SIERRA

SHARD FUND

A JOURNEY ACROSS FINANCIAL MARKETS

March 8th - March 14th, 2014 | Issue 11

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SPECIAL ANNOUNCEMENT

Young Finance Scholars' Conference

The conference provides an opportunity for junior scholars that have little (or no) experience with publishing in academic journals to share their research, debate their methodology and results, network with their peers from other institutions and, primarily,to receive expert comment and advice on publication from leading finance academics.

Schedule: **http://bit.ly/1iWEtVd**

To register follow the link or the logo: **http://bit.ly/1gzMYlP**

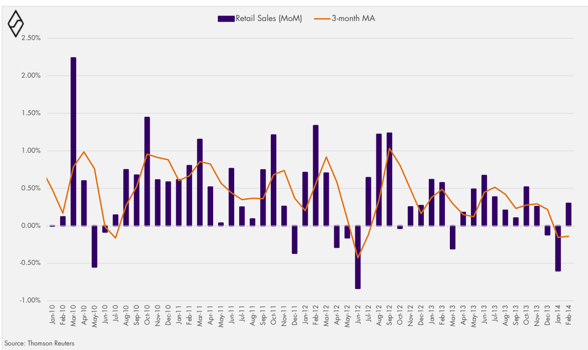
USA

Internet is king

The past week was relatively calm in terms of economic data but US (and global) markets reacted negatively to what was happening in Ukraine. The S&P 500 dropped 1.97% as the flight to safety saw the 10 year treasury yield drop by 15 bps to 2.65%. Following the textbook scenario, gold was up 3.1% for the

Financials	-2.29%
Industrials	-0.19%
Materials	-1.86%
Consumer Discretionary	-2.55%
Consumer Staples	-1.70%
Energy	-3.11%
Technology	-1.86%
Healthcare	-2.17%
Utilities	2.25%

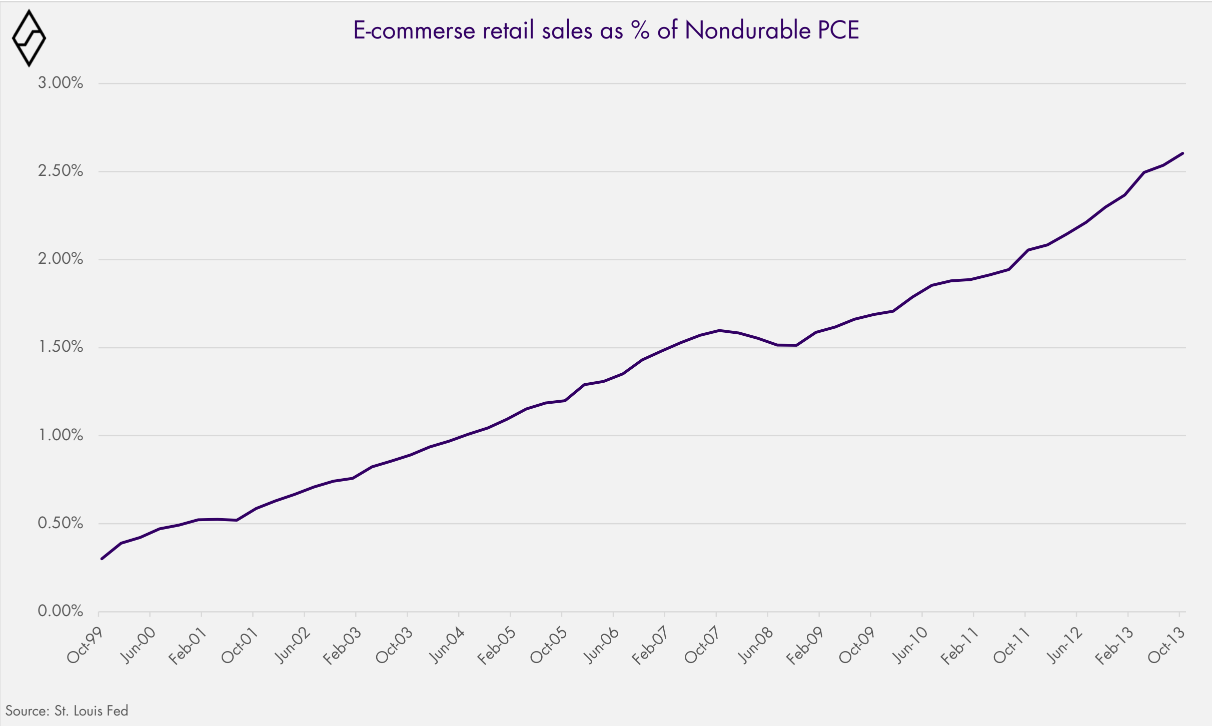
week and to top it off, Utilities was the only sector up, ripping by 2.25%. In other words, the 2014 fairytale continues. It will be very interesting to hear what Janet Yellen has to say about this when the FOMC meets later this week. Although, we don't believe she will pause tapering that easily.



There isn't much new to say this week so we shall keep it short, nice and tidy. Hopefully, we will have plenty to talk about in the next issue, given the FOMC meeting and the bunch of housing data that will occupy our space this week. Let's kick things off with retail sales.

Looking at February in isolation, retail sales grew by 0.3% or roughly the average monthly increase since 1992.

Looking at February in isolation, retail sales grew by 0.3% or roughly the average monthly increase since 1992. Not bad for a month with severe weather conditions. However, looking at the trend, the situation looks still pretty tough with smoothed sales (3-month MA) in a negative territory for a second consecutive month after staying positive since the spring of 2012. Besides, it's not that hard getting a positive retail sales growth after seeing a decrease of almost 1% for two months in a supposedly growing economy. Another interesting feature of the report is the main drivers, which are led comfortably by e-commerce sales. However, this is not a new phenomenon driven by weather conditions. E-commerce sales have been growing sharply since 2000 with an average monthly increase of 1.6%. The ratio of e-commerce retail sales to nondurable personal consumption expenditure has also been surging in the same time period. In other words, we are speaking about a secular trend that will put a lot of pressure on department stores. We have already seen this, as retailers like Staples and RadioShack, to name a few, are closing stores at an astonishing pace. We are getting increasingly interested in this trend and are looking for spread hedges between e-commerce companies and department stores. Alternatively, we are interested in department stores' brands that have been taking decisive proactive measures to fight that secular trend , as opposed to those hoping this is just a 'flu'. Arguably, we could include RadioShack in the latter category, as the company announced the closure of up to 1,100 stores, despite having the 'best' (we weren't impressed) ad during the Super Bowl this year.



Day	Country	Indicator	Actual	Forecast	Previous
Thursday	United States	Initial Jobless Claims	315K	330K	324K
		Continuing Jobless Claims	2,855K	2,900K	2,903K
		Retail Sales	0.3%	0.2%	-0.6%
Friday		PPI (YoY)	0.9%	1.2%	1.2%
		Michigan Consumer Sentiment	79.9	82.0	81.6

EUROPE

And now what...?

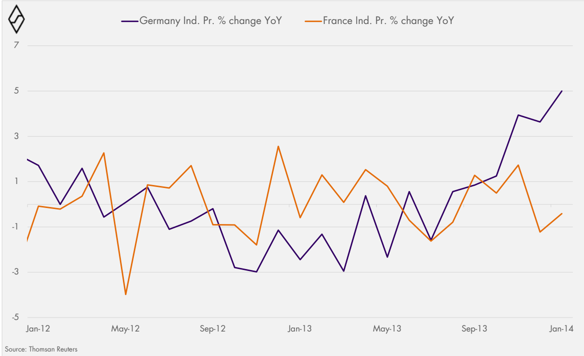
Looking back at the past five trading days, once again the condition of the European stock markets was dictated by the Ukrainian conflict, putting pressure on the investors' risk tolerance. The uncertainty over Crimea, after Russia effectively occupied the region following the ousting in Kiev of former pro-Moscow Ukrainian President, Viktor Yanukovich, also caused a spike in volatility in equity markets. We saw the UK FTSE 100 fall by 2.75%, the French CAC 40 decline by 3.44% and the German DAX by 3.15%.

One thing is sure: from Monday Europe will no longer be the same.

The current geopolitical development is the next big test of the European community and identity. Moreover if we look deeper, Europe relies on Ukraine for a lot of its gas, so if there are problems in Ukraine, it will have an impact on Europe's economic growth as well. One thing is sure: from Monday Europe will no longer be the same.

Regarding the rest of the Continent, the most interesting macro figures came from the industrial production in two of the biggest countries. French industrial production fell 0.1% YoY in January. The figures highlight the increasing divergence with economic performance in Germany, where industrial output rose 5% year on year in the same period.

However, even if these series represent



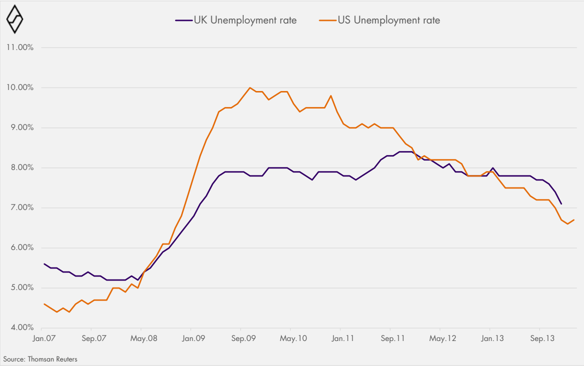
a relatively small portion of GDP to both countries, they account for a large portion of the goods that are cyclically sensitive to the economy, such as consumer durables and business equipment. There is definitely large concern over the French data, but we need to wait until next month to see if there is going to be some trend or if this is just a seasonal correction.

THE BEAUTY OF THE LABOUR MARKET

Increasing concern about the tightening of monetary policy in the United Kingdom has begun to circulate over mainstream media and the questions regarding this are: When? How much? Sooner than Fed or not?

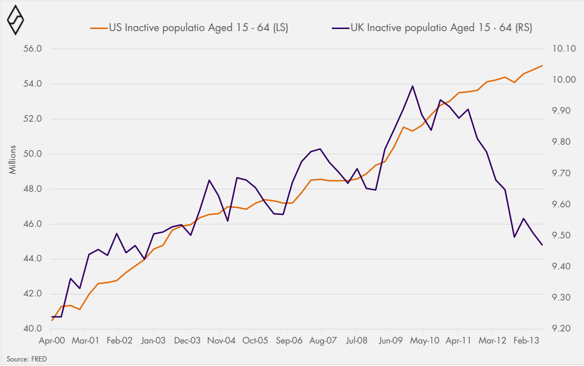
Comparing the QE tapering of both central banks, the MPC and the FOMC have issued forward guidance based on unemployment.

However, since this guidance was issued, unemployment rates have fallen faster than had been anticipated.



Both central banks have raised a question mark over just how reliable a guide the headline unemployment rate might be to overall labour market conditions. The driving forces behind these falls have been very different. In the US, the key issue is the concomitant decline in labour force participation. In the UK, it has largely been a result of weak productivity, which in turn has induced strong gains in employment.

The issues here are which model is more stable and which is going to have a real positive impact on the overall economy? Both the Federal Reserve and the Bank of England have recently placed considerable importance in the unemployment rate as an overall indicator of the amount of slack in the economy. While the unemployment rate has fallen sharply in



both countries, the participation rate – and its inverse, the inactivity rate – have behaved very differently.

We believe that there is more slack in the US labour market than is indicated by the headline unemployment rate alone, but the opposite may be true in the UK. If we are right, this will give policy makers in the US much more time before they need to enact a traditional policy tightening, than implied by the fall in unemployment. In the UK, by contrast, there is little evidence of spare capacity, meaning that the MPC may come under pressure to raise rates much sooner than its counterparts in the US.

Day	Country	Indicator	Actual	Forecast	Previous
Tuesday	Germany	Trade Balance	17.2B	19.3B	18.3B
	United Kingdom	Manufacturing Production m/m	0.4%	0.3%	0.4%
		Industrial Production m/m	0.1%	0.3%	0.5%
Wednesday	EU	Industrial Production m/m	-0.2%	0.6%	-0.4%
Friday	EU	Employment Change q/q	0.1%	0.0%	0.0%

ASIA & OCEANIA

China taking a hit!

CHINA

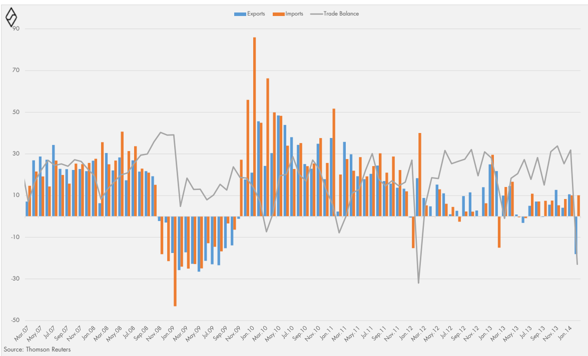
It can be said that the Chinese (and/or Hong Kong's) stock market went through a tough week. All the data that came out was particularly discouraging for investors, which led to some major Banks reducing Q1 GDP results (all from the box below) and some of them even reduced the full year GDP growth forecasts.

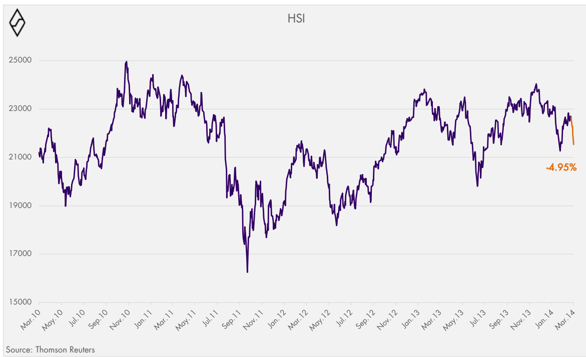
Full Year GDP Forecast		
Bank	before	now
Bank of America Merrill Lynch	7.60%	7.20%
UBS	7.80%	7.50%
Barclays	7.20%	no revision
Nomura Securities	7.40%	no revision

Source: FT

The Chinese trade balance disappointed this week by posting its 8th negative trade balance in the past 10 years. Expectations were for 13.2B and somehow the numbers came 36.2B short. The reason was that orders were brought forward ahead of the Lunar New Year. We are no professionals, however considering there was no dramatic event and the fact that these dates are known in advance (for such adjustments as Lunar New Year), this seems like a good example of a failure, especially considering how investors took the news. The Hang Seng fell 1.42% on the open and finished the week with a 4.95% loss.

We know that the government's target for GDP growth is 7.5% and trade balance is expected to remain at stable levels due to the stabilising economic situation in the developed world. If the external demand for exports is not as good as expected, we may see PBOC pressured to keep a loose monetary policy, meaning that the increasing threat of over-inflated credit lending will increase.





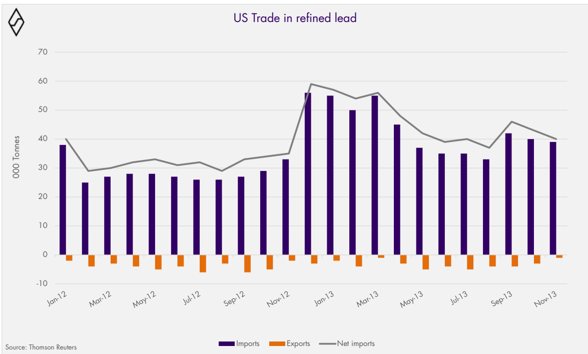
Day	Country	Indicator	Actual	Forecast	Previous
Saturday	China	Trade Balance	-23.0B	13.2B	31.9B
Sunday	China	CPI y/y	0.0	0.0	0.0
Monday	Japan	Current Account	-0.59T	-0.59T	0.07T
		Final GDP q/q	0.20%	0.20%	0.30%
	China	Industrial Production y/y	8.60%	9.50%	9.70%

COMMODITIES

Herculaneum no more

METALS

The last primary lead smelter in the USA, once sourcing its raw materials from mines as opposed to scrap, closed at the end of 2013. The shutting of Herculaneum saw the end of 120 years of lead smelting in Missouri. Doe Run, which operated the plant, is going to continue mining lead for export, producing refined lead from used batteries at its Boss recycling plant in the same state and, for a while at least, is planning to keep the refining and alloying operations of Herculaneum open. Globally the shutdown will not make a lot of difference, but it will make a big difference to US lead market dynamics, by increasing the country's import dependence. Furthermore it begs the question as to what kind of pricing mechanism best suits a country that produces only secondary lead from recycled batteries.



The world still needs lead for use in automotive batteries but demand is increasingly met through recycling old batteries, with lead having the highest recycling rate of any industrial metals. In the USA secondary lead plants, produced almost 1.2 million tonnes of refined metal last year, according to figures from the International Lead and Zinc study group (ILZSG). This is clearly not enough to satisfy demand in the world's second largest user of the metal. Typically the shortfall is met by imports, which have primarily from Canada and Mexico. With the shutdown of Herculaneum, that import dependence is only going to increase. The graph below shows import flows last year experienced a step-change, possibly reflecting, pre-emptive stock building.

For many the most powerful price driver is the availability of used batteries, not supply-demand fluctuations in the primary lead market.

It seems that US buyers may have to search further afield for refined lead units than the two traditional neighbouring suppliers. Hence even as US lead production becomes exclusively scrap-driven in nature, the domestic market will remain attached to both; the international refined lead market and to the international lead price set by the LME. However for many the "world" price risks are becoming ever less relevant. For many the most powerful price driver is the availability of used batteries, not supply-demand fluctuations in the primary lead market. Due to this a new form of pricing is starting to evolve, most visibly in the form of battery energy scrap reference price as assessed by Platts, a leading global energy, metals and petrochemicals information provider. Although this price series is still in its infancy and, doesn't offer the same price risk hedging function as a market such as the LME, the fact it exists hints at a separation of lead pricing in the US market. Perhaps a possible first step towards a hybrid pricing model with those players exposed to imports pricing on the "world" primary price and those locked in the closed-loop secondary market pricing in a "domestic" battery price.

ENERGY

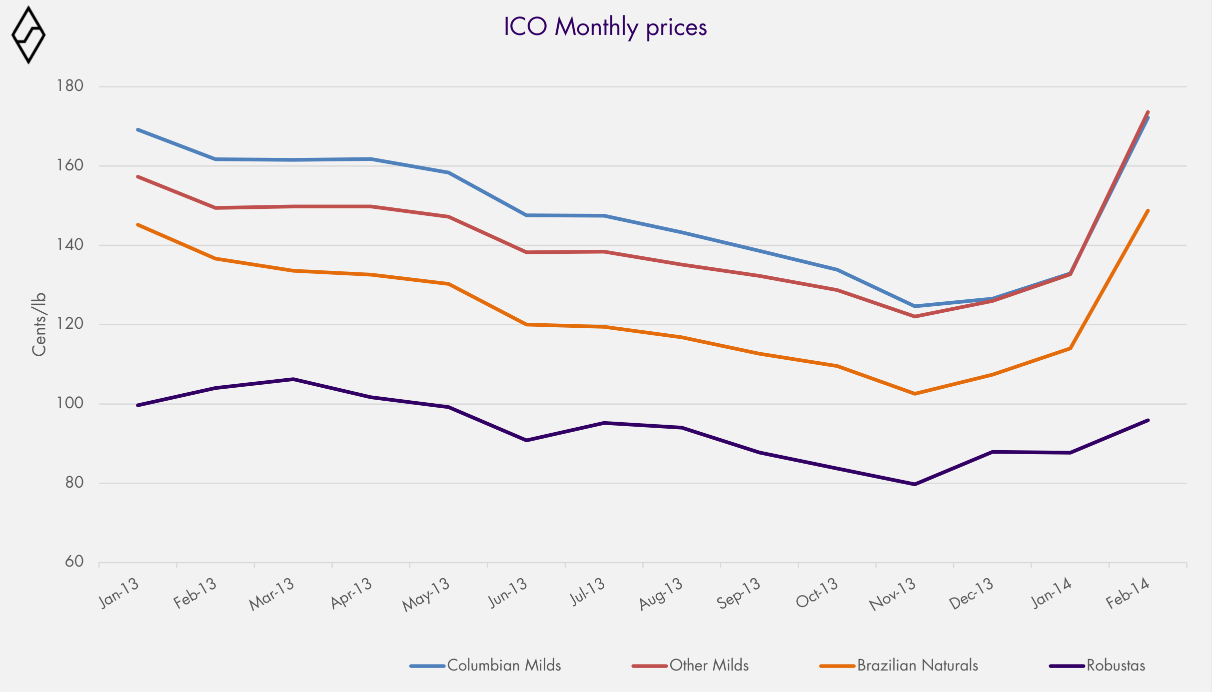
The US government has decided to lift a ban that excluded BP from new federal contracts, after BP filed a lawsuit saying it was being unfairly penalized for its 2010 Gulf of Mexico spill. An agreement was reached between the Environmental Protection Agency and BP ending the prohibition on bidding for federal contracts on everything from the fuel supply contracts to offshore leases after BP committed to a set of safety, ethical and corporate governance requirements. Shares of BP traded in the USA rose about 1% to $48.09 after the close of regular trading on the NYSE, a sign investors were hopeful the company could now try to grow its US offshore operations.

Royal Dutch Shell is planning to cut spending by 1/5th and lay off staff at its American exploration and production business the company, in another sign that oil majors are struggling to profit from the booming US shale sector. Oil and natural gas pumped from North America shale have proved a boon for many smaller businesses, but the world's largest oil companies including BP and Exxon Mobil, have had less success unlocking the prolific rock's full potential. Oil companies active in North America shale have broad exposure to profit-sapping US natural gas prices of which fell to their lowest in a decade during 2012 but rebounded as a cold winter depleted gas in storage.

AGRICULTURE

Central America's worst-ever coffee leaf rust disease may not be as bad as expected. The drop in production is estimated around 24% since 2011/2012 crop year. In its monthly report, the ICO sited data from Promecafe, the Central American coffee body that pegged production losses in 2013/2014 at 11.67 million 60-kg bags. This is roughly 8% of the world's total coffee production expected in 2013/2014. As mentioned previously the surge in coffee prices has been due to the lack of rain in Brazil. This has likely caused the 2013/2014 crop to head towards a deficit compared to demand. What is important to note however is that despite the large price increase coffee prices are only roughly at November 2012 levels, and therefore still a long way off the 2011 highs, meaning they could potentially go higher. Furthermore this lack of rainfall has been combined with very high temperatures.Dr Peter Baker is of the opinion that the draught is likely to hit Minas Gerais particularly hard, which is where most of the coffee is grown. Given that in his report it shows that the average Jan-Feb maximum temperature is up to 4 degrees higher than normal, and that the combined Jan-Feb draught is approaching 500mm this does seem plausible. Resulting in higher coffee prices.

The graph below shows the monthly prices for the different categories of coffee, in order to give a visual guide to the price changes:

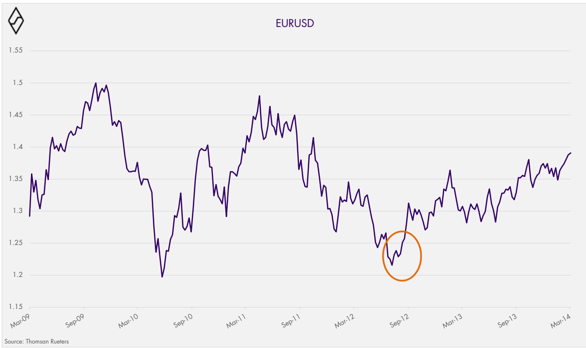


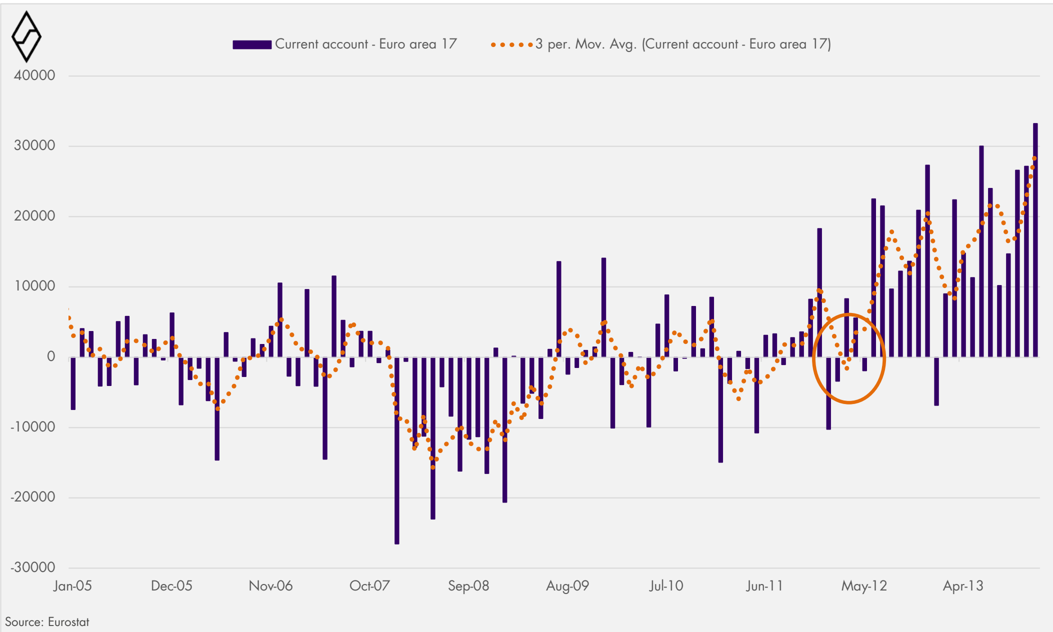
Source: International Coffee Organization

FOREX

Pair	Open	Close	Weekly %	Monthly %	YTD
EUR/USD	1.3872	1.3907	0.25%	0.78%	1.18%
USD/JPY	103.26	101.32	-1.88%	-0.42%	-3.78%
USD/CHF	0.8775	0.8721	-0.62%	-0.82%	-2.32%
USD/CAD	1.1084	1.1095	0.10%	0.31%	4.47%
AUD/USD	0.9064	0.9025	-0.43%	1.14%	1.26%
NZD/USD	0.8459	0.8527	0.80%	1.78%	3.91%
USD/CNY	6.126	6.1502	0.40%	0.08%	-1.49%
GBP/USD	1.6715	1.664	-0.45%	-0.58%	0.51%

Looking at the long term movement of the pair EURUSD, we believe that the current account will keep supporting the bullish Euro, continuing its trend from May 2012. The only reason to see the devaluation of the common currency, might be if Mr. Dragi decides to cut further the main interest rate.





PORTFOLIOS

MAVERICK

security	L/S	date
Tracker Fund of Hong Kong	Long	03.Sep.13
Corning Inc.	Short	23.Oct.13
CNY/USD	Long	04.Nov.13
ProShares UltraShort Lehman 20+ Yr(ETF)	Long	04.Nov.13

security	L/S	date
iShares MSCI Emerging Markets	Short	24.Jan.14
DBIQ Optimum Yield Diversified CI	Long	03.Feb.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

security	L/S	date
Claymore/AlphaShares China Real Est ETF	Short	04.Nov.13
Claymore/AlphaShares China Real Est ETF	Short	17.Dec.13
Royal Caribbean Cruises Ltd.	Long	13.Jan.14
Carnival Corp	Long	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

EVENTS

USA

- FOMC meeting and statement
- Housing starts, Building Permits
- Existing home sales

EUROPE

- EU:CPI y/y
- UK: Unemployment Rate
- EU: Consumer Confidence

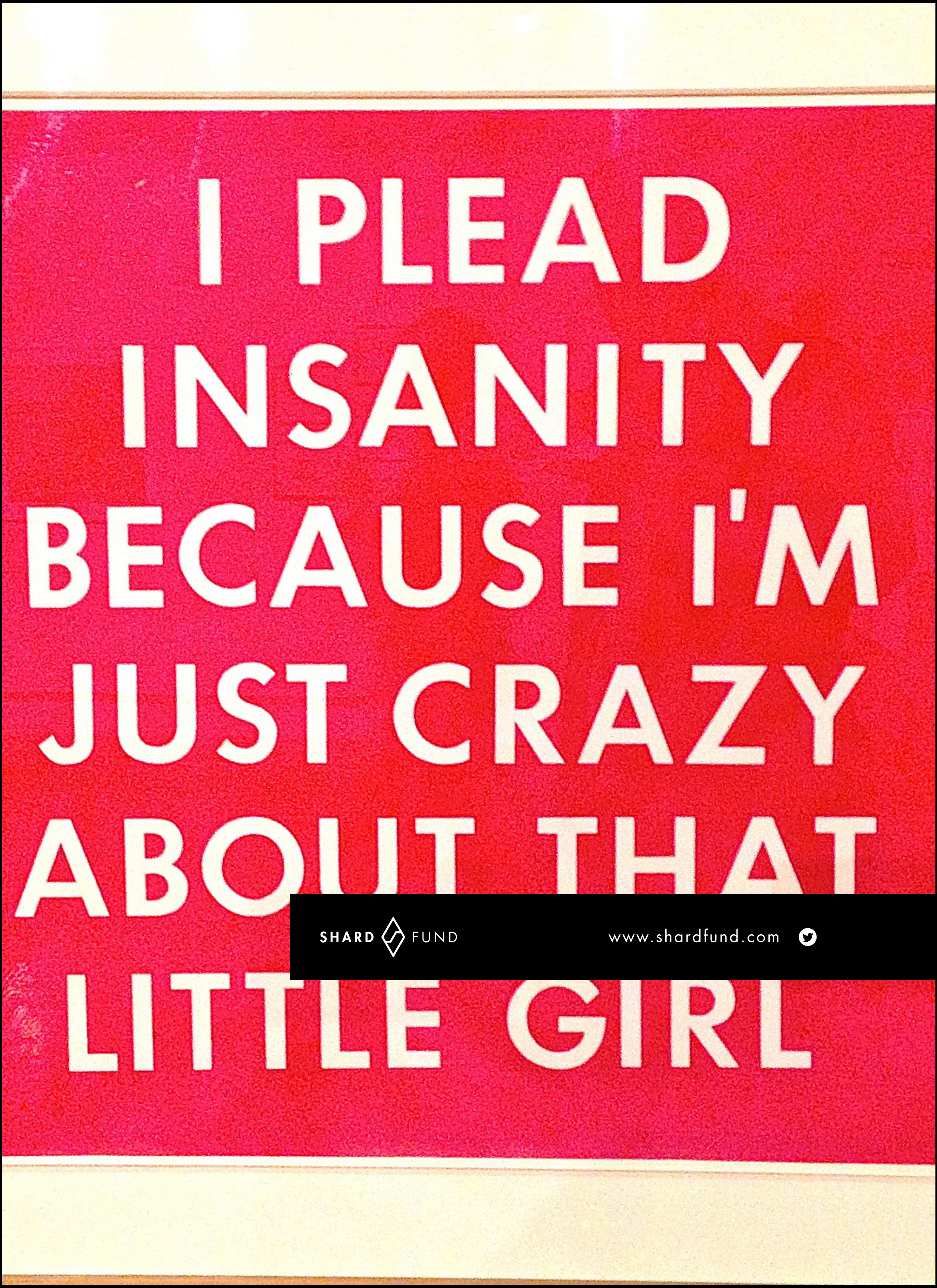
ASIA & OCEANIA

- New Zealand: GDP q/q
- Australia: Monetary Policy Meeting
- Japan: BOJ Gov Kuroda Speaks
- Japan: Trade Balance

REFERENCES

Reserve Bank of Australia, Bank of Japan, Bloomberg, Thomson Reuters, Markit ,Eurostat, ECB, Bloomberg, Reuters, http://bit.ly/1qNajVt, http://bit.ly/1gzTYPn

DISCLAIMER


I PLEAD
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LITTLE GIRL