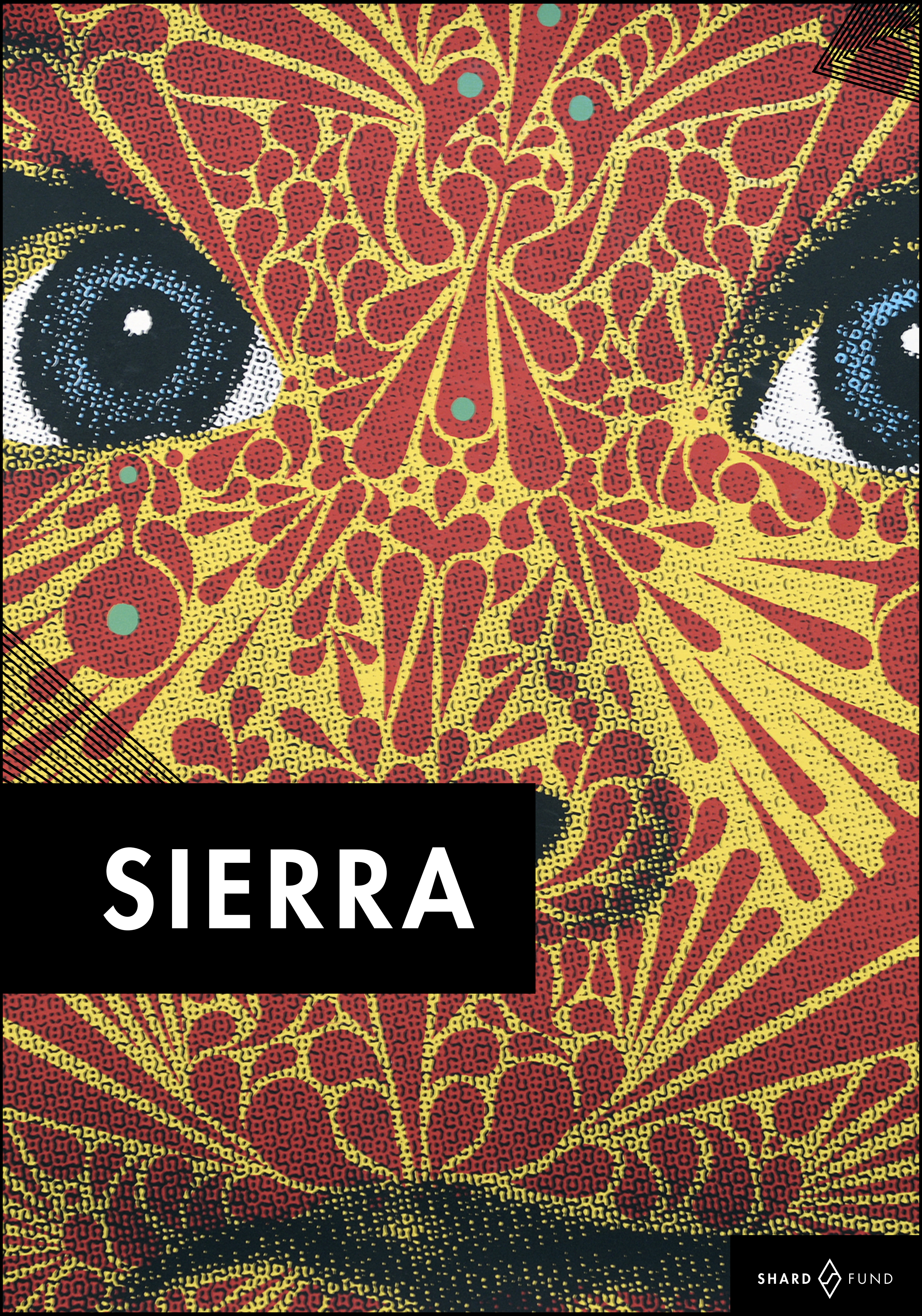

SIERRA

SHARD FUND

A JOURNEY ACROSS FINANCIAL MARKETS

June 21th - June 27th, 2014 | Issue 17

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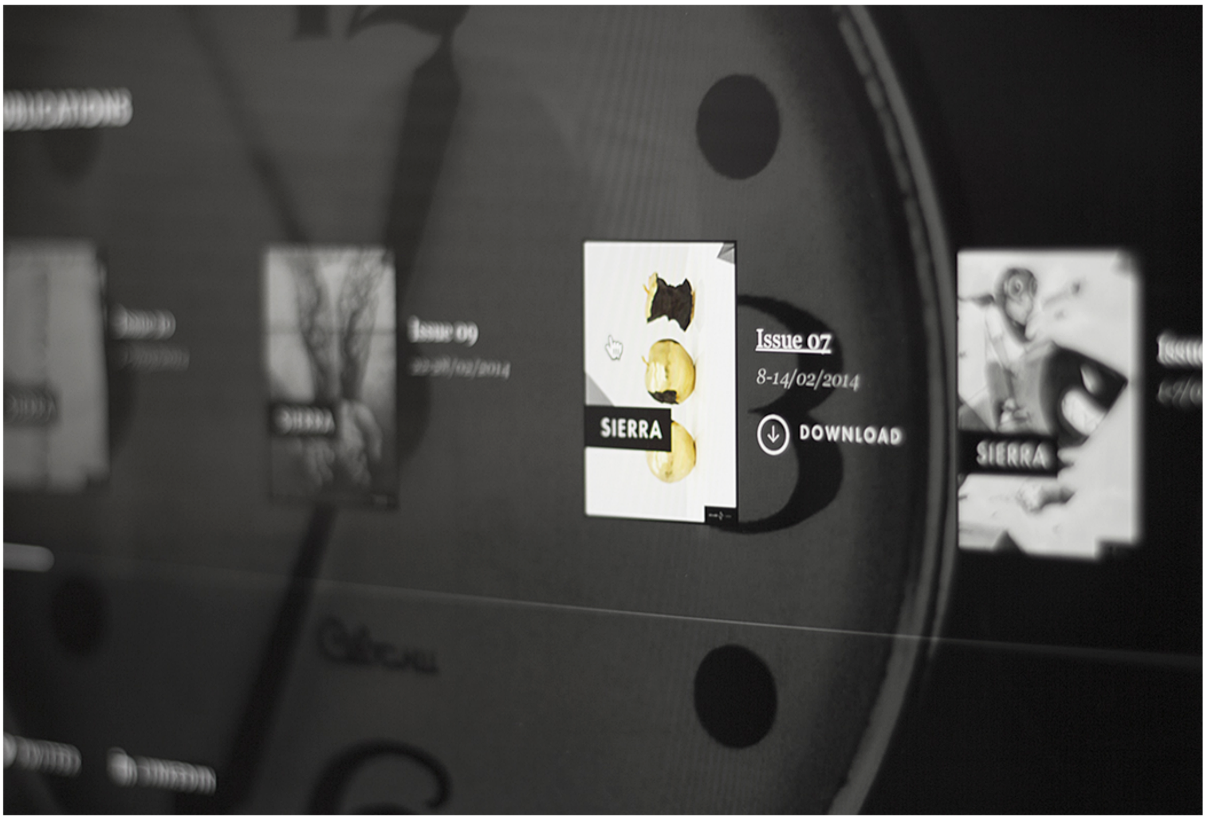
SPECIAL ANNOUNCEMENT

The Shard Fund website is up and running.

www.shardfund.com



View case study: **http://kickflipx.com/work/shardfund**

HIGHLIGHTS

USA

The Fed lowered its end-of-year GDP target to 2.1-2.3% earlier this month. We believe there will be another revision in September and we are positioned accordingly.

EUROPE

Last week was the first negative week for EU equities since April 2014. However, recent history suggests that the Eurozone will receive a major lift from the ECB's initiative. Investors could take advantage of this coming trend by buying the stocks of consumer discretionary companies that have a high level of exposure to the Eurozone. The German CPI performed better-than-expected in June 2014.
Finally Bulgaria experienced two banks runs and the SOFIX index flattened the earlier YTD 27% returns.

ASIA & OCEANIA

The National Democratic Alliance, led by the Bharatiya Janata Party (BJP), won 31% of all votes in the election in India and took 51.9% of all seats, meaning they can govern without the support of other parties. This is the first time since 1984 when a party has won enough seats to govern on its own. In his most recent interview Narendra Modi, the leader of the party and new prime minister, stated that he is willing to make hard decisions in order to boost India's economy, even if this results in him losing popularity. Judging by Mr Modi's past and his current economic agenda, we have a strong positive view on the country's economy.

COMMODITIES

The Russia-Ukraine tensions not only had a significant effect on energy markets, in particular natural gas, but also caused gold to pass through its significant $1,300 mark. The EIA has produced a forecast showing higher energy consumption for both OECD and non-OECD countries, suggesting further growth in emerging markets. The Brazilian harvest has been the chief driver in the coffee market rally seen in Q1.

Weekly Change	
Indices	
S&P/ASX (Australia)	0.51%
Hang Seng	0.12%
BSE (India)	-0.02%
S&P 500 (USA)	-0.10%
SSE (China)	-0.72%
FTSE 100 (UK)	-0.99%
Nikkei 225 (Japan)	-1.66%
DAX (Germany)	-1.72%
IBEX (Spain)	-1.75%
CAC (France)	-2.30%
FTSE MIB (Italy)	-3.04%
Currencies	
EUR/USD	0.35%
AUD/USD	0.35%
GBP/USD	0.14%
USD/CHF	-0.49%
AUD/NZD	-0.57%
USD/JPY	-0.66%
USD/CAD	-0.86%
Commodities	
Copper	1.44%
Silver	0.77%
Gold	0.05%
WTI Crude Oil	-0.87%
Brent Crude Oil	-1.33%

CALENDAR

USA					
Day	Country	Indicator	Actual	Forecast	Previous
Monday	United States	Existing home sales	4.89M	4.73M	4.66M
Tuesday		CB Consumer Confidence	85.2	83.5	82.2
		S&P/CS HPI Composite (YoY)	10.80%	11.6%	12.4%
		New home sales	504K	440K	433K
Wednesday		Durable Goods Orders (MoM)	-1.0%	0.2%	0.6%
		GDP (QoQ)	-2.9%	-1.7%	-1.0%
Thursday		Personal Spending (MoM)	0.2%	0.4%	0.0%
Friday		Michigan Consumer Sentiment	82.5	82.2	81.2
Upcoming events				Forecast	Previous
Monday	United States	Pending home sales		1.5%	0.4%
Tuesday		ISM Manufacturing PMI		55.9	55.4
Wednesday		ADP Nonfarm employment		203K	179K
Thursday		Nonfarm payrolls		210K	216K
		Unemployment rate		0.4%	-0.1%
		ISM Non-Manufacturing PMI		56.3	56.3
EU					
Day	Country	Indicator	Actual	Forecast	Previous
Monday	EU	Flash Manufacturing PMI	51.9	52.2	52.2
		Flash Service PMI	52.8	53.4	53.2
Tuesday	Germany	Ifo Business Climate	109.7	110.3	110.4
	United Kingdom	BBA Mortgage Approvals	41.8K	41.3K	41.9K
Wednesday	Germany	Gfk Consumer Climate	8.90	8.60	8.60
Friday	Germany	Perlim CPI Flash y/y	0.30%	0.20%	-0.10%
	United Kingdom	Final GDP q/q	0.80%	0.80%	0.80%
Upcoming events				Forecast	Previous
Monday	EU	CPI Flash Estimate y/y		0.60%	0.50%
Wednesday		Unemployment Rate		11.70%	11.70%
		Final GDP q/q		0.20%	0.20%
Asia and Oceania					
Day	Country	Indicator	Actual	Forecast	Previous
Sunday	China	HSBC Flash Manufacturing PMI	50.8	49.7	49.4
Thursday	New Zealand	Trade Balance	285M	250M	498M
	Japan	Household Spending y/y	-8.00%	-1.90%	-4.60%
		Tokyo Core CPI y/y	2.80%	2.80%	2.80%
		Retail Sales y/y	-0.40%	-1.90%	-4.30%
Upcoming events				Forecast	Previous
Sunday	New Zealand	ANZ Business Confidence			53.5
Monday	Japan	Tankan Manufacturing Index		16	17
		Tankan Non-Manufacturing Index		19	24
	China	Manufacturing PMI		51	50.8
		HSBC Final Manufacturing PMI		50.8	50.8
Wednesday	Australia	Cash Rate		2.50%	2.50%
		Trade Balance		-0.21B	-0.12B
Thursday	China	Non-Manufacturing PMI		19	24
		Retail Sales m/m		51	50.8

USA

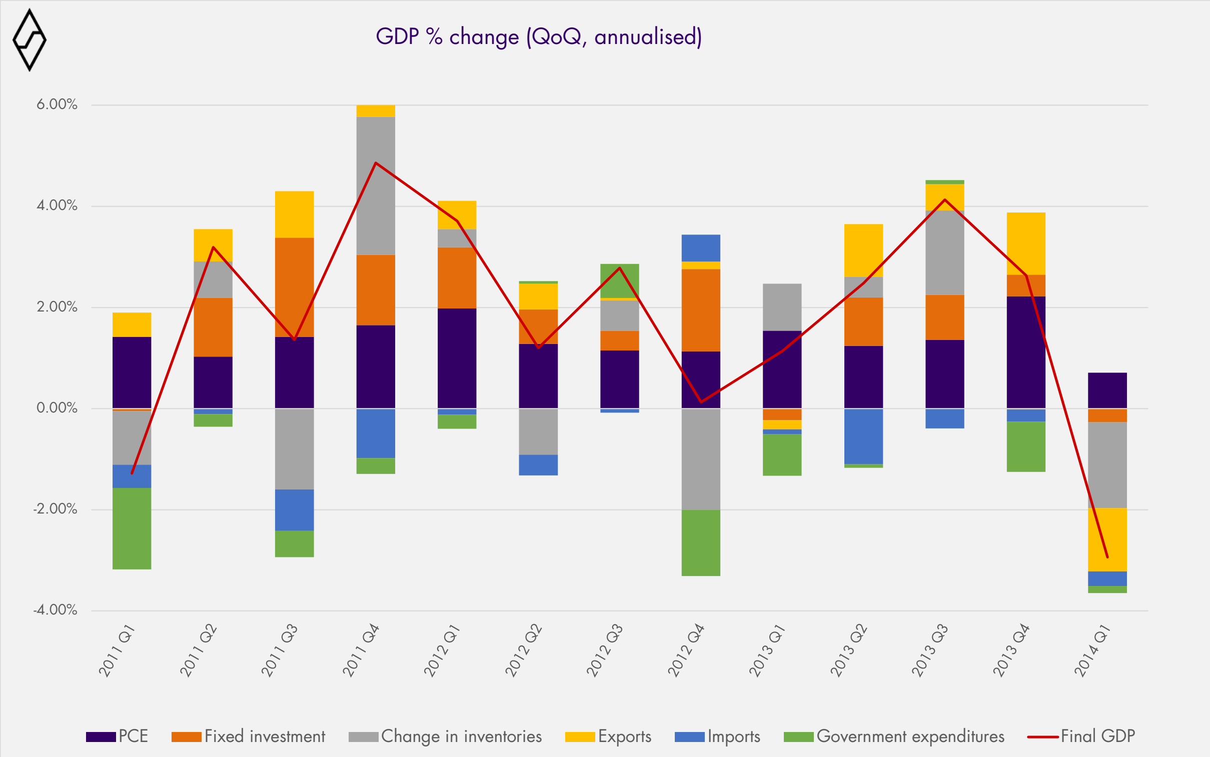
Gloomy and Gloomier

Sectors	5D	1M	3M	YTD
Utilities	1.01%	4.32%	7.23%	15.64%
Energy	-0.90%	5.94%	13.71%	13.00%
Healthcare	0.64%	2.93%	5.42%	10.16%
Technology	0.66%	1.81%	6.71%	7.27%
Materials	-0.35%	1.82%	6.49%	7.02%
Financials	-0.31%	2.38%	3.36%	4.12%
Consumer Staples	-1.25%	0.57%	4.73%	3.90%
Industrials	-1.33%	0.85%	5.73%	3.88%
Consumer Discretionary	1.04%	2.06%	4.66%	-0.09%
Indices				
S&P 500	-0.10%	2.57%	6.05%	6.09%
Nasdaq	0.68%	4.09%	5.83%	5.30%
Russell 2000	0.09%	4.65%	3.27%	2.22%
Dow Jones Ind. Avg.	-0.56%	1.31%	3.24%	1.66%

So, we conclude the first half of this thrilling year. For some, now is the time for a summer break, meanwhile we continue to work day and night and enjoy the sun through the window. Last week we reviewed some of the most important things in terms of market dynamics, so this week we turn our attention to economics.

If you missed it or did not believe the news, we confirm that US Q1 GDP plummeted by 2.9%, which is the lowest quarterly growth rate amongst all G-20 countries, as well as a lot other countries globally. This is the third largest drop in US quarterly GDP in more than 30 years. We could talk about the magnitude of this failure all day long but enough is enough. In issue 12 we talked about the unbelievably high yearly GDP target the Fed had and we hinted about a forthcoming revision of that number. We were correct; the Fed lowered its target to 2.1-2.3% earlier this month. The funny thing about this revision is that a week after it was made, the final GDP number (-2.9%) was released, which automatically made the new Fed target even higher than the previous one. As things currently stand, quarterly GDP will have to increase by 4.8% (on average, annualised) in every quarter until the end of the year, in order to reach Fed's target. In other words, either the US will experience a rather enormous growth or the Fed will lower its target once again. As far as we are concerned, we look forward to the next revision in the September meeting.

If you have made money so far this year, this anticipated revision should not change your approach. However, if you have lost money in the past six months, it is high time you changed your approach and acknowledge the circumstances. Buy bonds and gold (commodities) and sell the dollar. In the US market, buy defensive sectors paying high dividend yields (utilities, energy) and sell cyclicals (financials, discretionary) that worked last year when growth was robust. Bear in mind that this is still not a consensus view. Goldman Sachs just released their mid-year economic review videos, where the chief economist talks about strong growth until the end of the year. Meanwhile, JP Morgan keeps advising its clients to sell bonds, and currently the bank's clients have the largest



Source: Bureau of Economic Analysis

net short position in treasuries since 2006. JP also has an end-of-year target for the 10 year treasury yield of 3.2%. Those shorts will have to be covered sooner or later if things don't go as planned.

As for why we don't see the growth the consensus sees; the answer is simple. GDP growth in every industrialised country is driven by consumption of normal, average people. In the US, consumption is roughly 70% of GDP. People consume by spending their wages on food, transportation, shelter etc. When the increase in wages is more than the increase in the cost (inflation) of those consumption goods, a person could spend more, repay debt or save. Since the beginning of the year, personal income has increased only 1.9% (Department of Commerce). At the same time, food prices (CRB foodstuff index) have increased roughly 24%, Brent crude oil is up 6%, while rent is reaching all-time highs every month and increasingly more people are renting. So how does an average consumer tackle a situation where his increase in income cannot cover the increase in prices of consumption goods? The C to the R to the E to the D to the I to the T — CREDIT. Revolving credit, i.e. credit cards, has increased by 4.5% (annualised) in the first 4 months of this year, which is the largest increase since the same period in 2008 (before the crisis). Meanwhile, corresponding retail sales have increased only 3.1% (annualised) in the same period and the personal consumption expenditure (PCE) part of GDP has seen only 1% increase in Q1 and has been even softer in April and May. In other words, people are reaching for the credit card to pay for food, not to buy a TV. It is more of a sign of desperation than one suggesting robust growth until the end of the year. But hey, maybe Goldman's model is more sophisticated.

EUROPE

Catch me if you can

The last 5-trading days were the first negative week for EU markets since April. This was due to the investors' reaction, who responded to data that showing that U.S. consumer confidence rebounded in June. The EuroStoxx 50 was down by 1.5%, the DAX declined by 1.72% and the FTSE 100 decreased by 1.72%. The biggest loser of the week was the Italian FTSE MIB Index, but the reasons for that were largely local. Having known that on July 1 the new Italian fiscal reform will begin and the tax rate on capital gains will go up from 20% to 26%, both private and institutional investors were selling before that date so as to rebuy again after and get a +2% after tax return. The FTSE MIB currently stands below the levels recorded after Mr Renzi's victory and at the same levels registered before Mr Draghi's last intervention. The index is behaving worse than the Spanish Ibex 35, and (if this trend continues), next week will be the moment to resume taking positions.
Despite the negative week, we believe that the mood on the EU equities is still bullish.

ECB IN DA HOUSE

Looking at the European Central Bank's decision to incentivise banks to lend, the decision is likely to give the EU stock markets a big boost, although the benefits from this move are still questionable. It is well known that, under the program announced by ECB President Mario Draghi on June 5, the central bank will create a EUR 400B program to incentivise banks to lend and give them cheap cash until the end of 2016. The loan incentive program, however, won't begin until September, so it likely won't impact the Eurozone's economy until the end of this year. Nonetheless, we are going to witness a stock market reaction sooner rather than later.
Meanwhile, German consumer prices rose more than expected in June. The figure rose 0.3%, 0.1% higher what consensus expected. Knowing this, we could see an impact on the European CPI scheduled to be published- one of the most monitored indicators.
In turn, this immediately indicates a possibility that the preliminary euro area figure, to be reported on Monday, is on the rise. Consensus view looks for a 0.5% rise in the year-over-year rate. Now it is reasonable to expect a 0.6%, or even 0.7%. Make no mistake about it, this is still too low for most ECB officials, though it is the nearest thing to price stability in the literal sense, but also lends support to for further monetary shenanigans by the central bank.

BULGARIA: ROUND 1—PEEVSKI VS. VASSILEV

Two bank runs in 7 days and a stock market index (SOFIX) that accelerates and decelerates faster than an F1 car. Welcome to Bulgaria. The timing of all this was something of an art, as the events took place after a rate cut from S&P from BBB to BBB- on June 13th, days before Bulgaria was set to be meeting with investors to sell 2billion EUR worth of bonds. Also, bear in mind the early elections on October 5th, 2014 (three years ahead of poll).

This year, SOFIX moved from being one of the top worldwide performers in beginning of April with 27.24% YTD gain, to erasing all losses and falling to as low as -0.15% YTD (June 27th,2014). The latter shock was largely, if not fully, due to the two bank runs. The first one to Corporate Commercial Bank (on June 20th) and the second to CB First Investment Bank (on June 27th).

On June 18th, the "businessman" Delyan Peevski had a dispute with Tsvetan Vassilev (majority shareholder and Chairman of Supervisory Board of CCB), after which Mr Peevski allegedly pulled out his company accounts (inc. tobacco maker Bulgartabak AD) from the bank. This sparked the rumours of CCB's poor health and started the "runs". On June 20th, the bank was closed and placed under receivership (or special supervision from the Bulgarian National Bank a.k.a. Rehab). This is in order

Two bank runs in 7 days and a stock market index (SOFIX) that accelerates and decelerates faster than an F1 car. Welcome to Bulgaria.

to inject capital and restructure slightly, before opening doors again in a months' time. On June 27th, CB First Investment Bank, the third-biggest lender, was the next target for “attack” as a result of “rumours and libellous public statements”, as noted by central bank Governor Ivan Iskrov, the bank was in the same situation as CCB a week ago. Emerging Market economists, such as William Jackson of Capital Economics Ltd, have started questioning the quality of Bulgarian banks’ assets, however in Bulgaria, it’s all blamed on rumours and corruption, even by economists.

The whole of Bulgaria seems to hypocritically chant that people shouldn’t be withdrawing their money from the banks, as there is no fundamental reason for the banks to be near bankrupt. Well, right or wrong, either way, the facts are that people have withdrawn around 4% of all deposits in Bulgarian banks, which strongly impacts the liquidity of both banks and even if there wasn’t a fundamental problem before, there is one now. In fact, on some days there were no euros in all exchange bureaus in the capital of Bulgaria—Sofia. This, along with the surprise for some people that there is such thing as fractional banking (quite normal), increased the already high panic amongst people.

The whole debacle rose Bulgaria’s borrowing costs for 2017 euro notes’ yields by only 22bp. Funnily enough, Bulgaria sold 1.49 billion EUR bonds with the lowest ever annual coupon—2.95%.

After CCB went to rehab, a week later CBFIB suffered a bank run too. Clearly the government is not restoring confidence in the banking system and panic is increasing. The population speculates that this is all done to destabilise the country prior to re-elections in autumn. Whatever the case, one thing is for sure, if the government does not act quicker and more efficiently, all Bulgarian national banks could run out of cash....fast. After that, pretty much anything is possible.

If there is a will, there is a way.

ASIA & OCEANIA

India—The Capitalist of the 21st century

INDIA

Serving as the current Prime Minister of India, Narendra Modi, also the leader of the right-wing Bharatiya Janata Party (BJP), is a very controversial figure both in India and worldwide. He is most famous for his 13 years as Chief Minister of Gujarat, a state in the North Western part of India.

"Equity investors tend to view the BJP as business-friendly, and the BJP's prime ministerial candidate Narendra Modi as an agent of change."

There he introduced a number of development projects that helped propel the economy of Gujarat, resulting in a 10.3 % year-over-year real GDP growth between FY 2003 and FY 2012, which was 2.4 % above India's results for the same period. The combination of his leadership style and his business acumen dubbed as "Modinomics" has attracted a number of major investments from international conglomerates such as Ford or Colgate. Even Goldman Sachs stated in a report last year that they believe Modi is the perfect man to take the helm of the Indian economy (the report was written before the elections). The report titled "Modi-fying our view: raise India to Marketweight", written by Timothy Moe and his team states:

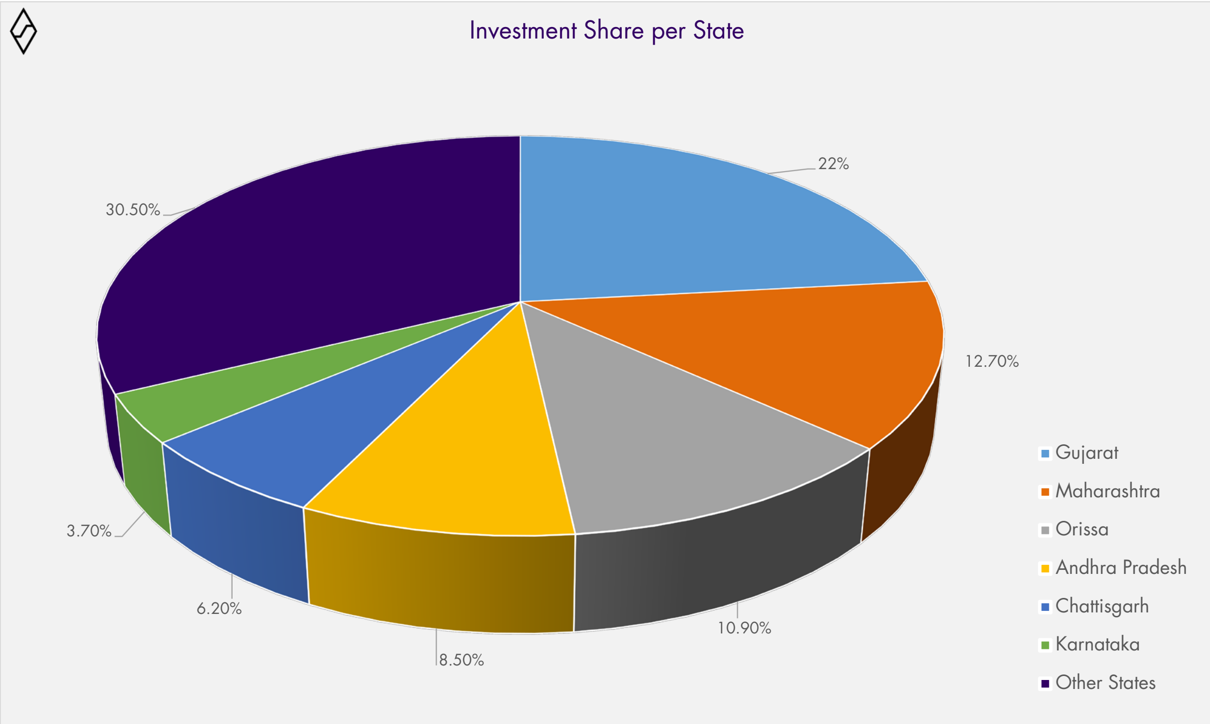
"Equity investors tend to view the BJP as business-friendly, and the BJP's prime ministerial candidate Narendra Modi as an agent of change."

The fact that foreign inflows have been strong and redemption by foreign institutions and investors could ease, plus, the general improvement of the economic outlook—were some of the reasons given for the upgrade on their change of view.

However, there is also another side of the coin and the question is whether or not all this is just a hype. The main contra-argument is that Gujarat's economy would have propelled with or without Modi's governance due to its favorable geographic location with extensive coastline, which has made it an export hub. Also, historical statistics show that the state's growth has outperformed India's national average even before Modi took the post. In support of the "hype thesis" are also statistics from 2004/2005 and 2011/12 when, in per capita terms, Gujarat had an 8% growth rate, which is less than 2 other states—Tamil Nadu and Bihar with 8.6% and 15%, respectively.

What's also worrying is that looking back on Mr Modi's history, there is a considerable thrive for division between Hindus and Muslims, through violence and hatred. As noted by The Economist, "There is nothing modern, honest or fair about that. India deserves better." Very often history does not lie and people are slow to change (especially at the age of 63). It makes sense that his past has not reflected strongly on the election results, as the larger part of India's population are Hindus (80.5%). We are not here to judge whether this is ethically good or bad, however we do evaluate the risk of potential religious conflicts that could persuade investors to shy away from the economy (if it were to happen). Statistics, however, show that during the last five years (while Modi was the Chief Minister of Gujarat) 22% of all the investments in the country ended up there and were spent on more than 90 projects amounting a total of roughly USD 15 billion (Reserve Bank of India). This made Gujarat the number one state in India in terms of investment share.v

It is also worth to mention that the so called Modinomics is the absolute opposite of the Nehruvian model of economic development India has followed since its independence. The latter calls for active state intervention during extremities of the business cycle and argues against higher savings in both private and public sector. Yet, although some people fail to acknowledge it, countries grow sustainably through saving and investment. Modi, on the other hand, is a free-market capitalist with a very little tolerance for corruption and political influence. No matter what people might say, free-market capitalism has been extinct in recent decades and even the USA (especially the USA) is a rather mixed economy, ruled by crony-socialists. Anyway, the point is that Mr. Modi has a very promising credentials, which makes him a potential tipping point for the economy. However, it is worth mentioning that Alan Greenspan was one of the fiercest free-market supporter before he became the chairman of the Fed. Yet, the toxic combination of power and political pressure made him forget everything he stood for. In other words, while we do believe Mr. Modi's CV is impressive and he, more than anyone else, could fix the country, we do acknowledge the situation. The market is already expressing this positive sentiment and the BSE Sensex index is up roughly 19% year-to-date and more than 12% since the elections. One particularly good opportunity for long-term investment might be the financial sector. As shocking as it might sound, only one third of the population has bank accounts and overall trust in the financial system is low due to high inflation. The other person we strongly believe in is Mr. Raghuram Rajan,



the chairman of the Reserve Bank of India, who has shown great determination to tackle inflation and depreciating currency. Since he was appointed, the interest rate has been increased several times and currently stands at 8%.

All arguments aside, the elections have passed and they show that people do want change. This is reflected in the results — the National Democratic Alliance, led by the BJP, won 31% of all votes and took 51.9% of all seats, meaning they can govern without the support of other parties. This is the first time since 1984 when a party has won enough seats to govern on its own. In his most recent interview Modi stated that he is willing to make hard decisions in order to boost India's economy, even if this results in him losing popularity. As the "first politician in the country who has fought elections on an economic agenda" it is time for him to turn his rhetoric into action and prove that he is the right man the job to fix the second most populous country in the world.

COMMODITIES

Q1 & Q2 a review thus far

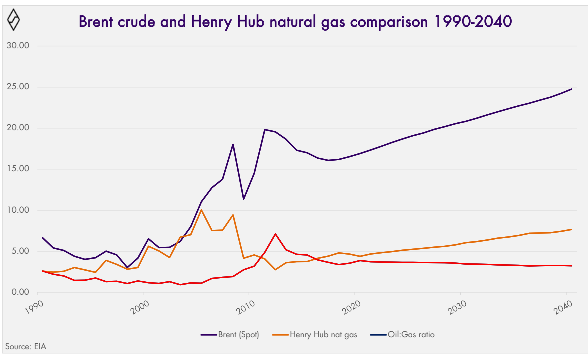
With Q1 been and gone, and the end of Q2 fast approaching, a brief review of what has occurred in the commodities markets hitherto will be useful.

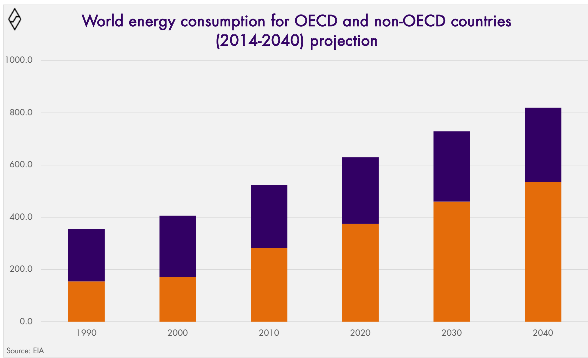
METALS

Throughout the year so far, the main events within the metal markets have involved aluminium premiums and the large backlog of orders within warehouses. The LME were poised to introduce new regulation to help reduce the backflow on April 1st, but in a somewhat ironic way, Rusal filed a complaint claiming the regulation to be irrational, resulting in a court order preventing the LME from implementing anything, almost like an April fools joke. The South African mining strike saw the platinum and palladium markets become volatile, and the tensions between Russia and Ukraine caused gold to pass through the significant $1,300 mark.

...the tensions between Russia and Ukraine caused gold to pass through the significant $1,300 mark.

ENERGY



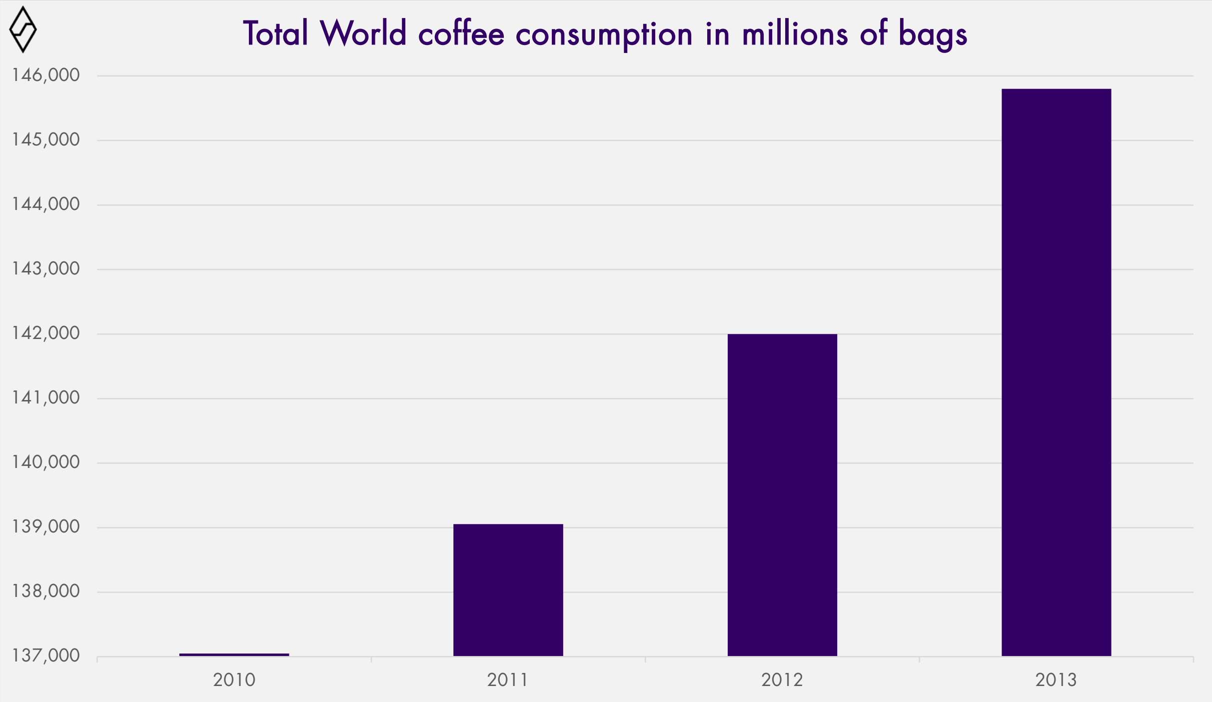


Russia and Ukraine. These two names have appeared a lot in the energy section, due to the impact the ongoing political tension has had, and can continue to have, on European gas prices. In particular Gazprom, the Russian giant which supplies approximately 30% of Europe’s gas has put increasing pressure on Ukraine to pay back money it owes or risk having its supply reduced or cut-off. Turning our attention to the USA, domestic natural

gas production has seen growth and there has been interest in freight locomotives to be fuelled
by LNG, due to lower natural gas spot prices compared to Brent crude. Furthermore, the EIA has forecasted that world energy consumption for both OECD and non-OECD countries is likely to increase, providing potential investment opportunities for those in emerging markets.

AGRICULTURE

The key movements in the agriculture market have chiefly been due to the uncertainty in the Brazilian harvest. In addition are the factors of the El Nino and uncertainty
in exporting countries, both increasing the chances of a supply deficit. The El Nino phenomenon can result in unpredictable rainfall and extreme weather events, and US Climate Prediction Centre has estimated the probability of occurrence at over 50% this summer. This would increase rainfall in Brazil damaging the harvest. Despite this uncertainty however, the ICO has suggested a 2.7% increase in total consumption for calendar year 2013. This represents an average annual growth rate of 2.1% over the last four years.



Source: International Coffee Organisation

FOREX

Pair	Open	Close	Weekly %	Trend w/w	Monthly %	YTD
NZD/USD	0.8691	0.8771	0.92%	3	3.42%	6.89%
AUD/USD	0.9383	0.9421	0.40%	2	1.24%	5.70%
EUR/JPY	138.76	138.38	-0.27%	1	-0.22%	3.55%
GBP/USD	1.7011	1.703	0.11%	4	1.69%	2.86%
USD/CNY	6.2273	6.2197	-0.12%	1	-0.13%	2.74%
USD/CAD	1.0752	1.0661	-0.85%	3	-1.66%	0.39%
USD/CHF	0.8948	0.8906	-0.47%	2	-0.49%	-0.25%
EUR/USD	1.3597	1.3646	0.36%	2	0.12%	-0.72%
GBP/JPY	173.01	172.72	-0.17%	3	1.36%	-0.87%
AUD/NZD	1.0796	1.0737	-0.55%	2	-2.03%	-1.09%
GBP/AUD	1.8121	1.8074	-0.26%	2	0.50%	-2.32%
EUR/GBP	0.7989	0.8007	0.23%	1	-1.56%	-3.48%
USD/JPY	102.2	101.4	-0.78%	3	-0.30%	-3.70%
EUR/AUD	1.4484	1.4481	-0.02%	1	-0.89%	-6.47%

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