

PMIC

Portfolio Management Club

Newsletter

Spring 23

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Foreword



It is the Board's pleasure to introduce the Portfolio Management Club's Newsletter - Spring 2023.

2023 started with mixed emotions for the financial markets. Between the AI surge, the worst banking crash since Lehman Brothers and rising interest rates around the world, the market oscillated between naïve optimism bubble-like behaviour and pessimism surrounding the economic outlook. Despite the uncertainty, we committed to our long-term strategy, albeit the less favourable short-term results.

Following the momentum of the previous semesters, we managed to consolidate the developments made, having stabilized our growth with standards that put us at the forefront of student asset-management, closer to the industry practice. We went through a process of organization redesign, clearly defining roles under our two main divisions: Asset Management and Operations. The clearly assigned responsibilities allowed us to enhance both the quality and volume of the work developed, with commensurable results both in terms of performance, culture and member satisfaction.

These improvements were only possible thanks to the dedication and hard work of our members, always striving for excellence and establishing PMC as a reference for student asset-management in Portugal.

As we look ahead to the remaining of 2023, we are excited to see what the future holds for the Club and its members. We remain humble with the challenges ahead but certain that we are heading in the right direction. We are confident that with the talent and drive shown, we will continue to make a positive impact in our members' professional future and establish a wide network of passionate individuals.

João Serrasqueiro
President

Daniel Gonçalves
VP of Asset Management

Francisca Caldas
VP of Operations

MARKETS & ECONOMY



ANDREIA
PIMENTA



ANTÓNIO
PIRES



ISABELLA
AVILA



SANTIAGO
SOMMER

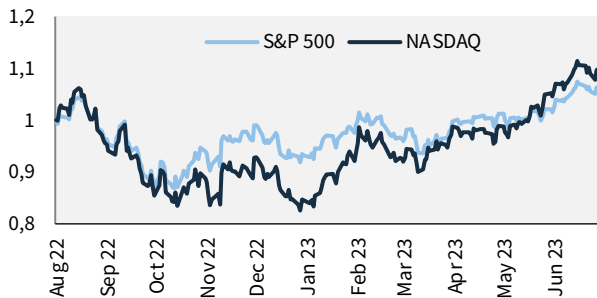
Markets Overview, Economic Overview and Outlook

Markets & Economy

Markets Overview

United States

Drama is the appropriate word to describe the turmoil witnessed over the past 6 months in US markets. Yet, as the drama cools down, June 2023 has been, for S&P 500 and Nasdaq, the light at the end of the tunnel with **both indexes** closing at their **highest** since August 2022.



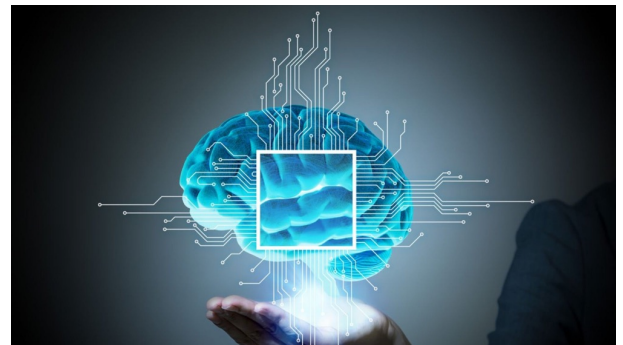
S&P and NASDAQ closed at ATH since August 2022

The year started “**well**”, compared to some posterior periods and amid uncertainty coming from **inflation** and the FED’s current **monetary tightening policy**. The relatively good performance is most likely attributed to the fact that both indexes had a lower base due to the **poor performance** in 2022 and **the January Effect**. The following two months (FEB and MAR) are marked by drama. The beginning of February is the stage of another FED interest **rate hike** hurting both indexes and March 10th, 2023, set the beginning of the recent **international banking tensions** with the fall of SVB which held over \$170 bn in deposits.



Liquidity Constraints led to the SVB failure, ABC News

Two other **bank failures** followed: Signature Bank in March and First Republic Bank in May, with the latter being acquired by JP Morgan. After the fall of First Republic Bank, politics added a new drama during May with the **debt ceiling impasse** between Democrats and Republicans, potentially triggering the **first default on US debt**. The **S&P** was **hurt** the most, losing substantially between Feb 1st and Mar 13th, rebounding in April, having experienced **higher volatility** during May. On the other hand, the Nasdaq was far **more resilient**, backed by large tech companies outperforming the market given very **strong earnings** and **growing expectations** about the future of **Artificial Intelligence**.



Latest AI developments propelled markets, Entrepreneur

June 2023 has been **quieter** in terms of drama. Both parties settled on a **deal** to solve the debt ceiling issue on June 1st, bank failures have stopped, and the FED decided to **keep rates** unchanged during June’s meeting. For the future, we shall give time for the **monetary policy** to completely **materialize** in the economy. While the end of rate hikes is in sight, further hikes during this year may occur, depending on inflation data. If hikes continue for longer than expected, **banking sector** shall remain vigilant amid fears that the **crisis** might not be **yet over**.

Markets & Economy

Markets Overview

China

The **Hang Seng Index rose until late January**, likely in hopes that the **reopening of the Chinese economy** would be reflected into a strong economic activity. However, **since the beginning of February**, there seemed to be a loss of faith. Even the Shanghai Stock Exchange Index presents some **rather modest growth** as of the last six months (about 1.65%) and has declined 2.36% in the last month. The **Chinese economy indeed grew 4.5% in the first quarter** of the year, however, that **growth seems to have stagnated as the second quarter arrived**. More recent economic data has shown that the economic activity is starting to slow down, with a **fall in industrial production, profits, factory activity, and even credit growth**. Even the services sector, that had a strong performance by the beginning of the year, is losing some of its early gains. China's exports to Russia have more than doubled in May, but they mostly fell in other markets. In the second quarter of 2023 there were already **signs of weaker property sales, industrial output, and consumption**. Consumers may have this rather "conservative" approach as there is a slow growth in disposable income and the real estate outlook remains gloomy. Therefore, in order to boost economic growth, **the six largest state-run Chinese banks cut deposit rates in early June**. Moreover, there were announced **tax breaks for businesses**, and measures to reduce interest rates and **channel loans** to specific sectors. The truth is that a recovery in the loans demand must be stimulated, which could lead to even **further rate cuts**. Once again, China is tied up to its property sector. Consumers, although with a **considerable amount of accumulated savings**, seem not to trust the strength of the real-estate developers,

which leads to **no significant purchases**, in a time where prices for property are already considerably low, given the historical figures. Therefore, it becomes even harder for the sector to fund their projects. Regarding fixed income, the **decelerating inflation from January to March gave scope for further easing**, leading to lower bond yields. Chinese Policy Bank bond liquidity in the secondary market rose during this period. Chinese onshore **bonds had modest gains in April measured in Renminbi, but the returns in US Dollars were mostly negative**. In comparative terms, Chinese IG corporates had the highest returns, positive both in Yuan (1.8%) and US Dollars (1%), while the HY corporates had the worst returns, negative in both Yuan and Dollars (-6% and -6.8% respectively).



Restrictions on chips are causing enormous damage, with Nvidia's China and Hong Kong revenues dropping 20% YoY, The Guardian

Rising geopolitical tension with the US may lead companies to **diversify supply chains**, which has a particular **impact on the Chinese technological sector**. However, the US also has to take into account future inflation trends. **Moving production out of China will not be a fast process**, and there is no guarantee that others will manage to match Chinese low prices.

Markets & Economy

Markets Overview

China (cont.)

Beijing has also been in talks with Saudi Arabia, with the gulf country joining the Shanghai Cooperation Organization as dialogue partner. **China is also growing its influence with trades settled in Chinese Yuan**, not only with Russia or Southern Asian Economies, but also with OECD Countries such as France. In fact, the share of Renminbi used in global trade has increased considerably in the past few years. Overall, **Chinese currency has been losing value** against the Euro and the US Dollar these past months, although it is highly likely due to the **differences in monetary**

Europe

The year started with a general upward trend across the main European stock indexes, **rallying up to almost 10% in the case of STOXX600** in the first two months. Such a strong positive movement amid of recession fears and the ongoing war in Ukraine was driven by China's post-COVID reopening, as its zero-COVID policy that lasted for three years came to an end, declining energy prices after a 60% surge in 2022 and the **fourth quarter earnings release with a positive growth of 8% on aggregate**, unlike the US that reported negative earnings growth of 5%.

In March, there was a sudden shock that negatively affected all the major indexes, especially **FTSE 100 that dropped 7.7%** between the eighth and the seventeenth, obliterating the gains of the two previous months in about a week. One can consider the failures of Silicon Valley Bank and Signature Bank to raise concerns about the banking sector in Europe, but it was the **Credit Suisse collapse** that laid ground for the biggest monthly drops since March 2020 in European banking stocks.

Even though stock prices recovered fast, rallying up to 4% as UBS acquired the Swiss lender and European banks continued to report high levels of liquidity, it was not enough to avoid the **15% monthly drop in March** and the ending of five consecutive months of gains for the sector.



Euro zone's top banks may take a hit if their financial clients withdraw their deposits or otherwise run into trouble, according to the ECB, Reuters

As the earnings season approached, STOXX 600 companies managed to deliver **better results than expected** and turned a 2.5% decline pointed by Refinitiv I/B/E/S data into a **positive quarter on quarter growth of 7.3%** in a matter of few weeks. The positive response to an environment still characterized by inflationary pressures and rising interest rates was well spread across sectors: Europe's largest banks and lenders (BNP Paribas, Barclays and Deutsche Bank, for instance), consumer groups (Nestle and Unilever) and its largest listed company LVMH all beat forecasts. However, **European shares started losing momentum** at the end of April, after the turnaround in expected earnings, mostly due to fears of U.S. defaulting on its debt repayments and investors expecting lower margins in the second and third quarters.

Markets & Economy

Markets Overview

Europe (cont.)

These expectations arise following economic indicators that point to lower private savings and higher funding costs that can cause margins to decline to values closer to those registered in the last quarter of 2022.

Later in May, and ever since, one can state that **Europe is missing the global rally in growth stocks**, expectable news once tech, for example, is only 7% of European equity markets, and we get closer to the end of the current rate hiking cycle with the prospect of worse economic data pointing to a technical recession in some countries, such as Germany.

Regarding fixed income, **ECB's policies and high inflation** are the main drivers until mid-March, when the previous-mentioned banking failures raised fears of a systemic sector crisis. In response, investors turned to low risk-assets, causing **European government bonds to rally over the quarter**.



ECB policymakers open to further rate hikes past July, namely in the 13-14 September meeting.

In the first week of June, bond yields went down nearly 20 basis points with Germany on the lead. Not only headline inflation seemed to be cooling, but also a weakening economy contributed to a **strong buy signal on sovereign bonds, especially longer-dated ones**. It is possible to observe the flattening of the yield curves that signals economic

slowdown, since shorter-dated bonds were not as demanded as the longer-dated ones. It is still important to highlight that in the euro zone, at the moment of this report, **only in Germany and Italy the yields curves are considerably inverted**, while for the majority of the member countries yield curves are rather flattening.



Markets & Economy

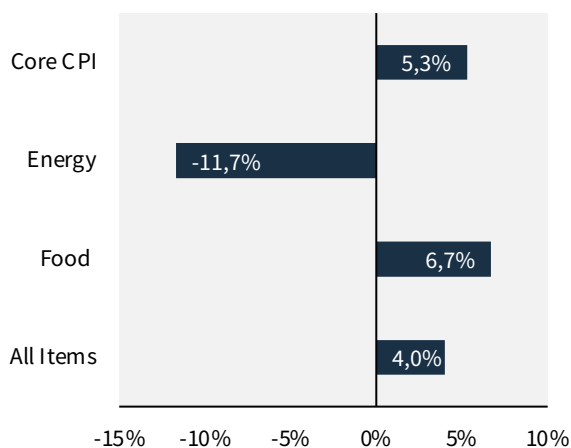
Economic Overview

United States

During the first quarter of 2023, **real GDP grew 1.1%** in the US at an **annualised rate**. Even though **private consumption surged**, there was a **decline in private inventory investment** to offset this possible growth. Moreover, the increase in consumption happened in **January** due to an **increase in real income**, meaning that it is **not expected that this consumption trend will continue**. One can witness that consumption declined in February and remained relatively flat in March.

Supply conditions improved in the manufacturing sector as both **employment and output increased**, and a lower production growth is predicted for the following months. **Input costs decreased** for the first time in three years, which lead to a slower rise in selling prices. However, the **PMI decreased** from 50.2 in April to 48.4 in May, mostly driven by a contraction in new orders.

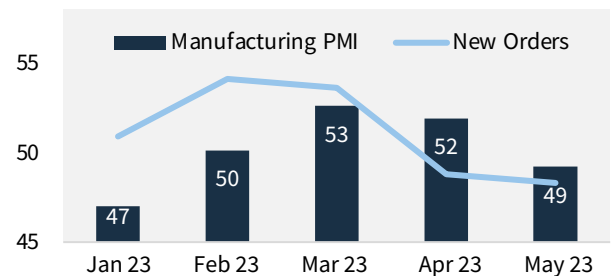
The **inflation rate reached its lowest annual rate in two years**, with the Consumer Price Index slowing from 4.9% in April to 4% in May (12-month percentage change). The report, however, depicts a growing discrepancy between core and headline CPI.



USA 12 Month CPI percentage change, May 2022

China

In the first quarter of 2023, the **Chinese GDP at constant prices rose 4.5% year on year** following the reopening of the economy. The consumer price index (**CPI**) **fell** throughout the first half of 2023 to 102.8 in May from 104 in January, the highest monthly value in the last 12 months, likely due to an **ease in supply chain constraints together with a not so strong demand, and weaknesses in global commodity prices**. However, food, alcohol, and tobacco led to consumer price gains. Regarding the Producer Price Index (PPI), mining and raw materials led to price declines.



Manufacturing PMI China, January 2023 - May 2022

In May, the **PMI for large enterprises increased** by 0.7% to 50%, while the **PMI of small and medium enterprises declined** 1.1% and 1.6% to 47.9% and 47.6% respectively. Among the sub-indexes of the PMI, one can observe that the **supplier delivery time index was above 50% as suppliers kept sufficient stocks**, while the **production, new order, raw material inventory, and employment indexes all stayed below the threshold**.

The unemployment rate has been stable, slightly decreasing 0.3% from January to May, however, **youth unemployment has increased significantly** from 17.3% in January to 20.8% in May. The **Chinese Central Government** is also **expected to increase borrowing** in order to finance a slightly larger budget deficit, aiming to **reduce pressure on local governments**.

Markets & Economy

Economic Overview

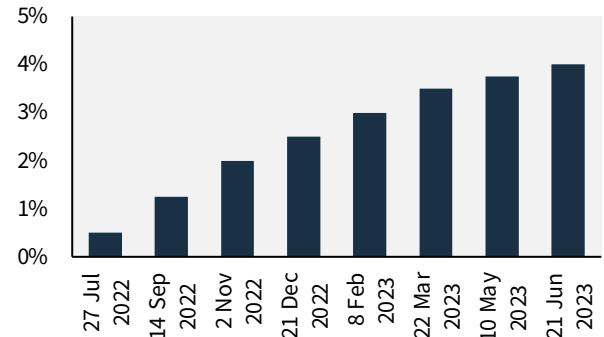
Europe

The first quarter of 2023 showcased similar results for the Euro Area and the EU. Both experienced a modest increase in GDP this quarter, 0,1% in the euro zone and 0,2% in the EU. Among the member states, **Poland, Luxemburg, and Portugal** stood out with notable GDP growth rates of **3.8%, 2.0% and 1.6%**, respectively. On the other hand, **Ireland, Lithuania, and the Netherlands** faced challenges, with **declines of 4.6%, 2.1% and 0.7%**, respectively, in their GDP.

During the same period, the manufacturing sector encountered significant challenges. The HCOB Eurozone Manufacturing **PMI indicated a further decline in the sector's health, reaching its steepest decline in three years.** Both output and new order inflows experienced a sharp decline, with exports contracting at one of the highest rates on record. Backlogs of work fell more rapidly, and job creation slowed down. Input costs decreased notably due to falling supplier charges and energy prices, and output charges dropped for the first time in a while. Business sentiment also weakened, reaching a five-month low.

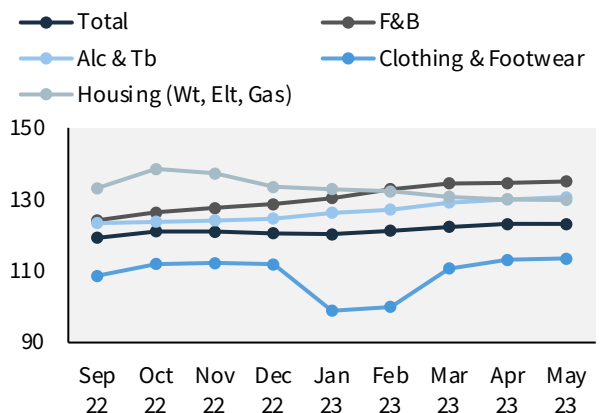
The tight credit standards observed in the first quarter of 2023, as highlighted by the ECB's bank lending survey, came as an unexpected development. These standards tightened to their **highest level since the 2011** sovereign debt crisis, raising concerns about declining lending in the coming months. The ECB's **monetary policy tightening** approach involved **interest rate hikes, quantitative tightening, and targeted-longer term refinancing operations repayments.** Amidst high uncertainty, the Governing Council adopted a data-dependent and meeting-by-meeting

approach, reducing reliance on forward guidance. Market expectations regarding the "peak" interest rate hinted at a deposit facility rate of 3.75% in July 2023, with a subsequent shift back to interest rate cuts in Q2 of 2024.



ECB fixed interest rates, ECB

While **headline inflation remained considerably above the 2% target**, it showed signs of **decline** since the end of 2022, mainly driven by **decreasing energy prices.** However, **underlying inflation remained persistent**, affecting most components in the HICP basket. **Food, services, and non-energy industrial goods emerged as the primary contributors to inflation**, with energy-sensitive sectors playing a diminishing role. Official forecasts from the ECB, IMF, and European Commission revised down projections for headline inflation in 2023, suggesting a slower return to the target over the medium term.



HICP by category (base 2015)

Markets & Economy

Outlook

United States

Now with the debt ceiling drama aside, the **US Economy has now some room to breathe more easily**, preventing potential catastrophic events for both the US and Global Economies. However, **recovery is not yet in sight** despite better-performing markets (especially big tech), and, additionally, inflation is still above the target at 4%. Even with the FED pausing policy rates increases, we shall expect at least two more 25 basis point increases until the end of the year.

The general **outlook for the US is of slower growth**, increasing the odds of a recession which if occurs, shall be very mild. More into the future, **the US economy is set to arrive at a period of sluggish growth, low unemployment, low inflation, and low-interest rates**, which creates an unappealing scenario for middle-class workers who will have no incentive to save coupled with sluggish growth in their wages.

For the second half of 2023, the slowdown in growth is coming from multiple variables: **1) Slower growth in consumer spending**, as Americans continue to increase their savings (it is still below the pre-pandemic 5-year average), **2) Stabilized Housing Market**, with even some fall in prices in specific locations. Note that, the housing market is usually a good proxy on whether we should expect a recession. This stabilization rather than an outraged fall supports our expectations of sluggish growth and a potential light recession, **3) a Fall in Corporate Profits**, except for big tech since investments in intellectual property are strong and look set to remain so, and **4) Lower demand for exports**, due to lower domestic demand in Europe and a very strong USD.

For the next six months, we shall remain vigilant on these variables, but also on financial markets which are good predictors of the economy. Today, **financial markets are fragile**, and we should not interpret this month's good results (given the circumstances) as nothing else but temporary positive expectations shocks due to less uncertainty in the short-term. **Any major event in the future can easily put the US economy into a recession, hence caution is advised.**



Markets & Economy

Outlook

China

As of June 2023, growth opportunities seem scarce. Data suggests that the **economic recovery is not only unbalanced, but also faces challenges** such as a **weak domestic and international demand**, or a **lack of confidence** in the private sector, with private investment still weak.



*Charting the Global Economy: China's Recovery Loses Momentum, **Bloomberg***

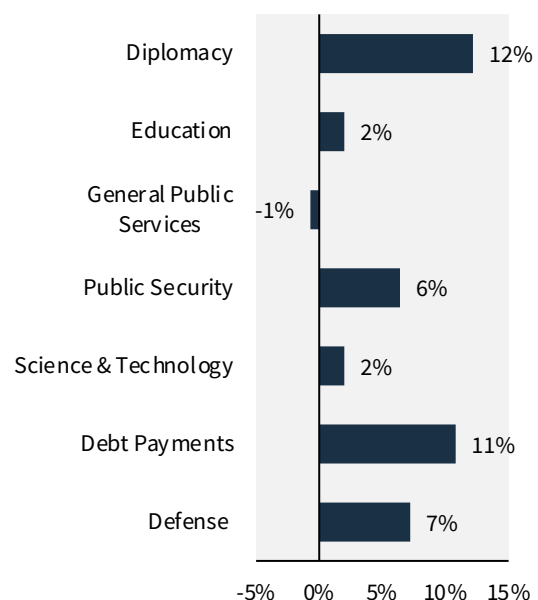
Since 2020, **market saturation with tech groups has depressed margins**, with shares of ecommerce groups falling significantly from earlier this year. AI may fall behind due to export **controls imposed by the US that reduce access to more advanced chips**. Manufacturing activity contracted more than what was expected in May, while April retail sales and factory output missed expectations. Moreover, both **industrial profits and property investment are down**, even when the property slump seems to be easing. To add to these issues, **youth unemployment has hit a record high**. Some major banks cut their China GDP growth forecasts for 2023, from a range of 5.5% to 6.3% to a range between 5.1% and 5.7%.

Foreign institutional investors seem to be trying to reduce their exposure to Beijing.

The search for emerging Asia securities that exclude China has increased significantly since April, and if Geopolitical tensions do not ease, the trend can continue. Investors understand that they can be exposed to China indirectly, by holding positions in “safer” countries, such as Japan, Australia, or South Korea.

However, **Xi believes China and the US have made “progress” regarding their bilateral relations** as he commented on his last meeting with the US Secretary of State, Antony Blinken. The Chinese president also added that a **consensus was reached regarding some “specific issues”**.

It is important to keep track of what kind of policies the Chinese government will implement, and if that will be done in time. Chinese officials reassure entrepreneurs that **they will support the economy**, but these issues will not get fixed until those statements become actions.



YOY Changes in Government Spending in China (2023)

Markets & Economy

Outlook

Europe

Most economists and investors were predicting a much harsher winter and first half of the year, **estimating an unavoidable recession in the EU**. However, even though countries such as Germany and the Netherlands faced a period of contraction in their GDP and slowdown of the economic activity, there was a **modest growth felt by the majority of the nations**. The stock market also reacted positively in a Year-to-date perspective, once, for example, major indices like STOXX600 hit a **positive growth rate rounding 2.5%**.

Looking forward to the second half of the year, investors should take a careful approach in order to assess what lies ahead in the next half. The prospects of slower economic growth and lower bond yields in line with the end of the rate hiking cycle provides more than enough reasons to **prefer defensive over cyclical stocks**. Therefore, one should look for sectors whose demand is more inelastic, such as telecom and utilities, and underweighting cyclical sectors, such as autos and capital goods.

Despite defending a cautious approach for the upcoming months, we believe that in the long run European equities can be an interesting option due to **resilient earnings and low equity valuations** when compared to direct peers in the US, for instance. To support what was stated above, one should look at the price to earnings ratio in Europe and compare it to the US: 12.5 times against almost 18 times. Following this reasoning, **the outlook for European stocks seems to be brighter in a farther future** than it will probably be until the end of the year.



Markets & Economy

Commodities

Oil

The end of 2022 was marked by a significant fall in oil prices after peaking above the 110\$ mark. This decline faded during the first half of 2023, where prices have returned to 2018 levels at around 70\$ per barrel, (75\$ price was the recorded price in early 2023). The main catalyst for this trend was a dollar appreciation, making oil more expensive for the RoW, following the hawkish monetary policy pursued by the FED.

For the future, **an oil price increase is expected for the coming months.** Yet, we remain vigilant on some variables that might change the scenario: **1) FED's policy rate:** we expect an ease in FED's monetary policy (we shall expect two more 25 basis points increases until the end of 2023) which will make oil cheaper for the RoW, thus increasing oil demand and consequently prices. **2) Corn and Soybean Prices:** for the past month, we have been seeing a surge in these commodities' prices after a dramatic fall in the previous month. If these prices continue to rise to 2022 levels, **we expect an increase in oil prices as biofuel blending becomes more challenging due to lack of supply** of these two commodities. Otherwise, we expect no significant changes in prices since, currently, the price level is sitting close to what it has been from Jan to Apr 2023. **3) OPEC+ Developments:** Saudi Arabia announced another oil production cut of 1 million barrels per day. Despite tensions between Saudi Arabia and UAE, an agreement to increase the 3 million barrel per day quota on UAE from 2024 onwards has reconciled the two countries on the recent Saudi Arabia's decision. If this materializes fully, we shall expect increase in the coming months, but the beginning of 2024 might bring a decrease in oil prices again.

Copper

International Copper Study Group points out another **supply deficit** in the copper market, while copper usage, particularly in China, seems to be growing faster than forecasted.

Global usage is also expected to surpass pre-pandemic levels. Historically, **copper prices are closely linked to the Chinese industrial production.** In the first quarter of 2023, one witnessed a significant growth of the Chinese economy, positively impacting copper prices. However, prices lightly reacted, due to the **weaknesses in Beijing's manufacturing sector** that may harm the performance of the metal in the upcoming months.

In addition, **recessionary fears in Europe and a weaker dollar** coming from a possible ease in the Fed's monetary tightening may also help put **downward pressure on prices.**

Gold

Gold was one of the best performers in the first months of 2023, with **significant surges that followed the collapse of the SVB and the negotiations over the US debt ceiling.** Moreover, the **demand for gold as a luxury good also increased** with the Chinese reopening.

There have also been **substantial gold acquisitions by Central Banks**, with Mainland China, Singapore, and Turkey among the largest buyers. The **uncertainty over global economic growth** and the fact that **interest rates may be close to their peak** in the US, which will eventually lead to rate cuts and dollar devaluation, are strong drivers for future gold performance.

PORTFOLIO



GUILHERME MOURÃO TIAGO SERRANO

Portfolio Overview



GONÇALO SANTOS PEDRO OLIVEIRA

Top Performers



GUILHERME BAGULHO RODRIGO BATISTA

In-depth Asset Analysis

Portfolio Overview

Portfolio Strategy

Context

The challenges of early 2023 in the financial markets called for a revision of the Portfolio Strategy. Amid **tightening monetary conditions**, an **uncertain macroeconomic outlook**, and heightened **volatility in the equity and bond markets**, the portfolio demanded swift modifications. The investment environment of early 2023 called for a different and **more defensive approach**, which we pursued by adopting the following changes:

Increase bonds allocation

Three main factors underpin this decision. First, the portfolio started the semester severely **underweight in terms of bonds allocation** (relative to the benchmark). Bonds made up 21% of the portfolio, compared to 40% of a classic 60/40 portfolio. Secondly, after a dismal year for bonds in 2022, we considered the bond market to be **more attractive to investors**. In fact, we concluded that, from a general point of view, as valuations stood, **risk was better compensated in bonds** than equities. Finally, and more importantly, we understood that the **high correlation** exhibited by bonds and equities on the way down in 2022 would **not persist** for much longer. In other words, we reasoned that bonds would soon be a **source of valuable portfolio diversification**, translating to **lower volatility** in portfolio returns.

As a result, we ended the semester with bonds representing 32% of the portfolio AuM, up from the initial 21%.

Bonds Allocation

21%
Feb 23

32%
Jun 23

Increase share of single equities

The rationale for this change is two-fold. Firstly, it intends to place more **weight on the due diligence** performed by the **investment teams** on individual stocks. Secondly, it allows the club to **pursue Alpha** by shifting away from broad equity indices, which are more correlated with the portfolio benchmark. We found this to be particularly reasonable at a time when **volatility** in equity markets was **historically high**.

Consequently, the allocation to single equities increased from 17% at the start of the semester to 33%.

Single Equities Weight

17%
Feb 23

33%
Jun 23

Reduce the portfolio cash level

The explanation for this adjustment is relatively straightforward. The **opportunity cost of holding cash increased** dramatically as central banks worldwide ramped up short-term interest rates. Besides, after the sell-off experienced in 2022, several assets in the bond and equity markets offered an **attractive entry point**. Accordingly, we decided to **deploy excess cash** in short-term fixed income instruments, such as **US T-Bills**, and **long-term assets** with an attractive risk-return profile (approved in the weekly club committees). The share of portfolio assets held as cash decreased from 13% in February to 4% at semester end.

Cash & Equivalent

13%
Feb 23

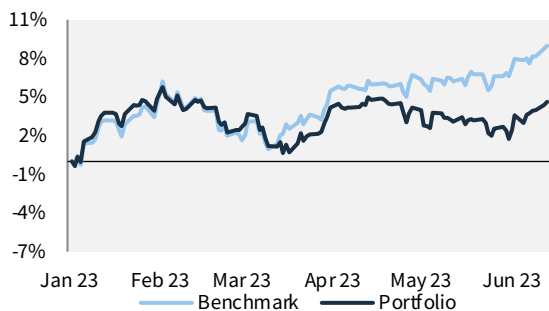
4%
Jun 23

Portfolio Overview

Performance

In H1 of 2023, **global equities have soared**, with the MSCI World Index rising by around 12% and the S&P 500 (market weighted) by 15%. The **correlation** between stocks and bonds is returning to regular values, protecting the portfolio from possible **drawdowns**.

The portfolio's performance **lagged the 60/40 benchmark by 327 bps** (2,38% vs. 5,65%) in this semester. Our strategy of increasing exposure to **small-caps and financials** proved to be less fruitful than initially expected, especially considering that financials were tainted by fears over **liquidity in the banking industry** and by the "downfall" of Silicon Valley Bank, First Republic Bank and Credit Suisse. Nonetheless, the "abstract exercise" of removing the top 10 stocks in the S&P 500 (that returned just under 40%) would grant us **overperformance** over the benchmark. Additionally, the portfolio's exposure to equities was **well below 60%** and the beta decreased throughout the semester, which are also factors that explain the underperformance relative to the benchmark.



Portfolio and benchmark performance (01/01 to 14/06)

Our exposure to two **FAANGs** contributed significantly to the portfolio's performance during this semester, since both positions performed around **35%**. **Depressed valuations** and the rising popularity of **AI-driven chatbots** drove IT stocks to double digit performances (with the S&P 500 Information Technology returning +42,06% in H1). The club moderately capitalized on the trend with IT securities

weighting around **19,95%** of the portfolio.

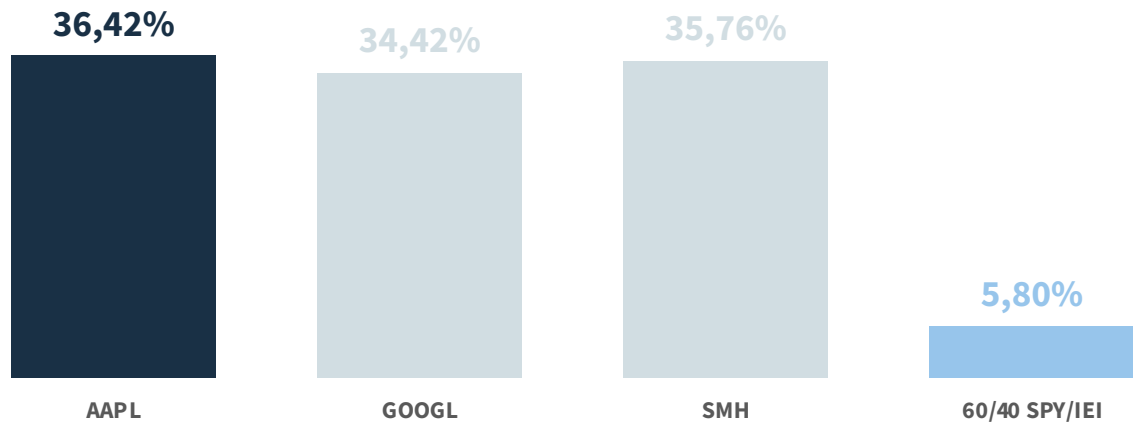
Compared to the previous semester, the **Sharpe ratio** of the portfolio increased by **14 bps** and the **Sortino ratio** by **256 bps**, evidence of lower exposure to **drawdowns**. However, this semester, we faced much more **amicable market conditions**. The Portfolio Managers strongly emphasized the importance of **increasing and diversifying** our exposure to **bonds**, in part to reduce **drawdown risk**. We increased exposure to **fixed income** by **952 bps** since the beginning of the year.

We also increased **monitoring** over drawdown risk. According to Bloomberg built-in scenarios, a **Debt Ceiling Crisis & US Government Bonds downgrade** as in 2011 would lead to a **9,74% fall** in performance while turbulence in the markets in the aftermath of the **Lehman Default** would drag our performance at **-14,08%**. Analyzing these historical scenarios was an essential **risk management** tool to deal with relevant recent financial events.

Metric	PMC Portfolio	Benchmark
Semester Return	2,38%	5.65%
Annualized Volatility	11.31%	11.02%
Sharpe Ratio	0.18	0.52
Sortino Ratio	3.24	9.51
Alpha	0.07%	-
Beta	1.17	-
VaR	-1.16%	-1.12%
Kurtosis	1.30	2.17
Weight of derivatives*	0.49%	-
Weight of "junk" bonds*	1.76%	-
Weighted Average YTM*	5.07%	-
Exposure to:		
North America*	64.40%	-
Western Europe*	22.67%	-
APAC*	7.81%	-

Key Portfolio Facts as of 14/06/2023 **"Look-Through" method

Top Performers



Apple Inc. (AAPL)

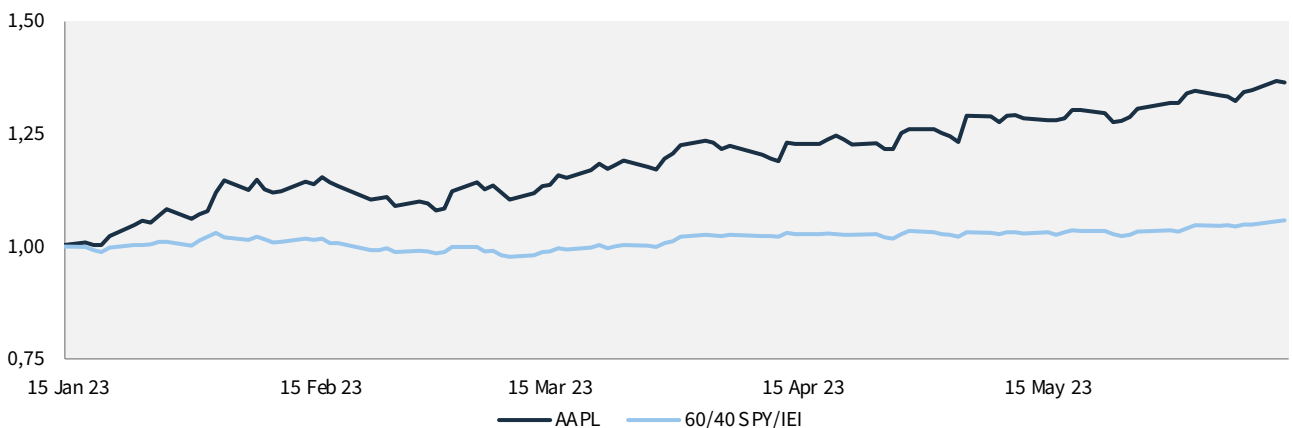
+36.42%

Apple is a multinational **designer, manufacturer and marketer** of **hardware** (smartphones, computers, tablets, wearables...) and a **growing service provider** (App Store, Apple Pay, Apple TV, Apple Music...). All Apple is known for the **quality** of its products and services and the **ecosystem** built around them. It is currently the **largest company in the world** with a market cap of \$3 trillion.

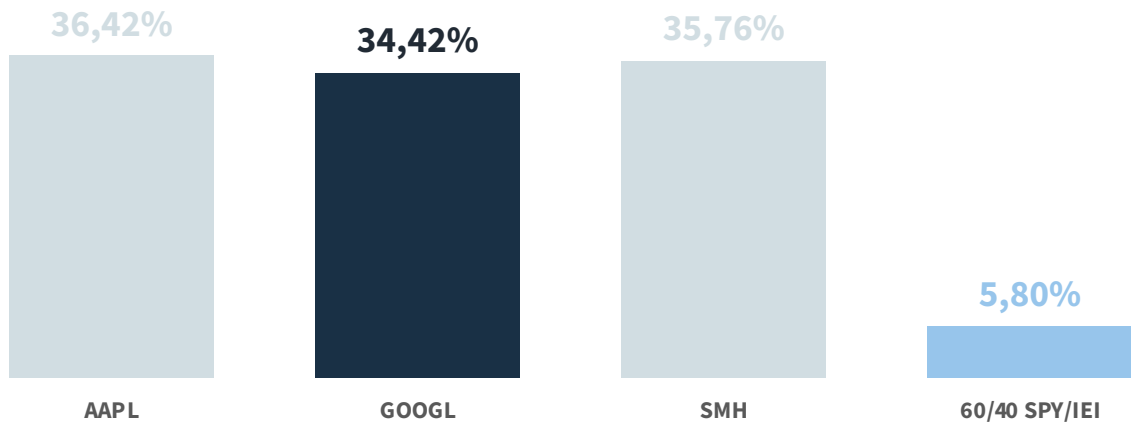
Apple stock performance for the first half of 2023 was **outstanding at +56% YTD, carrying both** the **S&P 500** and the **NASDAQ 100** - AAPL is almost 8% of the S&P and 11% of the QQQ. Performance was driven by an overall **improvement in economic expectations, better than expected results**, alongside **new product announcements** such as the Apple Vision Pro (the Virtual Reality headset).

Our stake in Apple was bought initially in **November 2022** at an average price of \$140. Our thesis has **played out quite well** and Apple proved to be **resilient** during **tough market conditions** for hardware makers (with supply chain shortages, a post pandemic decline in sales and Chinese market struggles). AAPL's valuation have expanded from \$2 trillion in market cap to more than \$3 trillion since the beginning of the year. **Multiple expansion** was the **primary source of returns** with the P/E ratio rising from **22x** late last year to a **33x**, very close to the highs seen in 2021. We are holding the stock for now while we follow closely the **development of market sentiment** around the security.

Apple performance versus Benchmark



Top Performers



Alphabet Inc Class A (GOOGL)

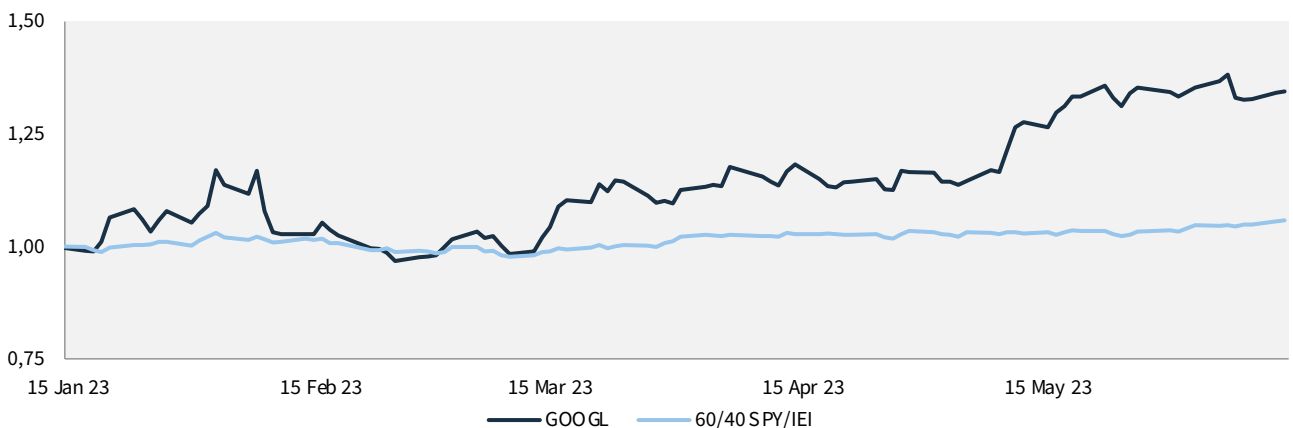
+34.42%

Alphabet is a **global leading technology** company offering a wide range of products and services including **Google Search, Gmail, Youtube, Google Cloud** and **Android**, all of which combine into a **digital ecosystem** that effectively retains and monetizes its customer base.

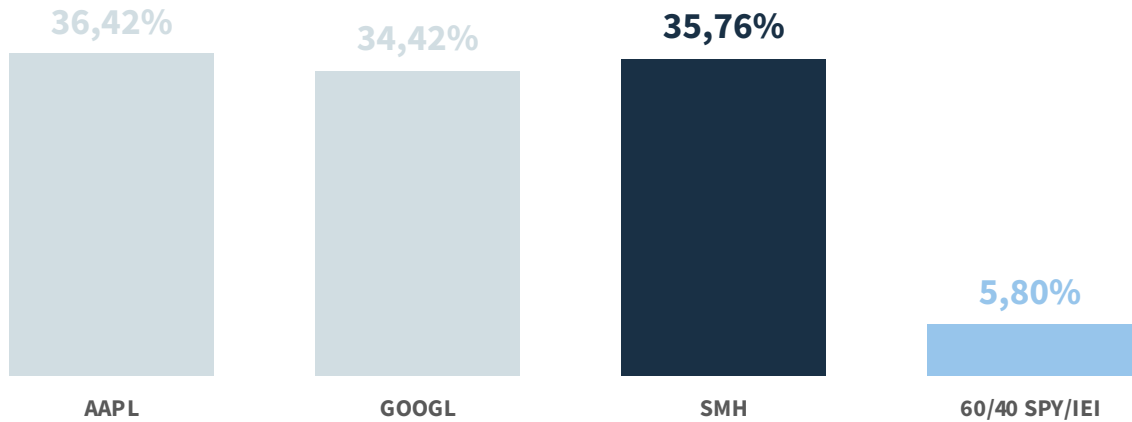
Alphabet's stock performance this semester was **in line with its major big tech peers** (up +45% YTD) driven specially by 1) an **improvement in economic perspectives**, 2) an expectation of a FED pivot approaching and 3) a shift of **focus on operational efficiency** that has led Alphabet to **increase margins** on the back of a tough fiscal year in 2022.

Our position in GOOGL was initiated about 15 months ago, and after incurring in a considerable drawdown during 2022, the **decision to hold** our position was made given that the company perspectives weren't as bad as the stock performance were implying. Although **Q2 earnings came in better than expected**, some **concerns still lie** on the **AI competitive landscape** and the **cloud growth** and **profitability prospects**. GOOGL's P/E multiple, that contracted to a low of 18x in late 2022, have **expanded back to 29x**. The stock is now trading closer to what we believe to be **fairly valued** and a decision is to be made upon **whether or not we are holding** the stock going forward.

Alphabet performance versus Benchmark



Top Holdings



VanEck Semiconductor ETF (SMH)

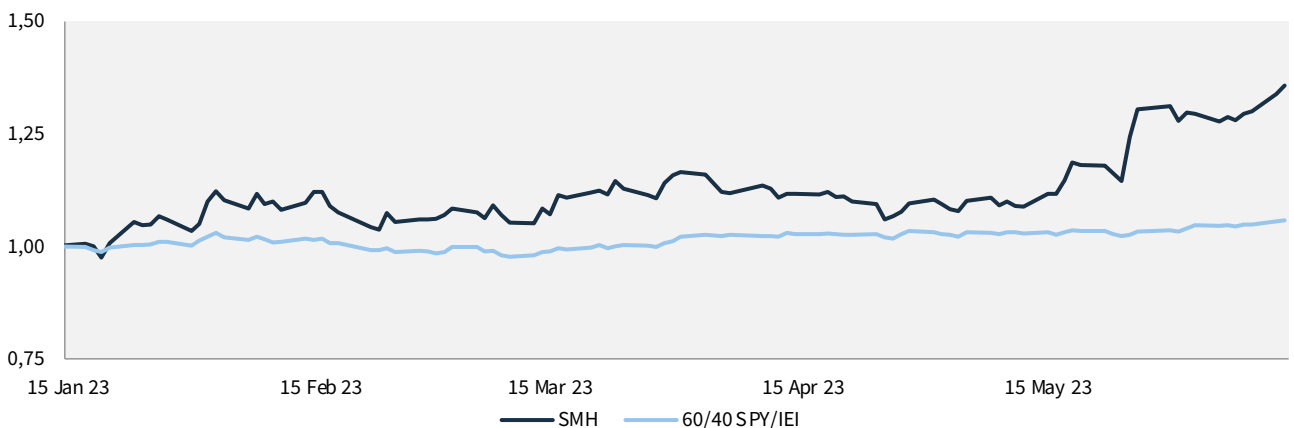
+35.76%

The VanEck Semiconductor ETF tracks the performance of the **semiconductor industry** which is at the heart of today’s tech revolution in different fields such as **artificial intelligence** and **military research**. Although the funds are allocated in a quite diversified manner across its 25 holdings, the ETF’s core is **stable around 5 top holdings**: Nvidia Corp (NVDA), Broadcom Inc (AVGO), ASML Holding (ASML), Taiwan Semiconductor Manufacturing (TSM) and Advanced Micro Devices (AMD).

The main driver of the ETF’s performance this year was the increasing demand for semiconductors to **AI development**. This **surprised market analysts** who at the beginning of the year expected the semiconductor market to shrink by 10,3% this year. The ETF started off the year with a **positive performance** in the first quarter and after the first quarter’s earnings releases the performance of the ETF was even greater after some **companies beat their earnings expectations**.

In the future, this industry’s growth will rely on the ongoing **trend towards artificial intelligence**, as it revolutionizes the way we work today, the growth potential is immense. However, the industry production is mostly **located in Southeast Asia** and both the **US and China** are fighting to be the industry leader, a **trade war** between the two can have a **negative impact** on the industry.

VanEck Semiconductors ETF performance versus Benchmark



In-Depth Asset Analysis

Kering SA

Key Facts

K E R I N G



KER (Euronext Paris) Market Cap: **US\$63B**
Sector: **Cons. Discretionary - Luxury Goods**

Introduction

Kering was pitched by Investment Team 1 on April 19th 2023 at \$572, which was deemed as a reasonable buying opportunity. While the stock has fallen since then, it is the understanding of the club that **the company currently offers an even bigger discount**. For that reason, the close monitoring of the stock is going to continue, but the initial recommendation still stands based on the grounds of the **valuation methodologies** used and the **expected outlook**.

Investment Thesis

The rationale for this pick was in alignment with the club's portfolio strategy and goals. Thus, the focus on **quality stock picking** remained a prevailing reason for choosing the stock. The stability of **double-digit margins** and the **exclusivity of the portfolio** of brands Kering is proof of the quality mentioned earlier.

Kering (KER) is **one of the biggest players in the luxury goods segment**, with most revenues being originated in Asia-Pacific (32%). This could suggest, in the club's opinion, that the company can benefit from the **growing middle class** in this region, especially in **China**, boosting revenues.

Additionally, the fact the company also has significant **exposure to Western Europe (27% of revenues)** and is **listed in Euros** enhances the **diversification component of the portfolio** which tends to historically bring value added.

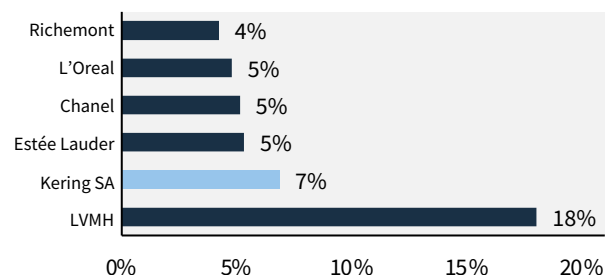
Company Overview

Kering **specializes in the retail of luxury goods**, including leather goods, shoes, eyewear, watches & jewellery, and ready-to-wear. The firm owns exclusive brands such as **Gucci, Yves Saint Laurent**, and **Balenciaga**. The most important brand is Gucci, which accounts for 52% of total revenues. In the past five fiscal years, revenues have been growing at a **CAGR of 11%**, in which shoes stand out with a **CAGR of 14%**. From a geographical breakdown perspective, **North America** has been growing the most with a **CAGR of 20%**, followed by **Asia-Pacific with 12%**.

The company has proven to be resilient even in times of greater instability as it has been the case of 2022 with a **sharp pick up in inflation** and **interest rates**. Moreover, the recent investments in stores are expected to improve customer experience and consolidate Kering's market share, sustaining growth.

Industry Overview

According to Bain & Company, the luxury goods market has been expanding and is expected to reach a **5.5% CAGR** between 2020-2030. This represents an increase in the customer base by nearly **100 million people by 2030**, to 500 million in total. The market structure remains competitive. Nevertheless, each firm has some degree of market power considering its exclusive portfolio of brands.



Market share of the Top 6 players in the luxury goods market

In Depth Asset Analysis

Kering SA

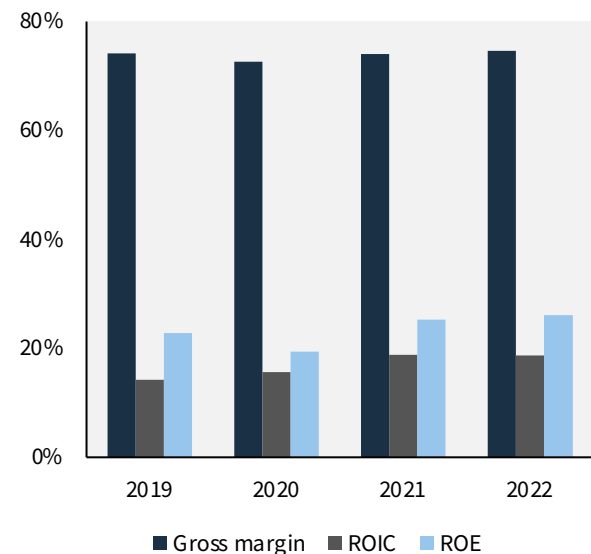
Financials

From a financial perspective, the company has maintained a **strong liquidity position**, complemented by a decrease in the Cash Conversion Cycle from **199 days** (2018) to **183 days** (2022). Going forward, the **debt structure seems well balanced**, with a more or less equal distribution of the debt schedule until 2030.

The company has also **improved its free cash flow generation**, mostly coming from the **operational side**, despite increases in CAPEX in recent years.

The **operational performance was strong** and mostly justified by the significant increase in revenues. However, **only more recently the margins have improved**, after reaching a low during the pandemic. Nevertheless, **gross margins have remained relatively stable** and have even improved compared with 2018.

As for the **Return on Equity (ROE)** and **Return on Invested Capital (ROIC)**, both have more started to improve, reflecting a **shift towards operational efficiency** rather than a purely aggressive revenue expansion.



Key Profitability Ratios for Kering between 2019 and 2022

Valuation

The valuation was one of the key components of the **investment thesis** for the stock pitch. It is the club's view that the company is undervalued both when it comes to a peer valuation, but also from an intrinsic value perspective.

According to the relative valuation, the company presents **ratios mostly below the median** of the industry and **significantly below its peers**. For the case of the **P/E ratio**, Kering's is **19.3x**, which compares to the industry median of **39.7x**. The largest player in the industry, LVMH, has a **P/E** of **74.4x** according to Bloomberg.

For the **EV/EBITDA** multiple, Kering's is **11.0x**, compared with **15.9x** of the industry and **16.8x** of LVMH. Finally, the **EV/Sales**, also commonly used for some retail segments because of their reliance on sales is of **3.9x** for Kering, which compares to **4.5x** of the industry and **5.8x** of LVMH. For all of these reasons, it is the club's belief that the company seems to be undervalued from a relative valuation perspective.

When it comes to the intrinsic valuation, we have reached the same conclusion. The method employed was the perpetuity method for the analysis using a **2% growth**, in line with the historical macroeconomic performance of the economy. The discount rate of **7.9%** was used respecting the company's capital structure, and the conclusion is that the expected price target is **€689**, which presents an **upside of 37%**.

		Perpetual growth				
		1,0%	1,5%	2,0%	2,5%	3,0%
WACC	6,9%	43%	54%	69%	86%	108%
	7,4%	30%	40%	52%	66%	83%
	7,9%	19%	28%	37%	49%	62%
	8,4%	10%	17%	25%	35%	46%
	8,9%	2%	8%	15%	23%	32%

Cross Sensitivity Analysis WACC & Perpetual Growth, KER.PA

In-Depth Asset Analysis

A2A SpA

Key Facts



KER (Borsa Italiana) Market Cap: US\$5.21B
Sector: Utilities – Multi (mainly Renewables)

Introduction

We are pleased to present to you A2A, one of the companies that was pitched this semester, by the Investment Team 3. The stock was pitched to the club on April 12th at €1.53, and was approved by the majority of the members. As of June 30th, it trades at €1.68, meaning already a **10% price appreciation**, and is still held in our club's portfolio.

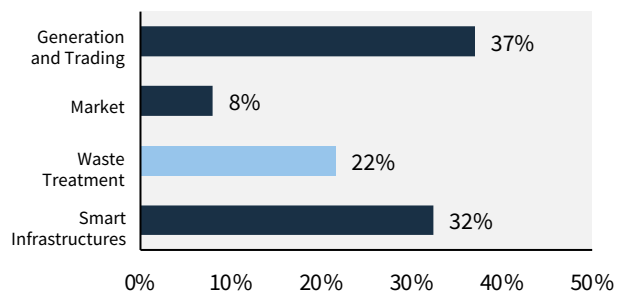
Investment Thesis

A2A is and was a stock pick that clearly met our portfolio needs: a **quality European company** in the **Renewable Energy** sector, with a clear track record of business, profitability, growth and remuneration. Similarly, to last semester, we remained positive in quality stocks' ability in helping us navigate through uncertain market conditions. As these deteriorate, their **higher margins and returns** allow them to better perform, providing some safety for our portfolio. However, one key aspect of our portfolio for the semester was to **reduce our US allocation**, shifting our focus to other developed markets. A2A not only met these requirements, it also allowed us to increase our Energy allocation, while being exposed to one of the most important trends in the world: the **energy transition** towards renewable source.

Company Overview

A2A was **formed in 2008** through the **merger** of

two Italian utility companies, AEM Milano and ASM Brescia, and is headquartered in Brescia, Italy, currently supplying **10 million customers**, and **employing 12,000 people**. The company focuses on circular economy and the energy transition through its **4 main segments** (Generation & Trading, Market, Waste and Smart Infrastructures) and has a significant presence in the North of Italy, having energy production facilities in both Italy and Greece. The company is **half held** by the municipalities of **Milano** and **Brescia**, holding **25%** each. The remaining belongs to retail investors.



EBITDA Breakdown by Business Segment 2022

Generation and Trading is responsible for **37%** of A2A EBITDA (as of 2022), followed by the **SI** segment (**32%**), **Waste Treatment (22%)** and **Market (8%)**, which was highly impacted by **lower margins**. The company is strongly committed to **Sustainability**, and will do so through its circular economy and energy transition commitments. The company aims to achieve **Net Zero carbon emissions by 2040**, and anticipated a target of **90% of ESG debt by 2030**.

A2A is the **most diversified utility** company in Italy, and the **#1** player in **Bioenergy** production and **waste disposal**, with also **leading** positions in installed capacity, heat and electricity production and gas distribution.

In Depth Asset Analysis

A2A SpA

Industry Overview

The company is highly exposed to two main factors: **Italy's macroeconomic scenario** and the **Energy transition**. Italy's **GDP** grew 3.9% in 2022, and is expected to grow 0.8% and 1% in real terms in 2023 and 2024. Similarly to most developed countries, **inflation** rose sharply in late 2022 to 12%, but has been steadily coming down since. On a local point of view, **Lombardy (A2A's region) outpaced Italy's GDP growth** in 2022, accounting for a 5th of the Italy's total. It is regarded as a Financial and Industrial Hub, and right-wing region famous for demanding regional autonomy. As in most developed countries, Energy Transition is one of the leading concerns in Italy. Currently, around **40% of the electricity** produced in the country comes from **green sources**, with special regards to Hydro, Photovoltaic, Bioenergy and Wind. Though its **national policies**, the country continues to **incentivize** the adoption of renewable and green energy, which are expected to cover **55% of national electricity consumption** by 2030, and the market is thus expected to grow at a **7% CAGR** up to 2027.

Financials

The company experienced very **high revenue growth**, offset by **margins compression**. Over the past two years the company has been able to steadily **grow EBITDA**, from **€1.1 to €1.4 bn**. All segments but Market delivered EBITDA growth in 2022, showing strength in a relatively harsh environment. A2A displays a **strong liquidity position**, with both current and quick ratios consistently above 1, and an increasing Cash Ratio. As for solvency, the company has around **€7 bn in total debt, with maturities well spread** over the next 10 years. Its €3 bn cash position, as well as a 5.5x Interest Coverage

signal that A2A can **comfortably meet** its interest expenses. In terms of peer comparison, A2A employs a **lower-than-average** Net Debt to EBITDA of 3x, as well as Returns (ROIC, ROA, ROE) in line with its main peers. It lags when it comes to margins, which is mainly explained by playing in some less profitable segments

Valuation

On a relative basis, A2A is generally **close** to its **peers' multiples**. It sits in the median for the **P/E ratio**, at **13.12x**, and slightly below for the **forward P/E**, at **12.53x**. The same goes for EV multiples, where it is in the median for **EV/EBITDA** (at **7.53x**), and slightly below on the **EV/Sales** (at **0.87x** vs **1.5x**), indicating the possibility of being **undervalued**. As for the **Intrinsic valuation**, several assumptions had to be made. **EBITDA growth** was estimated at **8.7%** yearly up to 2027, based on Company Guidance, and of **3%** thereafter, reflecting the growing adoption of the energy transition. **CAPEX** and **NWC** were estimated as the average of the past 4 years, as to smooth out the variations of the past two more volatile periods. The **Dividend payout** was assumed constant at **68%**, also in line with company expectations. The **WACC** was calculated using both the cost of debt and equity, and estimated at **6%**, yielding an **intrinsic value** of **1.7€** per share, a **10% upside** from the initial price.

		Spread on debt				
		1,3%	1,5%	1,8%	2,0%	2,3%
D/E	78,0%	5,9%	6,0%	6,0%	6,1%	6,2%
	83,0%	5,9%	6,0%	6,0%	6,1%	6,2%
	88,0%	5,9%	6,0%	6,0%	6,1%	6,2%
	93,0%	5,9%	5,9%	6,0%	6,1%	6,2%
	98,0%	5,8%	5,9%	6,0%	6,1%	6,2%

Cross Sensitivity Analysis WACC, A2A.MI

OPINION



ANTÓNIO
PIRES

*Brexit's ultimate fail to
"Take back control"*

Opinion Article

Brexit's ultimate fail to "Take back control"

Since the UK left the EU on the 31st of January 2020, the country was finally able to “take back control” as many pro-Brexit politicians claimed. Yet, three and a half years have passed and so far the facts show us that Britain has lost its north and cannot find its way back.

The UK economy is, today, the world’s **worst-performing advanced economy** according to the IMF. It is the **only big economy** that is predicted to **enter a recession** at the end of this year. As mentioned in this newsletter before, other geographies do face risks of recessions, but those risks are much less certain to materialize than the UK’s risk of a recession. With this affirmation, I expect the remaining pro-Brexit folks (they are, today, a minority according to all polls) to claim that the UK is in such a position due to the **pandemic**, with **rising inflation** across the Western world, and the **war in Ukraine**. But let’s look at history: From Q4 2019 to Q3 2022, **all G7 countries saw their GDPs grow except for the UK**. EU economies have indeed been suffering more than, for instance, the US or Canada, but they still managed to grow.



After Brexit, Breget?, Bright Green

Some might argue, but I cannot see any reason for this **mediocre performance** other than **Brexit**. Today, UK businesses and foreign countries that based their European operations in the UK have seen **their costs** and red tape

increase immensely. This also **prevented new businesses from entering** the UK, whereas **investment stalled** since the 2016 Brexit referendum. According to the UK think tank “UK in a Changing Europe”, the pre-referendum trend suggests that **investment in the UK could be 25% higher than it is today** if they were to remain in the EU.

On another topic, the same think tank also suggests that there are **330 000 fewer workers** in the UK because of Brexit. On the overall labor market, it seems to be a drop in the ocean, but most of these jobs were in the **transport, hospitality, and retail sectors**, which results in shortages and **increases in prices**. With this, another conclusion at which we arrive is that Brexit may also be a **cause for why inflation in the UK was particularly high** and why it has been so **hard to reduce it**, compared to the rest of Europe.

The past three and a half years have not been easy on Britain, where we ultimately conclude that today, the **UK is poorer, more isolated**, and clearly **without a strategy** to “**take back control**”. In 2016, politicians painted a narrative around Brexit that blamed the EU for its declining position and average-performing economy. This couldn’t be untrue. The UK **was already struggling** with a lack of growth after the Great Financial Crisis, but **Brexit just made it harder** for the UK to “take back control”. It is safe to say that the British blamed the EU for all evil upon them. But ultimately, it was the **British that did this to themselves**, and it ought to be them to fix it. Should the strategy be to apologize and beg to rejoin the EU? Perhaps, but as an EU citizen, if this materializes, I sure hope that it is on our terms and not on the UK’s terms, which is to be half part of the EU.

CLUB'S ACTIVITIES



NICOLAS
LEE

Quantitative Team at Glance



BEATRIZ
CONTENTE



DANIEL
GONÇALVES

Events in Review

Quantitative Team at Glance

Projects Overview

Portfolio Dashboard

This semester, the Quant Team embarked on an exciting project to enhance the **accessibility and visualization** of data related to the **Club's portfolio**. The primary objective was to replace the existing website with an **interactive platform** that provides users with comprehensive insights. Leveraging the power of Python, Dash and Plotly, building upon the **robust database** previously developed we gave the first steps towards a powerful platform that enables the club to analyze, monitor and optimize its investments.

Going forward, we'll be working on enhancing the interactiveness of the dashboard, aiming to provide users with **better navigation** and **dynamic visualizations**. We look forward to the evolution of this project in the next semester.

Asset Quantitative Breakdown

In our continuous pursuit of providing tools that facilitate Club's work, the team has developed the Asset Quant Breakdown tool, which generates essential **quantitative information about the assets chosen**. Based on Python, the tool provides valuable insights into the quantitative aspects of the selected assets, facilitating data-driven decision-making, enhancing risk management, and risk-return optimization.

For the future, our aim is to provide a comprehensive analysis that empowers our Investment Teams to make well-informed asset selection and allocation decisions.

Bond ETF Breakdown

Another exciting project focused on **analysing the value and sensitivities** of **Bonds Exchange-Traded Funds** (ETFs). This project aims to develop a tool that provides comprehensive

insights into Bonds ETFs, enabling us to make more informed investment decisions in **fixed income markets**.

While the project is currently in its early stages, our objective is to create a powerful tool that offers a **detailed breakdown** of these ETFs, considering various factors that impact their performance. Two main streams will be pursued: **valuation and sensitive evaluation**. On one hand, factors like credit quality, yield, duration, and maturity profiles are the main drivers for valuation, whereas interest rate sensitivity (duration and convexity), credit spread sensitivity, and liquidity risk will be combined to estimate the potential impact of market fluctuations on Bonds ETFs.

Volatility Timing

In our pursuit of refining our portfolio management strategy, the team went back to **Volatility Timing**. Building upon **Moreira and Muir**, we sought to test the validity of their theory within the context of our portfolio. Our backtest **confirmed the theory** for our portfolio's own holdings. Findings demonstrate that **increases in volatility do not tend** to be accompanied by **similar increases in returns**. This supports the notion that **traditional assumptions** about the binomial risk-return **may not hold** true in all market conditions.

By recognizing and leveraging this insight, we can refine our asset allocation strategy and make more informed investment decisions.

Moving forward, we remain committed to **testing and validating** our initial findings. Our aim is to develop a robust framework that allows us to effectively manage risk and capitalize on market opportunities.

Events in Review

External Events

Competitive Advantages, Gonçalo Garcia

On March 23, we had the pleasure of hosting Gonçalo Garcia, a full time investor, for a workshop open to the community on Competitive Advantages. The event ended with a lunch exclusive to PMC Members. PMC thanks *Gonçalo Garcia, CFA Society Portugal* and *Pedro Barata, who made the session possible.*

CFA WORKSHOP
COMPETITIVE ADVANTAGES

WITH
GONÇALO GARCIA

YIELD 10Y GERMANY WINNER • FULL TIME INVESTOR

FILL THE FORMS IN BIO
+ 0.5 ECTS
23RD OF MARCH | 11 AM | ROOM B011

Portfolio Management Club
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ChampionChip, Católica Investment Club

In April, PMC entered the Champion Chip, a portfolio construction competition with Tiago Serrano and Daniel Gonçalves, PMC manage to attain the third place at the final at Oporto, among more than 50 participants. It was also a great opportunity to network with similar clubs. We thank CIC for the initiative.

NOVA SCHOOL OF BUSINESS & ECONOMICS

PMC
Portfolio Management Club

ChampionChip - Final

Proposta de Alocação

Gonçalves & Serrano

PMC

CFA Workshop with Jorge Carvalho

On May 10th, we had the pleasure of hosting Jorge Carvalho for an internal learning session. It was a great opportunity to discuss the types, the purposes and use cases of derivatives, as well as how to price them. The Club thanks *Jorge Carvalho, CFA Society Portugal* and *Pedro Barata, who made this session possible.*

DERIVATIVES
LEARNING SESSION

Portfolio Management Club
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Corporate Events

PMC hereby expresses its gratitude to the multiple partners, that prefer to remain anonymous, who provided access to industry events. To an handful of asset management firms, we thank you for their time and availability to help PMC in his continuous journey of improvement and putting PMC closer to the industry. We hope to be able to strengthen this relations in the future.

Thank You!

Events in Review

A Glimpse on our Internal Events

Welcome Dinner

KICK-OFF + PIZZA DINNER
Last Thursday, PMC welcomed their new members with a Kick-off presentation and a Pizza dinner.



PMQuiz & PMDonalds

PMC-QUIZZ-NIGHT



Paulo Fernandes
Amphitheater

PMC
Portfolio Management Club

PMC Alumni Dinner

PMC-ALUMNI-DINNER



PMC
Portfolio Management Club

PM Cup & PM Volley

PM CUP
February 2023



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Thank you!

We appreciate your time and hope you enjoyed reading our newsletter. If you have any question or suggestion, feel free to contact us by sending an e-mail to portfoliomanagementclub@novasbe.pt. In the meanwhile, meet our team:

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