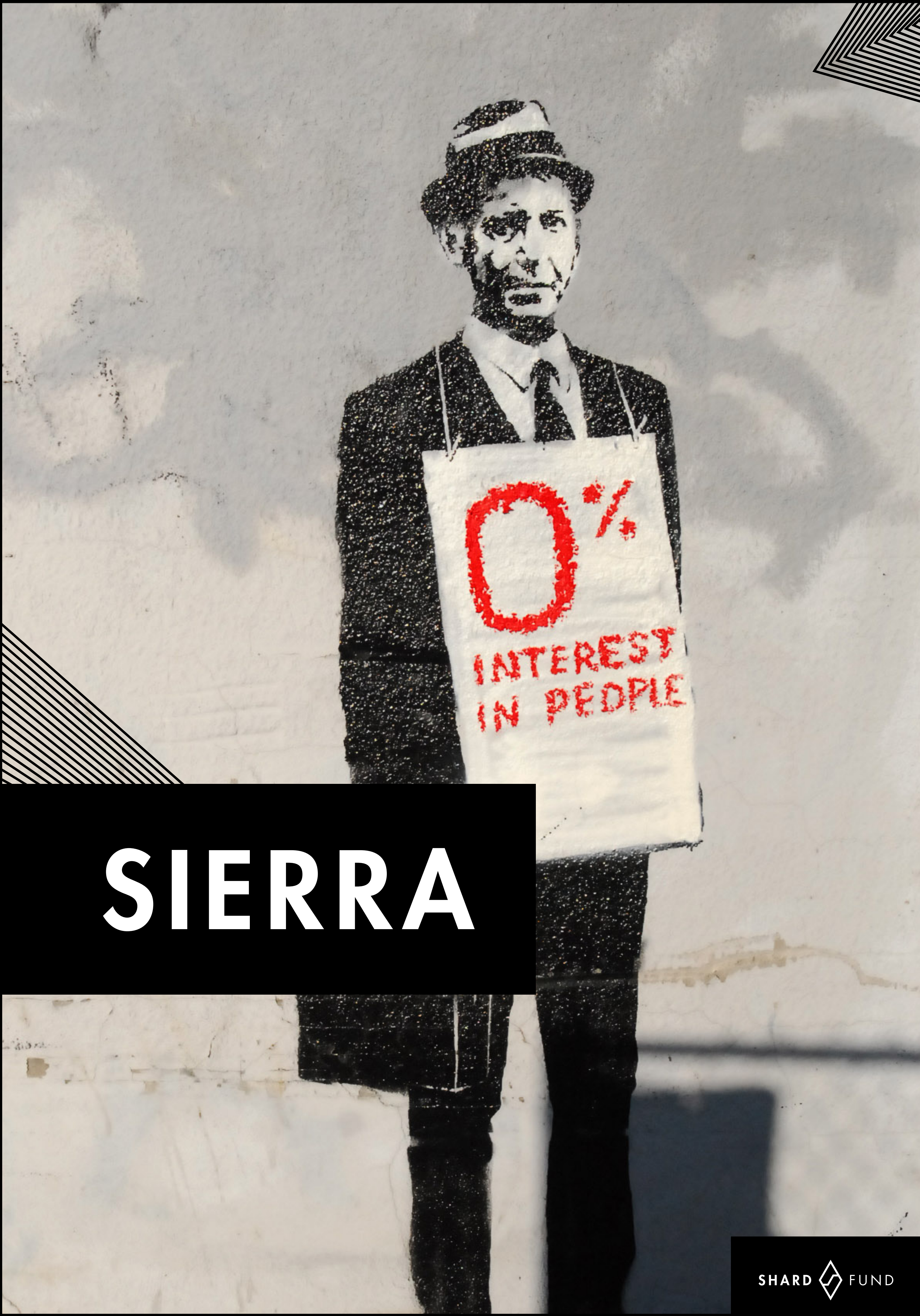


SIERRA

SHARD FUND

A JOURNEY ACROSS FINANCIAL MARKETS

March 30th - April 7th, 2015 | Issue 1

Where have we been and what have we done in the past four months?

We have been driving change here at Shard Fund.
Sierra has changed.
Our risk management has changed.
The idea generation has changed.
...and of course, our website has changed.
What we experienced in 2014 had to be analysed in order to avoid repeating mistakes. Now, we continue business as usual, in an even more transparent manner, with more content and refreshed approach.

... so no, we're not broke.

TEAM:

Georgi Stanoev Intro / positions
Angel Simbaev Positions
Stelian Nenkov Intro / Edit
David Twomey Editor

ABOUT
THE NEW SIERRA

In the spirit of change our conclusion is that Sierra needs to evolve, in order to bring more quality insights to its readers. So far we have received some very good feedback (both positive and negative), upon which, we have created a new format which ties better our research-based views with the market movements. This will again help educate our readers, and provide a better basis for a healthy discussion, which will in return educate us, because Shard Fund is about the exchange of ideas, as opposed to us just expressing an opinion.

So, the new Sierra will be in the format '3:1', and while I do hope this is the score in the Manchester derby on Sunday (in favour of the red part of the city), here I am referring to weekly timing. Sierra will be covering our portfolio for 3 consecutive weeks and on the fourth week we will publish a research piece that will present a topic (or two) we are focusing on at that moment. By doing so, we will have more time for generating ideas and producing a deeper research in specific target areas. Also, we are very excited to start a brand new interview section on our website that will introduce you to some very successful professionals that have a lot to say about finance and other industries. Following that, we will also introduce interviews by students in the near future, because we cannot stay still and wait for someone to express interest in our education and development. Our aim is to present different experience, ideas and opinions (including our own) and let the reader decide for himself what is right and wrong, because 'the most contrarian thing of all is not to oppose the crowd but to think for yourself' (Peter Thiel, '**Zero to One**').

Given that I haven't written Sierra in more than 3 months, I am quite rusty and will try to keep it short and jump straight to the new positions in our portfolio. We will talk more about our current views in the coming issues when the portfolio is fully rolled out, but I guess the long story could be summed up to:

1. Long the USD (for now) as it is now Japanese and European turn to respond in the global currency war. Also, US data is still better than the other 2 counterparties. However, it is key to stress the phrase 'for now', because we don't expect a rate hike in the US in June and if data gets worse, this could potentially push it to 2016 altogether, which might reverse the huge 9 month USD trade and all its correlations.
2. Long the strong part of Europe (UK, Germany), even though the economically weaker countries might benefit more in stock market terms.
3. And of course, staying long Bonds, in any possible way that still provides a good risk/reward.

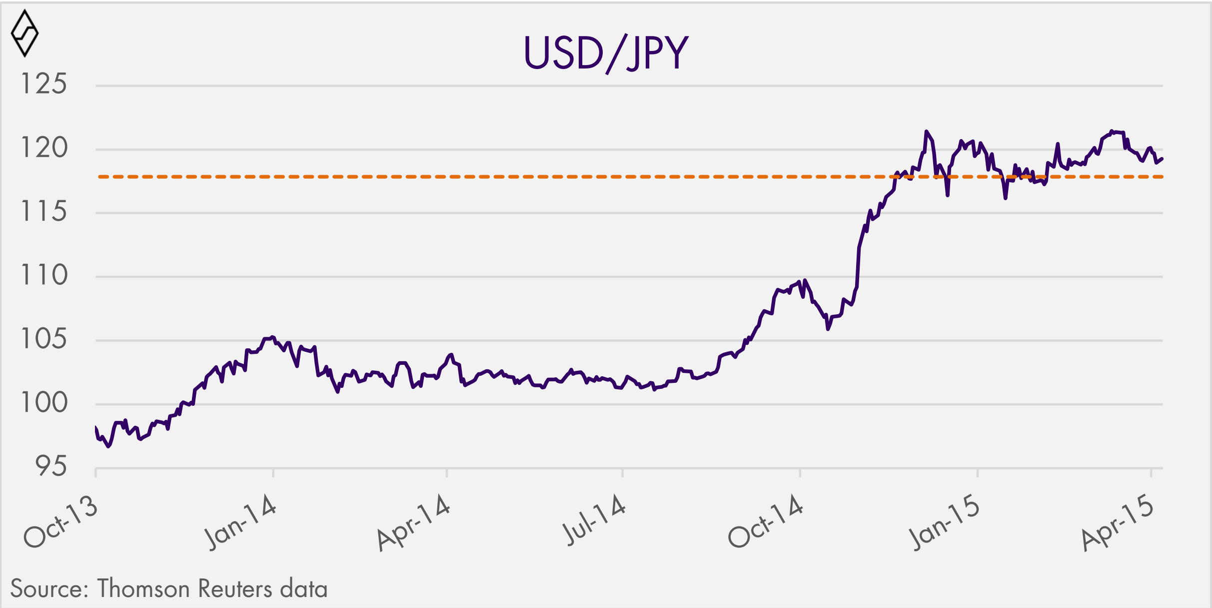
IN

US Dollar /Japanese Yen (USDJPY)

Direction: LONG
Open price: 120.17
Stop loss: 117.86 / 1.92%

Date taken: 31 Mar 2015
Target 1: 124.00 / 3.19%
Target 2: 135.00 / 12.34%

The thesis behind this FX trade is based on the long ongoing divergent monetary policy in the USA and Japan (at least for now), as well as economic activity. The Bank of Japan has no intention to step down from its policies any time soon and might even try to provide more of the same, while the Fed will be mostly passive for the next couple of months. Furthermore, the FX pair was in yet another consolidation, making lower highs and higher lows in the past months, which has typically happened before a strong move to the upside every time since 2012. With both fundamentals and timing giving us the green light, we see that as a potentially profitable trade based on current evidence.



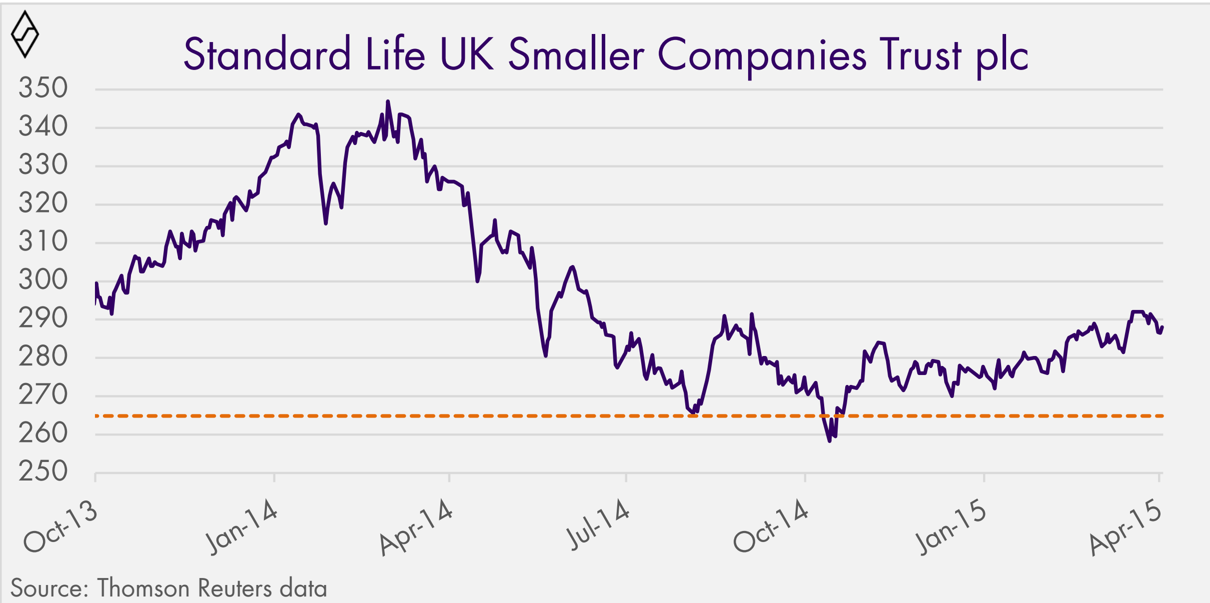
Standard Life UK Smaller Companies Trust Plc (£SLS)

Direction: LONG
Open price: 291.75
Stop loss: 264.75 / 9.25%

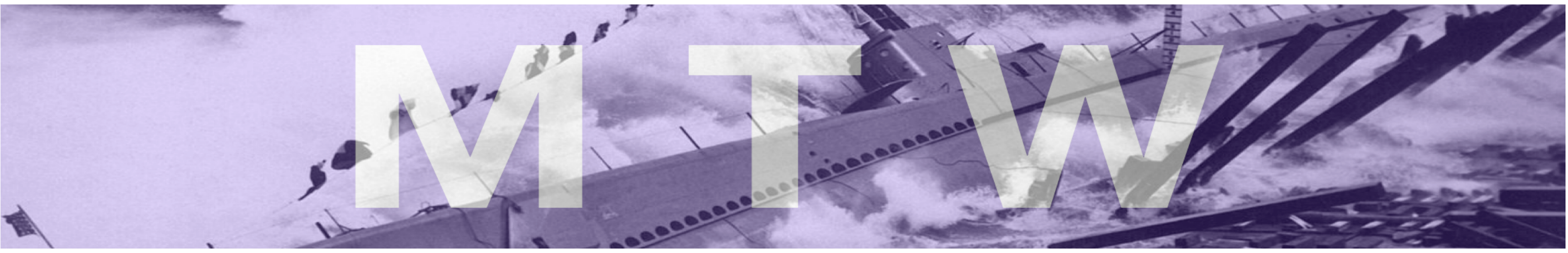
Date taken: 31 Mar 2015
Target 1: 310.00 / 6.26%
Target 2: 330.00 / 13.21%

This is a well-diversified investment trust focused on small and mid-cap companies in the UK. We like it because of its exposure to some of the strongest sectors in the economy at the moment – technology, consumer goods and services. Almost 50% of the fund is in those three sectors. Retail sales momentum has been increasing recently, while the tech sector has been outstanding for the UK and is currently diverging from the rest of the economy. This makes the fund a fundamentally good investment idea based on our views.

In terms of timing, the price is just about to confirm a breakout above a previous key level and overall the fund is trading at roughly 9-10% discount to net asset value (NAV), which makes it even more attractive. To add more, volatility has been quite low in recent months.



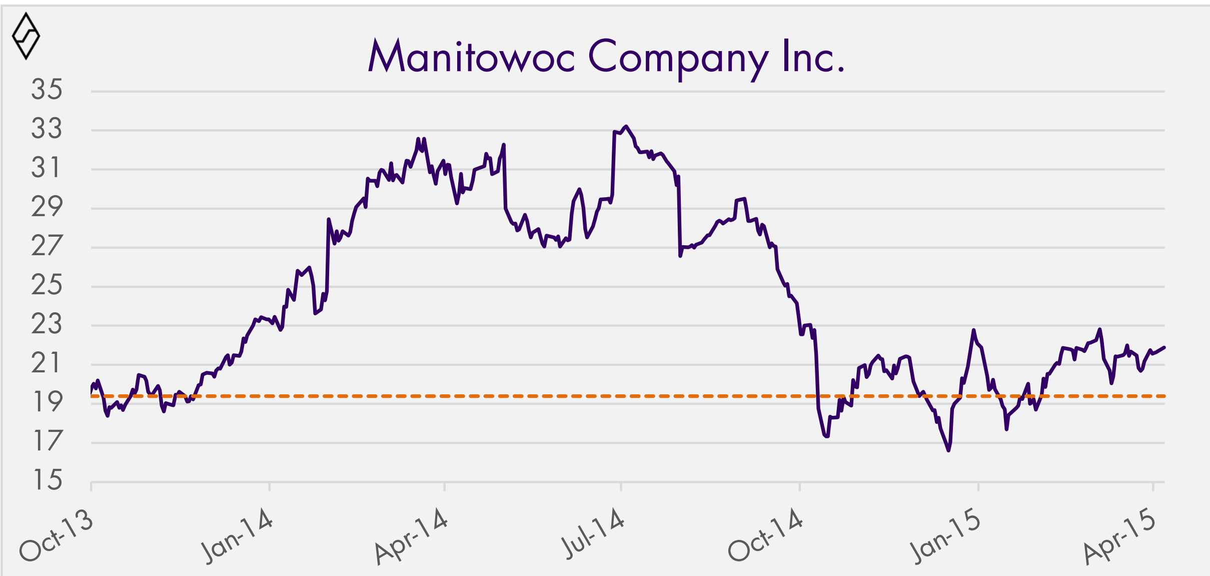
Manitowoc Company Inc. ($MTW)



Direction: LONG
Open price: 21.55
Stop loss: 19.40 / 9.98%

Date taken: 31 Mar 2015
Target 1: 25.75 / 19.49%
Target 2: 33.78 / 56.75%

Manitowoc Company Inc. is a proprietary idea taken from a research we pay for. As such, here is a basic overview of the thesis without any price targets or other details that would be unfair to share for free on behalf of the research team that earns its living with such work.
Basically, the Manitowoc is splitting its two core businesses (cranes and food services), which is viewed as a particularly beneficial for shareholder value. On the one hand, the two businesses are now attractive for acquires. However, it is also argued that the sum of the two divisions is higher than the current enterprise value, which should support a stock price increase even without an acquisition.
Meanwhile, margins of the food service business correlate well with restaurant activity in the US, which is picking up due to lower prices and other factors. Similarly, performance of the cranes' division follows construction activity, which is marginally accelerating at the moment due to spending on public and residential construction.



Source: Thomson Reuters data

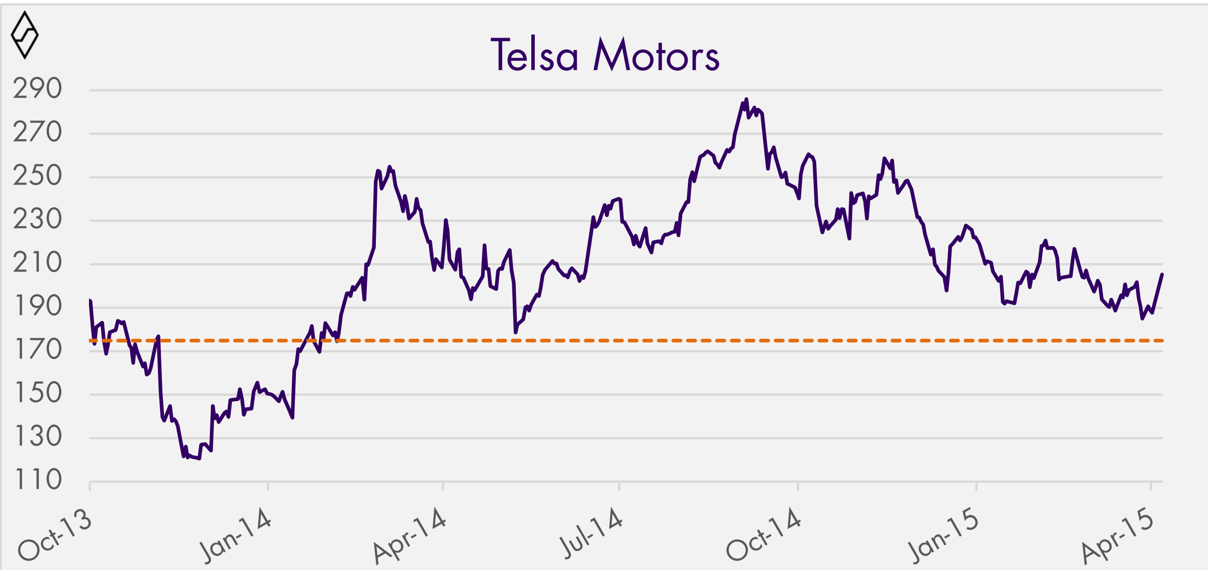
Tesla Motors ($TSLA)

Direction: LONG
Open price: 191.75
Stop loss: 174.80 / 8.84%

Date taken: 31 Mar 2015
Target 1: 220.00 / 14.73%
Target 2: 260.00 / 35.59%

If we have to (for some reason) invest for the years ahead, Tesla would definitely be part of our portfolio. While our minds might be experiencing a typical ‘substitution’, as presented by Daniel Kahneman, of a hard question (Is Tesla a good long term investment?) with a simpler one (Is Tesla cool as a car?), we do believe in the philosophy of Elon Musk and the quality of his firm and product. Moreover, this is just the beginning for the brand, which could become a household name in the future.

Yet, all this is hardly relevant for a 3-6 months investment. The reality is that the stock price started plunging at the same time as Oil, while the USD was gaining momentum. Falling oil prices with a rising currency (USD) is definitely not the perfect environment for a US electric car company in direct competition with European brands that benefit from the devaluation of their currency (EUR). Also, there were some regulatory issues dragging the stock down plus strong market volatility, which is generally not good for highly cyclical



Source: Thomson Reuters data

stock as Tesla.

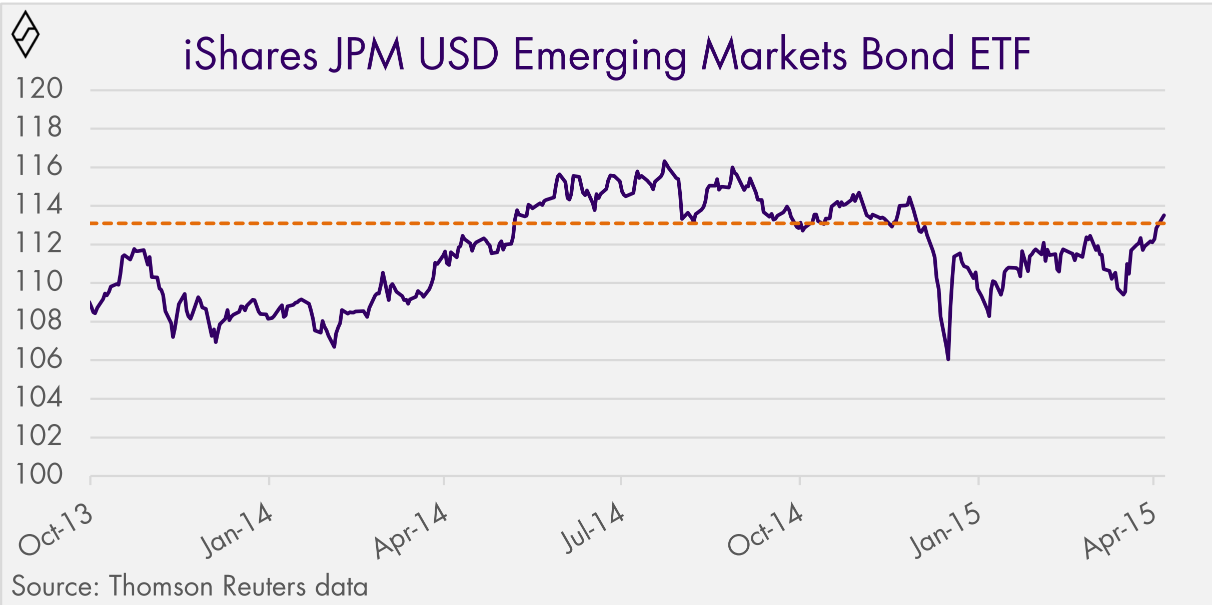
Looking forward, Oil has stabilised since December. The commodity and the overall energy sector have actually been making higher lows, which is raising an eyebrow (or two) within our team (price bottoming out?). While we still see some opportunities within the USD basket, the general move might be getting marginally weaker. Meanwhile, Tesla posted a slightly stronger than expected car sales for Q1 2015 on Friday, which is good coming into the typically strong spring season. Combine that with a good timing, from a risk/reward perspective, and a market due to benefit from seasonality (statistically speaking), Tesla's cyclical stock looks like a good opportunity.

OUT

iShares J.P. Morgan USD Emerging Markets Bond ETF ($EMB)

Direction: SHORT
Open price: 112.08
Exit price: 113.15 / 0.95%

Date taken: 31 Mar 2015
Date exited: 6 Apr 2015
Target 1: 104.00 / 7.21%



The EMB short position stems out of the strong dollar view that we currently (but not forever) hold. The research we have made shows that historically a dollar bull market (like the one at the moment) correlates negatively with emerging markets with the most notable examples being the Latin American (1980s, 1990s) and the Asian (1990s) crises of the last century. Perhaps the most important fundamental reason behind the trend is that economic weakness globally moves capital from emerging markets and other economies to the dollar. This rise in USD will make it more burdensome for the EM economies to service their debt, which has risen to astonishing levels both for EM corporations and countries according to the **Bank for International Settlements**.

While our fundamental view is relatively long term, the position we took was small to try and take advantage of good timing from a risk/reward perspective. Our stop loss was hit and we are out of this position with a negligible loss and no regrets of taking it, as it was a good opportunity. Moreover, because we risked half of what our rules say, we can initiate another position when (if) the right timing comes.

DISCLAIMER

Interview: The views expressed in this interview are purely those of the author; they do not pretend to reflect any views that may prevail at Sussex University nor should they be taken as investment advice.

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