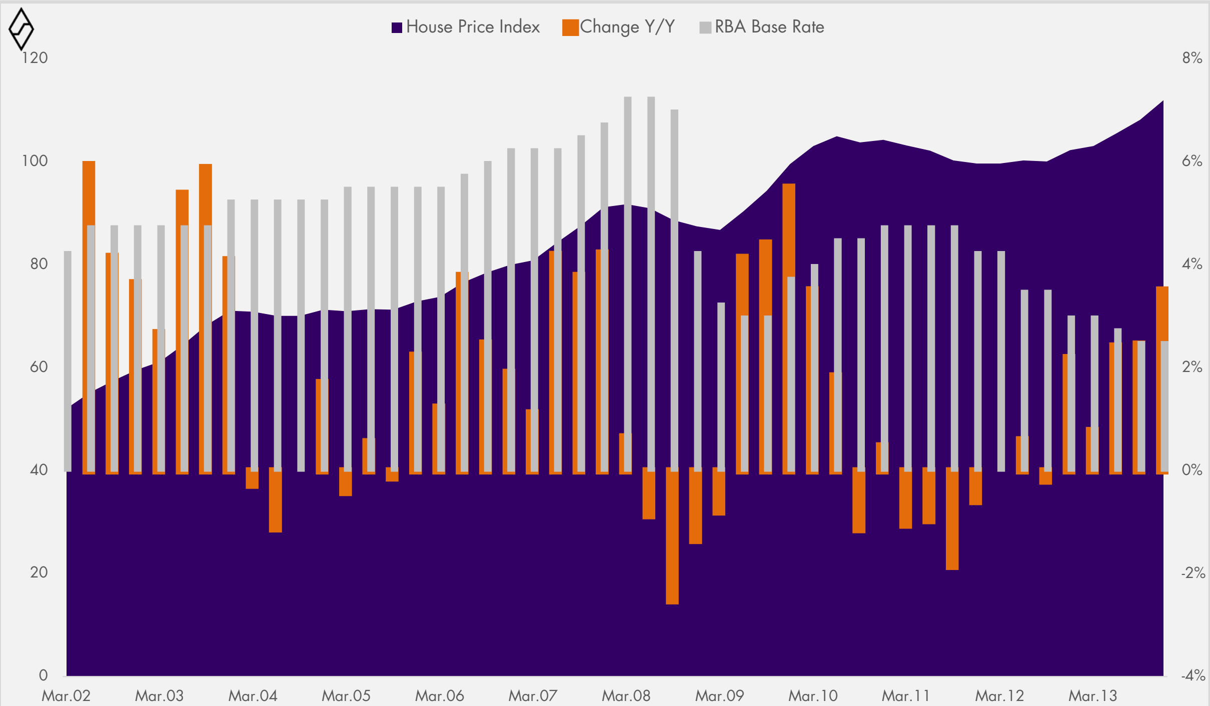
ASIA & OCEANIA

Meanwhile, Australia's housing...

AUSTRALIA

Meanwhile in Australia, house prices are posting new all-time highs. Why do we care? Well, it creates an interesting situation for the Australian economy. It's been ever-growing (maybe largely due to the 20-year Chinese relentless machine), now it's going through some structural business changes and when everyone is with an accommodative monetary policy, they are pressured to be. Otherwise said, the rising rate of house price changes, along with the new all-time highs, poses extra pressure on Glenn Stevens and the RBA team to raise the base rate. Also, as noted in last weeks Sierra, CPI is getting closer to the upper target, adding extra pressure. We believe that this is not what they fundamentally want, as this is sure to make the Australian Dollar appreciate and decrease an otherwise below trend growth economy. On the bar chart below you can visualise the percentage change movement in the price index and the RBA base rate changes. There is a negative correlation (with 1-lag) of about -0.3 which, although low, is not a negligible number.

We usually do not like to be bullish or bearish by default, however in this scenario it's hard to be very bullish. On Thursday, the unemployment report posted the highest number in the past 10 years, which tops analysts' estimates. Even though relatively low, it creates further uncertainty in the stock market, which by the way is 3.67% up

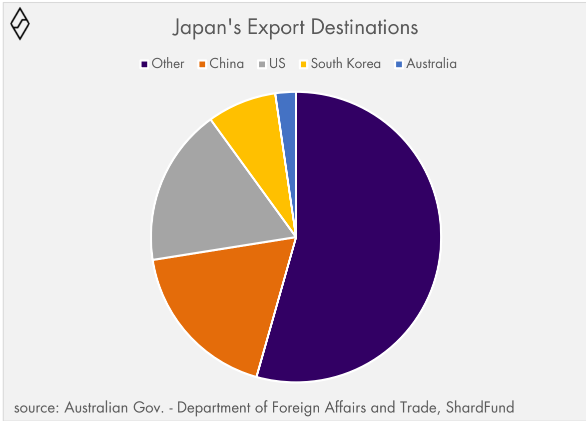


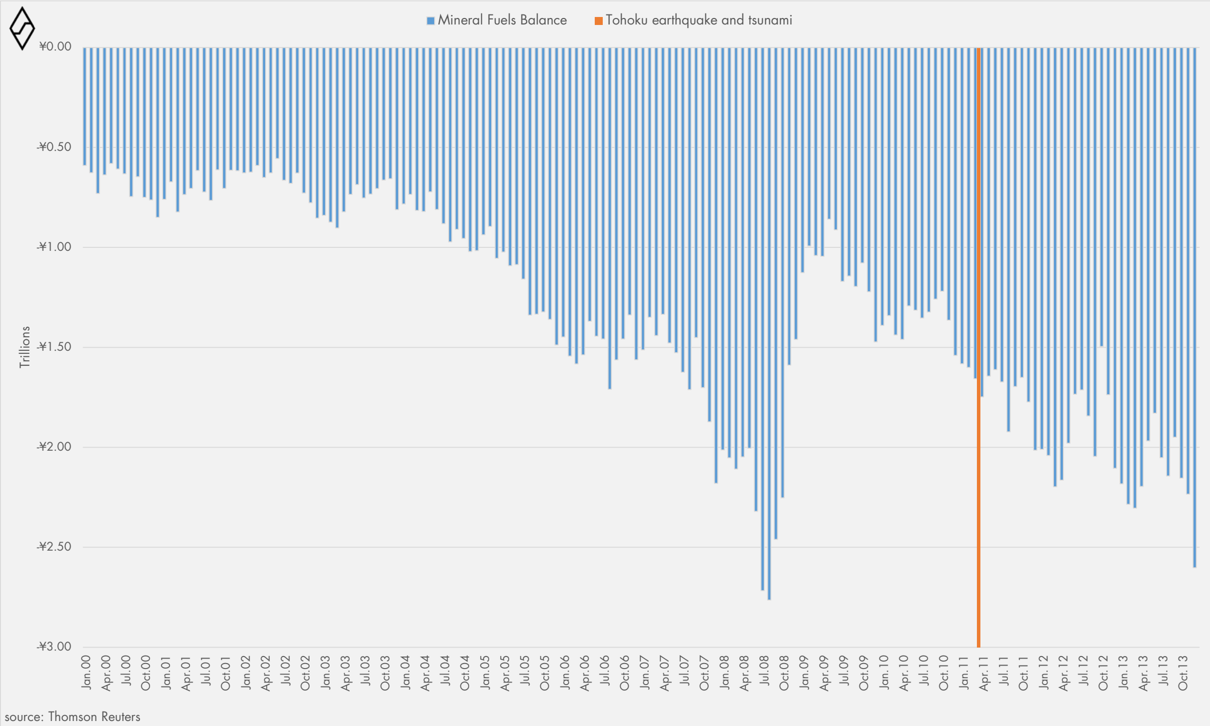
Source: Thomson Reuters

this week. It's certainly not the Australian economics driving it now.
Here our view is again that, unless major exporters' economies start picking up (China in particular), the Australian economy will find itself in an unbalanced state, where house prices rise, business is getting weaker and important decisions need to be made.

JAPAN

Japan's current account deficit increased to record highs as a result of import increases. The main reason behind this continues to be the shutdown of nuclear plants (the final one stopped functioning in January 2014), which fundamentally means that the economy will need to be importing even more mineral fuels than before. The result is that the economy has a relatively inelastic demand for mineral fuels (no plants/shown on next page chart) and a weakening currency (Abenomics) ... which is a recipe for negative pressure on the current account (what we see). The spice is coming in April in the form of a tax hike and the taste is unlikely to be improved.
Looking ahead in the very long run, a weak currency is associated with an increasing current account. An additional reason for why this is not the current case is that demand from the main Japanese export destination is comparatively weak, as most economies are below their long term average growth rates. We have made a weighted proxy growth watch chart based on the below Japanese export destinations and their annual GDP growth rates, which clearly, it shows that the growth is below trend. Thus we follow the growth rates in one of the most important for Japan economies when analysing it's market conditions.





Day	Country	Indicator	Actual	Forecast	Previous
Monday	Japan	Current Account	-0.20T	-0.06T	-0.05T
		Consumer Confidence	40.5	43.9	41.3
Tuesday	Australia	NAB Business Confidence	8		6
		Home Loans m/m	-1.9%	0.5%	1.4%
Wednesday	Japan	Core Machinery Orders m/m	-15.7%	-4.1%	9.3%
	China	Trade Balance	31.9B	24.2B	25.6B
Thursday	Australia	Unemployment Rate	6.0%	5.9%	5.8%
Friday	China	CPI y/y	2.5%	2.4%	2.5%

FOREX

Pair	Open	Close	Weekly %	Monthly %	YTD
EUR/USD	1.3635	1.3699	0.47%	1.59%	-0.33%
USD/JPY	102.3	101.87	-0.42%	-0.18%	-3.26%
USD/CHF	0.8974	0.8917	-0.64%	-1.58%	-0.12%
USD/CAD	1.1032	1.0981	-0.46%	-1.32%	3.40%
AUD/USD	0.8957	0.9036	0.88%	3.27%	1.38%
NZD/USD	0.8288	0.8373	1.03%	3.65%	2.04%
USD/CNY	6.0634	6.0668	0.06%	0.10%	-1.49%
GBP/USD	1.6408	1.6742	2.04%	1.87%	1.12%

USD

Call it inflation expectations or easy monetary expectation, or both, it doesn't matter, the dollar just sucks throughout the board. Since the beginning of the month the USD is down 1.5% against the Euro, which is really not a surprise considering the accelerating momentum in Europe and the lost momentum in the US. The dollar looks even worse against the Pound – down 2.6% this month to 1.6749, which is the highest level in close to three years. One explanation for this is the stable monetary policy in the UK, where rates are expected to rise a lot sooner than in the US. We are short UK government bonds, even though Mark Carney insisted that rates won't be allowed to rise anytime soon. USD/JPY is slightly up this month, but overall there is a strong downward trend this year, which is in line with the strongly negative returns on the Nikkei (the currency pair has a strong correlation with the index).

PORTFOLIOS

MAVERICK

security	L/S	date
China Longyuan Power Group Corp. Ltd	Long	03.Sep.13
Tracker Fund of Hong Kong	Long	03.Sep.13
SPDR Consumer Discretionary Sector	Long	07.Jan.14
Corning Inc.	Short	23.Oct.13
CNY/USD	Long	04.Nov.13

security	L/S	date
ProShares UltraShort Lehman 20+ Yr(ETF)	Long	04.Nov.13
iShares MSCI Emerging Markets	Short	24.Jan.14
SPDR Consumer Discretionary Sector	Long	27.Jan.14
Wisdom Tree Europe Hedged Equite (ETF)	Long	10.Feb.14
iShares UK Gilts UCITS (ETF)	Long	10.Feb.14

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
USD/JPY	Long	07.Oct.13
Aeropostale Inc	Long	15.Oct.13
OZ Minerals	Long	15.Oct.13
Easyjet plc	Long	20.Oct.13
Chico FAS	Long	15.Oct.13
Claymore/AlphaShares China Real Est ETF	Short	04.Nov.13

security	L/S	date
Claymore/AlphaShares China Real Est ETF	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
Claymore/AlphaShares China Real Est ETF	Short	03.Feb.14
WisdomTree Europe	Long	10.Feb.14
Global IPO Plus Aftermarket (IPOSX)	Long	10.Feb.14

OUT

Telefonica(long) Orange(short)

The spread started performing differently from our expectations. The previously struggling Orange has started to recover slowly due to a stabilizing France and the positive economic figures released lately. Telefonica experienced a negative return due to its EM exposure. We consider that the devaluation of Argentinian Peso will heart the company's earnings strongly. These reasons led us to close the hedged position, realising a small profit.

Power shares DB USD (long)

The dollar has been performing bad this year and specifically in February has recorded significant losses against most major currencies. The prospect for rising inflation and the relative slowdown in the US economy are factors that persuaded us not to hold a long dollar position.

IN

WisdomTree Europe SmallCap (long)

We are bullish on Europe and we decided to express that opinion with a well-diversified ETF, capturing small cap, more volatile equity securities.

Global IPO Plus Aftermarket

We believe this ETF expresses well our view for an expanding IPO activity in 2014.

CORTEZ

IN

Wisdom Tree Europe Hedged Equity (long)

We are bullish on Europe and we decided to express that opinion with a well-diversified ETF, capturing well-established, large cap equity securities.

iShares UK Gilts UCITS (long)

Considering that the unemployment target of the BoE is probably going to be reached in February, we see the UK as the first country to start increasing rates. This might not happen in the immediate future, but the trend is definitely ongoing.

EVENTS

USA

- CPI/PPI
- Speeches from FOMC members
- Housing Indicators

EUROPE

- UK Unemployment Rate
- EU Flash PMI
- EU Consumer confidence

ASIA & OCEANIA

- Japan Prelim. GDP
- RBA Monetary Policy minutes
- BOJ Monetary Policy statement
- China HSBC Flash Manuf. PMI

REFERENCES

Reserve Bank of Australia, Bank of Japan, Thomson Reuters, Markit ,Eurostat, Markit ,Eurostat, ECB, Bloomberg, Berenberg

DISCLAIMER

I.O.U.

AMOUNT ______________

ON DEMAND

DATE ______________