

PMC

Portfolio Management Club

by Nova SBE



Monthly Newsletter
May 2018

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Miguel Pardal Afonso

Top Headlines

After an escalation of trade tensions by the start of the month, with both U.S. and China hitting each other with import tariffs, President Xi Jinping later made a **conciliatory speech** in which plans were discussed to further open up the Chinese economy. He promised to "significantly lower" import tariffs, as well as improve the investment environment for foreign companies.

Companies from the S&P 500 have been showing strong results during Earnings Season, with nearly 80% topping analyst estimates. Tax cuts helped Corporate America post its biggest quarterly profit growth in seven years, with S&P 500 profits expected to rise 18.4%.

Commodities were in focus as a continuing rally in prices propped up the stocks of energy and mining companies. Brent crude oil crossed \$75 for the first time in four years, while WTI ended the month at \$70 per barrel. Base metals also extended recent torrid gains, with prices for aluminum touching all-time highs and iron ore surging 5%. The latest outlook from the Central Bank forecasts prices for energy to jump 20% in 2018, due to a pickup in demand and supply constraints.

Core inflation rose above 2% for the first time in a decade, clawing its way back above the Fed's landmark level.

The benchmark 10-year Treasury yield rose above 3% for the first time in four years, sparking concerns over higher borrowing costs for companies already facing rising commodity prices.

The ECB's latest policy decision kept rates on hold, as the central bank repeated its promise to keep buying bonds until the end of September, or beyond, if necessary.

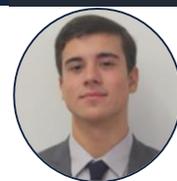
In a historic summit, North Korean leader Kim Jong-un made an appearance and South Korean President Moon Jae-in agreed to end a seven-decade war and pursue the "complete denuclearization" of the peninsula. It was the first time a North Korean leader had ever set foot in the South.

The U.S., France, and U.K. led a missile attack on Syria after a reported chemical weapons attack killed at least 89 people and injured more than 500. Tensions between the U.S. and Russia escalated as Moscow backed the Assad regime and the Russian military vowed to shut down any U.S. missiles fired at Syria, although the warnings were not materialized.

The U.S. slowed down in Q1, as Annualized QoQ GDP recorded a 2.3% growth, down from 2.9% in the prior quarter. This value was still ahead of the estimates for 2%.

Data as of 30/04/2018

Equities			Bonds			Currencies		
	Last Price	Δ1M %		Last Price	Δ1M %		Last Price	Δ1M %
S&P 500	2,644.25	1.2%	US 1Y	2.242	7.3%	EUR/USD	1.2079	-2.0%
STOXX 50	3,534.19	5.8%	US 10Y	2.955	7.0%	GBP/USD	1.3769	-2.0%
FTSE 100	7,509.30	7.1%	GER 10Y	0.561	13.6%	EUR/GBP	0.8772	0.0%
Nikkei 225	22,447.87	4.4%	UK 10Y	1.413	4.7%	USD/JPY	109.28	2.8%
VIX	15.93	-25.9%	JAPAN 10Y	0.053	17.8%	USD/CAD	1.2837	-0.4%



Daniel Soares

Key Takeaways

April maintained increased market volatility as trade policy uncertainty runs its course. The US economy and Fed are likely to remain on current course despite trade rhetoric. Data in the eurozone suggested growth, while still robust, had pulled back from the elevated levels seen at the start of the year.

April						
Date	Country	Event	Month	Estimate	Actual	Prior
04-02-2018	Japan	Tankan Large All Industry Capex	1Q	1,00%	2,30%	7,40%
04/13/2018	USA	U. of Mich. Sentiment	Apr P	100,3	97,8	101,4
04/17/2018	China	GDP YoY	1Q	6,80%	6,80%	6,80%
04/17/2018	Germany	ZEW Survey Current Situation	Apr	88	87,9	90,7
04/23/2018	Japan	Nikkei Japan PMI Mfg	Apr P	--	53,3	53,1
04/23/2018	France	Markit France Manufacturing PMI	Apr P	53,5	53,4	53,7
04/23/2018	Eurozone	Markit Eurozone Manufacturing PMI	Apr P	56,1	56	56,6
04/24/2018	Germany	IFO Business Climate	Apr	102,8	102,1	103,2
04/24/2018	Italy	Manufacturing Confidence	Apr	108,8	107,7	109,1
04/24/2018	USA	Conf. Board Consumer Confidence	Apr	126	128,7	127,7
04/27/2018	Japan	Tokyo CPI Ex-Fresh Food YoY	Apr	0,80%	0,60%	0,80%
04/27/2018	Finland	Consumer Confidence Index	Apr	--	23,2	24,7
04/27/2018	France	CPI YoY	Apr P	1,60%	1,60%	1,60%
04/27/2018	Spain	CPI EU Harmonised YoY	Apr P	1,20%	1,10%	1,30%
04/27/2018	UK	GDP YoY	1Q A	1,40%	1,20%	1,40%
04/27/2018	USA	GDP Annualized QoQ	1Q A	2,00%	2,30%	2,90%
04/27/2018	USA	Employment Cost Index	1Q	0,70%	0,80%	0,60%
04/27/2018	USA	GDP Price Index	1Q A	2,20%	2,00%	2,30%
04/30/2018	Slovenia	CPI YoY	Apr	--	1,50%	1,20%
04/30/2018	Italy	CPI EU Harmonized YoY	Apr P	0,80%	0,60%	0,90%

This was a solid first quarter all around for our portfolio as each of our companies so far have exceeded their earnings per share estimates. The most notable of which being Facebook beating analyst estimates by over 25%

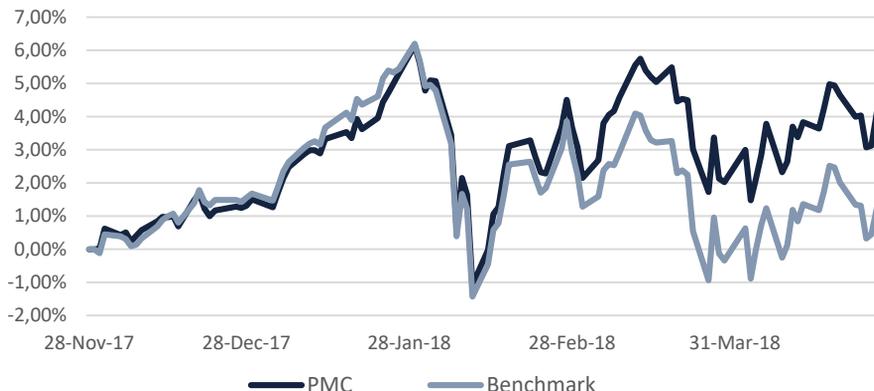
Q1 Earnings Releases					
Date	Ticker	Company	EPS Estimate	Reported EPS	Surprise(%)
04/24/2018	NAVI	Navient Corporation	0.41	0.43	4.88
04/24/2018	NEE	NextEra Energy Inc.	1.84	1.94	5.43
04/25/2018	PYPL	PayPal Inc.	0.54	0.57	5.56
04/25/2018	LH	LabCorp	2.63	2.78	5.7
04/25/2018	FB	Facebook	1.35	1.69	25.19
04/26/2018	IVZ	Invesco	0.66	0.67	1.52
05/02/2018	PRU	Prudential Financial	2.98	3.08	3,36



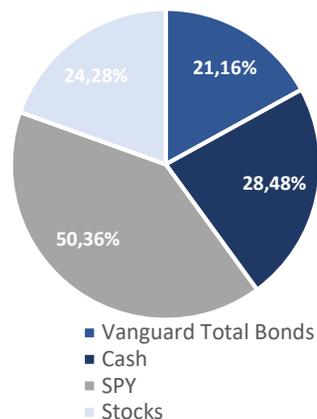
Oscar Li

Monthly Performance

Portfolio's Performance Against Benchmark



Asset Allocation



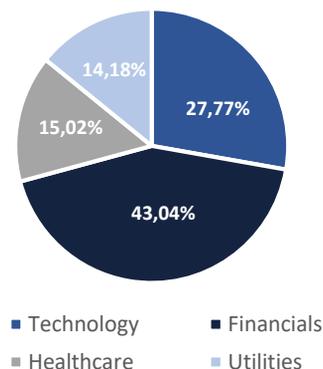
Overview

During this month, the group liquidated Raytheon's position, totaling a 16.39% gain from the investment. Two long positions were also added, Invesco and LabCorp, entering into the healthcare industry.

By the end of April 27th, the Portfolio had a 4.11% return against the benchmark of 1.34%. Facebook has been recovering from the recent data scandal, with positive earnings releases and NextEra is retesting its highs again with an uptrend 180days SMA.

Looking into the next month, there are some individual catalysts to follow, such as earning releases, but also the macroeconomic aspects, rising yields, and crude prices may impact the way investors perceive the equity market which may have a negative impact.

Sector Distribution



Individual Stocks Composition							
Current Long Positions	Facebook	Navient	NextEra	Lab Corp	PayPal	Prudential	Invesco
	-4.87%	+3.01%	+4.67%	+4.44%	-6.46%	+3.33%	-2.70%
Previous Long Positions	Synchrony	Kraft Heinz	Micron	Raytheon			
	8.33%	1.85%	22.89%	16.36%			

Key Metrics

Monthly Return	0.84%
Monthly St. Dev.	2.63%
Annualized Return	10.54%
Annualized St. Dev.	9.3%

Sharpe Ratio (Info)	1.13
Treynor Ratio	0.14
Skew	-1.33
Kurtosis	5.86

Daily returns from one year historical performance were used

Top Holdings



Tiago Costa

NAME	TICKER	DESCRIPTION
Facebook	FB	American online social media and social networking service company. With exponential growth in the usage of social media, the company is expected to have a continuous increase in its valuation. Mainly due to innovations and the result of reaching out to other countries increasing the user database.
Navient Corporation	NAVI	Provides services that help businesses, government agencies, and schools recover debt. Manages nearly \$300 billion in student loans for more than 12 million customers.
NextEra Energy Inc	NEE	The world's largest generator of renewable energy from the wind and sun. In addition to wind and solar, NextEra Energy Resources owns and operates generating plants powered by natural gas, nuclear energy, and oil.
Prudential Financial	PRU	Operates through subsidiaries that provide insurance, investment management, and other financial products and services to both retail and institutional customers throughout the United States and in over 30 other countries. Principal products and services provided include life insurance, annuities, pension and retirement-related investments, administration and asset management, securities brokerage services, and commercial and residential real estate in many states of the U.S.
PayPal Inc.	PYPL	American company operating a worldwide online payments system that supports online money transfers and serves as an electronic alternative to traditional paper methods like checks and money orders. Due to the cancelled agreement between PayPal and eBay, the former is now able to collaborate with other brands and expand its online coverage.

RECENTLY ADDED

LabCorp	LH	American S&P500 company headquartered in Burlington, North Carolina. It operates one of the largest clinical laboratory networks in the world, with a United States network of 36 primary laboratories. LabCorp was an early pioneer of genomic testing using polymerase chain reaction (PCR) technology, in North Carolina, where it also performs other molecular diagnostics.
Invesco	IVZ	American independent investment management company that is headquartered in Atlanta, Georgia, United States, and has branch offices in 20 countries. Its common stock is a constituent of the S&P500 and trades on the New York Stock Exchange.



António Pereira

Ticker	LH
Entry Price	\$167.10

Price	\$170.75
52 week high	\$181.72
52 week low	\$134.19

1-Year Change	21.83%
Mkt Cap	\$63.007B
EBITDA ('18 Est)	4.885B
EPS	\$7.53
EPS ('18 Est)	\$9.698

DESCRIPTION

LabCorp (Laboratory Corporation of America Holdings) is a leading global life sciences company that is deeply integrated in guiding patient care, providing comprehensive clinical laboratory and end-to-end drug development services. With a mission to improve health and improve lives, LabCorp delivers world-class diagnostic solutions, brings innovative medicines to patients faster and uses technology to improve the delivery of care.

Healthcare Sector Overview

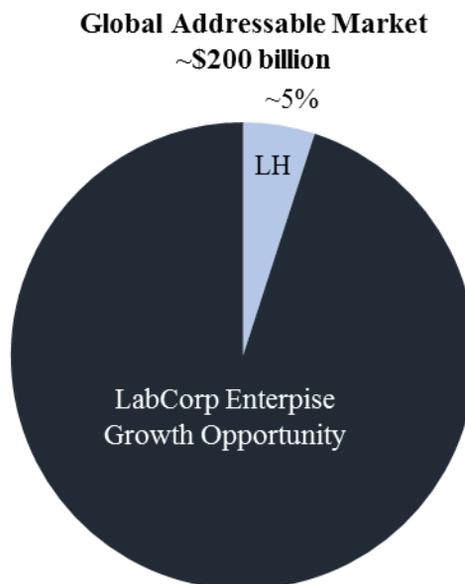
The Healthcare Sector proves to be an attractive industry in the current market environment. On one side, global health care spending is projected to **increase at an annual rate of 4.1%** in 2017-2021, up from just **1.3%** in 2012-2016 (2018 Deloitte Global Healthcare Outlook). On the other hand, the aging and increasing population along with the developing market expansion and advances in medical treatments sustain a favorable outlook. Finally, it is important to highlight the low sensitivity to economic cycles of the Healthcare Sector (characterized by low beta companies), which ends up partially edging our portfolio in case of big market drawdowns.

Company Overview

LabCorp is a result of a merger between National Health Laboratories Holdings Inc. and Roche Biomedical Laboratories, Inc., which took place on April 28, 1995.

Currently, LabCorp serves more than 220,000 clients in approximately 60 countries and provides diagnostic, drug-development, and technology-enabled solutions for more than 100 million patient encounters per year. To do so, the company operates a sophisticated laboratory network, with corporate headquarters in Burlington, NC and more than 50,000 employees on their behalf. LabCorp’s main clients include physician offices, hospitals, managed care organizations, and biotechnology and pharmaceutical companies.

Regarding LabCorp’s market share, they currently hold around 5% of the global addressable market. Therefore, there is plenty of room that can be explored by LabCorp in the coming years.





António Pereira

Business Model Evolution

LabCorp believes it can play a larger role in the rapidly evolving healthcare system by focusing on three key aspects. First, by supporting customers’ transition to value-based care, secondly by streamlining the drug development process and lastly by creating a broad consumer engagement platform that integrates diagnostics, devices, and therapeutics.

Financials

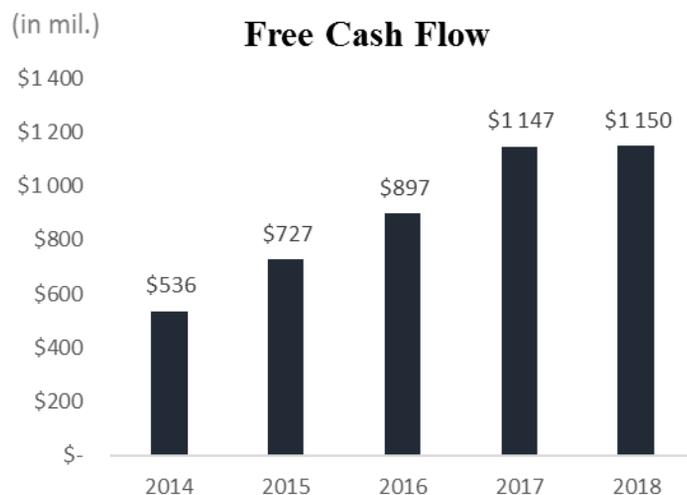
In terms of Financials, LabCorp has shown it is capable of growing its business year after year, achieving a CAGR of 20.12% between 2014 and 2017. Such CAGR is very impressive, as LabCorp is competing in an industry that only grew at an annual rate of 1.3% in the period 2012-2016.

When breaking down the revenues by the subsectors of the company, it is important to note the relevance of the Drug Development business, which only started generated sales in 2015. In its first year the Drug Development subsector accounted for 27% of overall revenues. Its relevance continued to increase, weighing roughly 35% of total revenues in 2017.

For this year, expectations are positive as well, with an estimated increase in revenues of around 10.5% to \$11.5M in 2018.

Regarding Cash generation, a massive increase can be observable in LabCorp. In just 4 years, LabCorp more than doubled its Free Cash Flow, having followed a CAGR of 28.9% during 2014-2017.

It is also relevant to point out the yearly increase in the earnings per share of LabCorp, as this indicator is a very good predictor of companies’ profitability, since it accounts for the company’s distributable profit which is allocated to each outstanding share.





António Pereira

Multiples Valuation

When analyzing the company from its comparables' point of view – measuring the different ratios of the company and putting them side by side with the ones from its peers – it is possible to obtain a picture of the company's performance among the industry.

Multiples		PEERS
PER	19.22	29.73
PEG	1.49	1.75
P/B	2.41	5.67
P/FCF	14.42	51.97
ROE	20.56%	5.19%
ROA	8.23%	0.64%
Current Ratio (Cur A/Cur L)	131.11%	261.13%
Quick Ratio (Cur A-Inv/ Cur L)	87.87%	209.33%
EV/12M Sales	2.20	5.22
EV/EBITDA	10.49	14.12
Gross Margin	33.18%	47.26%
D/E	98.71%	78.03%
Inventory Turnover	32.24%	11.02%
EPS Growth	73.53%	75.64%

From the ratios that were compared, the PER (price to earnings ratio) of 19.22 may indicate that LabCorp is undervalued when compared to its peers - that present an average PER of 29.73 – as the price to earnings ratio can be interpreted as the number of years it would take for you to receive your investment back. Also, the P/FCF is an important indicator as it shows the price you pay for the stock in relation to the free cash flow generated. Companies that are capable of generating cash can turn out to be healthier, in the sense that will have more funds to allocate to growth opportunities.

Rating/Recommendations	
Rating	BBB
Buy Recommendations	15
Hold Recommendations	7
Sell Recommendations	0

Target Median	194.00
Target High	210.00
Target Low	176.00

Risk Factors

LabCorp is exposed to several risks, both from a macro and micro perspective. Firstly, LabCorp can be highly damaged and face monetary penalties in case it violates federal, state, local, or international laws including, but not limited to, anti-fraud and abuse laws. Secondly, the increasing FDA regulations may result in more costs to LabCorp in order to cooperate, as well as an imposition of fines and penalties. Thirdly, LabCorp deals with private information from clients on a daily basis, and the failure to maintain the security of customer-related information or compliance with security requirements could damage the company's reputation with customers. Finally, the increase in competition in both the LCD (LabCorp Diagnostics) and CDD (Covance Drug Development) industries can adversely affect LabCorp as price wars may surge, which can directly impact its margins.





Beatriz Duarte

Time to breathe a little bit, Facebook?

The last two months have been difficult for Facebook after the scandal about its users' data privacy. 87 million Facebook accounts have been scraped for data by Cambridge Analytica, a political consulting firm, which has seen its data improperly used to build voting profiles during Donald Trump's political run for the White House.

The largest known leak in the history of Facebook did not go unnoticed amongst investors. The stock that peaked to all-time highs in early 2018 was trading at \$185.09 before the scandal was revealed in an investigation carried out by the New York Times, and had already lost more than 18% by the 4th of April, the date by which it was trading at \$151.62.

Since then, Facebook has been trying to mend its damaged reputation due to the data scandal while its users expect compensation and greater regulation regarding their private data management. In the meantime, lawmakers forced Mark Zuckerberg to testify before Congress and the leak has been investigated by the Federal Trade Commission. After the breach, further scandals involving Cambridge Analytica surfaced, namely that the company uses seduction and bribery to entrap politicians and influence foreign investors which led to the suspension of Alexander Nix, Cambridge chief executive.

The degree of Facebook's liability in this case has been very discussed and the company has certainly suffered the consequences of its actions. Over the last few weeks, the Times has reported a growing number of users deleting their accounts.

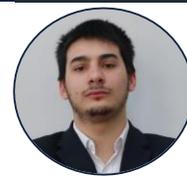
Luckily for Facebook, Q1 results revealed a booming business. On April 25th the company reported a 49% YoY increase in revenue, which amounted to \$11.97 billion, translating into a \$1.69 profit per share, beating Wall Street's expectations of \$1.36 per share by almost 25%. Facebook registered a solid user growth and its daily active users were 1.45 billion on average for March 2018, an increase of 13% YoY. The stock price increased by about 10% after the results, reaching \$175.84, the highest value since the scandal.

So, is the scandal hurting user growth and revenue or not? Apparently not. However, the Cambridge Analytica scandal was only made public on the 16th of March and the quarter ended two weeks later. So, those two weeks might not have been enough time for the scandal to reflect on Facebook's results. We will have to wait for Q2 results to see whether or not the scandal has had an impact.

For now, Facebook, it is time to breathe for a while.

“Our focus in 2018 is to keep people safe, and to keep building the experiences people expect from us. We are taking a broader view of our responsibility -- to not only give people powerful tools but to make sure these tools are used for good. At the same time, we also need to keep building new services that bring people together in meaningful new ways. That's what makes Facebook so important to so many people, and that's our responsibility too.”

-Mark Zuckerberg



Tomás Tavares

Iran Deal: Winners and Losers

On October 18th, 2015, the world breathed a sigh of relief as the **Joint Comprehensive Plan of Action (JCPOA)**, commonly known as the Iran Deal, was adopted. Put simply, the Iran Deal was made because the United States was afraid Iran was quickly approaching the development of a nuclear weapon. Under the deal, Iran was to seriously diminish its uranium enrichment program in exchange for economic sanctions relief, that was destroying its economy. Under the JCPOA, the Iranian government opened its nuclear testing sites to the **International Atomic Energy Agency (IAEA)** for verification and inspection. If Iran refuses to allow these inspections for any reason, or if the IAEA finds a violation, then the JCPOA terms dictate sanctions will come back on.

Obviously, this was a controversial deal when it was negotiated, as it did not involve the military and Iran is still considered a serious enemy of the United States. Congress, especially the Republican party, was extremely vocal about their displeasure. The Iran Nuclear Agreement Review Act was passed that requires the President of the USA to tell Congress every so often whether Iran is complying with the JCPOA/Iran Deal. Once Donald Trump became President, he made it immediately clear that he hated the Iran Deal. Railing against it was part of his campaign. It's clear he does not actually know the details of the plan, but that does not particularly matter: a lot of his hatred for it seems to be from how it was created by his predecessor, who his base hates quite a lot. He's now threatening to reject an extension of the agreement ahead of a May 12th deadline.

What are the possible consequences of the US exiting the agreement?

1. Oil - Iran has the fourth largest crude oil reserves in the world and claims nearly 20% of the planet's natural gas. The country has ramped up production since sanctions were eased to about 3.8 million barrels a day. That is about a million barrels a day more than in 2015. New sanctions on Iranian oil exports would put a dent in global supply and could cause prices to spike higher. They have already soared 13% this year to their highest level in three years, and the price of US gas has jumped to a national average of \$2.79 a gallon.

2. Industrial Manufacturers - Boeing (BA) signed an \$8 billion deal to sell 80 jets to Iran Air after the sanctions were lifted. The first jets are due to be delivered this year. Boeing has said the airplane sales to Iran Air will directly support tens of thousands of US jobs. The company noted that 100,000 Boeing employees will be involved with making good on the deal. European rival Airbus (EADS) wants a share of the action too. It has agreed to sell 100 jets to Iran for about \$10 billion. Total (TOT) signed a \$2 billion agreement to help develop Iran's giant South Pars gas field, together with Chinese state oil company CNPC. General Electric (GE) has received millions of dollars in orders from Iran in 2017 for its oil and gas business. In 2017, Germany's Volkswagen (VLKAF) announced that it will sell cars in Iran for the first time in 17 years.

3. Iran's own economy - Growth has returned to Iran in recent years, but the economic recovery remains fragile. The Iranian rial (IRR) had been steadily declining, against the US dollar (USD), since August 2017 and has completely plunged in recent months amid renewed fear of escalation with the US. The fall has made imports more expensive, and some Iranians are reportedly cashing in their savings to buy dollars and euros.

4. US Military contractors - Companies like General Dynamics and Raytheon (who supplied the missiles used in the April 14th Syria air strike) may also have massive upside. Fears of escalation, or even an all-out war, with Iran could propel Congress to increase military spending (airplanes, tanks purchases) in a substantive way, which would only increase those companies' bottom line. It remains to be seen whether these companies will actually be affected or if concerns over Trump's bluster with regards to Iran are unfounded. Until then, expect a bumpy ride.

Thank you!

We appreciate your reading and hope you enjoyed our newsletter. If you have any question or suggestion regarding the newsletter or the club, feel free to contact us by sending an e-mail to portfoliomanagementclub@novasbe.pt, we will be more than happy to hear from you. In the meanwhile, we invite you to meet our team:

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