NIC | Undergraduate Division Fund

Q1 2025 Shareholders Report

19th May 2025



Results Summary

Share price performance and Total Equity cashflows

The fund achieved a total quarterly return of 5.4% during Q1

The fund **outperformed** the benchmark, which showed a **-4.4% return**. This was a clear break from the overall market performance, with the S&P down 4.6% in the same period.

Bae Systems(+36.8%), VanEck Gold Miners ETF (+36.6%), and T-Mobile (+21.2%) were the best performers in this quarter

Bae Systems rose as a result of greater investment in defence by the European nations and the gain of new contracts. **VanEck Gold Miners ETF** rose as the gold appreciated in relation to the dollar in response to increasing trade war tensions and fear from the volatility in equity markets. Finally, **T-Mobile** benefitted from growing total revenue by 6.6% to $20.9B and increasing FY expectations above analyst consensus with FCF expected to reach $17.5-18B.

Alphabet (-18.2%), A10 Networks (-11.0%), and Mersen (-10.9%) were the worst performers in this quarter

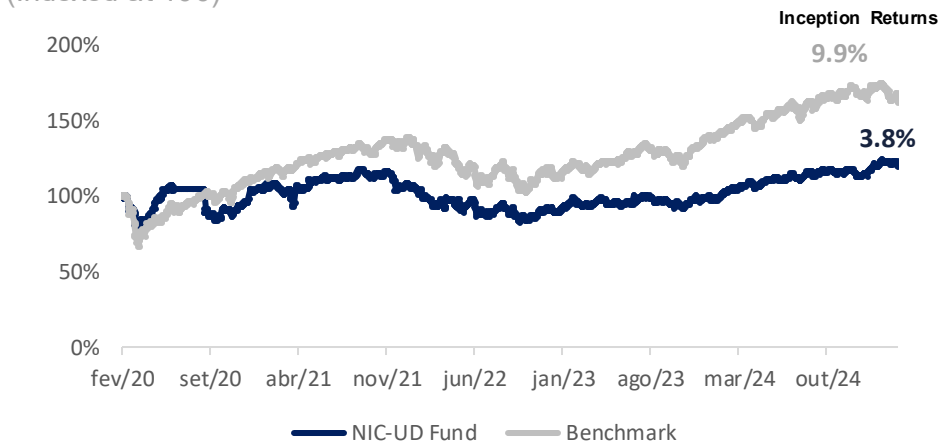
Alphabet dropped 18.2% in Q1 as rising $17.2B AI capex and mounting antitrust pressure offset solid results, with 12% revenue growth to $90.2B and EPS of $2.81. **A10 Networks** fell 11.0% despite a 9% revenue rise to $66.1M, as investors rotated out of small-cap tech and questioned its reliance on on-premises network hardware. **Mersen** dropped 10.9% as sales declined 6.4% to €305M, hit by weak solar demand in China and cost pressures, and further dragged by a dividend cut to €0.90.

The fund saw total equity increase

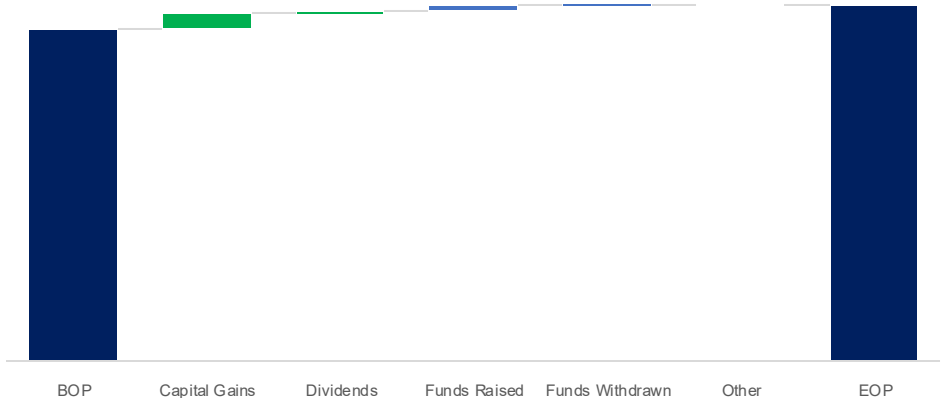
Most of the change in equity was driven by **capital gains of 5.4%.** Additionally, the fund saw a 2% increase in equity from new members.

Fund's performance against the benchmark (Inception)

(Indexed at 100)



Total Equity cash flows during the quarter



Results Summary

Fund's investment strategy

The objective of the fund is to create a diversified portfolio of securities (such as Equities, ETFs, bonds, …) and to teach **valuable Portfolio Management techniques** to our members, while aspiring to achieve the **maximum risk-adjusted returns** possible in the long-term and beating our benchmark.

- This is a **long-only portfolio** meaning that we will not actively search for short-selling opportunities due to brokerage constraints and the fact that stock markets have a long-term positive trend.

- We are **sector-agnostic**, meaning that we will not focus on any sector, neither will we stop investing in a certain sector unless macroeconomic factors come into play. What we may do is analyse the current and near-term macro environment to set **underweight/overweight sector targets** and mitigate any risks by rebalancing the portfolio.

- In what regards the equity/bond distribution, we are **equity overweight investors** due to the young age nature of our investors and the fact that it weighs a low percentage of our shareholders' total net worth, which conveys a higher appetite for risk.

- Finally, we keep searching for **value bets** (focused on solid financials, profitable business model, low growth, dividend plays, mature sectors, low innovation) and **growth bets** (focused on products and strategy, high innovation, high valuations, low earnings, capital gains play), so that the portfolio is a mix of both strategies and able to sustain its value during **recessions and bear markets**, but also to take the more historically long-lasting wave of **bull markets and economic booms**.



Positions

Positions performance

Fund's top 3 best-performing securities (quarterly)

During the first quarter of 2025, **Bae Systems, VanEck Gold Miners ETF** and **T-Mobile** were the best performers, registering **+35.8%**, **+35.6%**, and **+21.2%**, respectively.

Bae Systems benefited from the growing war tensions in Europe and the growth in US isolationism, with the announced increase in European defence spending sending the stock upward. **CDX** was up for many of the same reasons as the VIX doubled to 27 in the height of the quarter, and investors moved away from stocks and into gold as a value reserve. **T-Mobile** also benefited as the telecommunications industry seemed less exposed to the tariffs and continued to surpass analyst expectations for the FY 24 results.

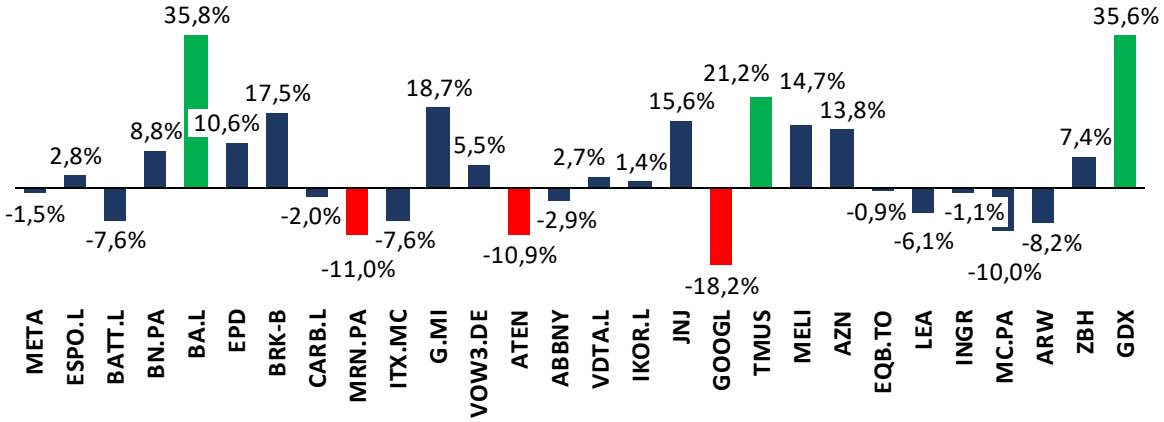
Fund's top 3 worst-performing securities(quarterly)

Alphabet, A10 Networks and Mersen presented the lowest performances during the first quarter of 2025, at **18.2%**, **-11.0%**, and **-10.9%,** respectively.

Alphabet continues to suffer from the US court rulings classifying Google as a monopoly and pushing for its spin-off or sale from the company. This, coupled with the abnormal increase in capex for AI R&D, led investors to doubt the capital allocations of the firm and its long-term growth prospects. **A10 Networks** suffered from the thinness of their end markets with small caps underperforming in Q1 and a pullback from the multiple expansion seen later in 2024. As for **Mersen,** the exposure to Chinese solar and SiC semiconductor markets led the stock to decline with the announced tariffs, at the same time that cost cuts led to worker strikes and a cut in dividends from €1.25 to €0.90 after the quarter's end.

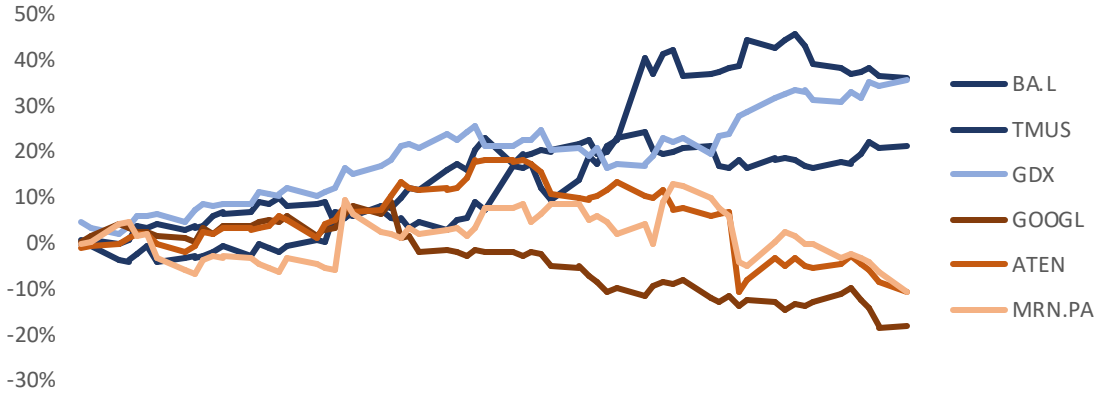
Quarterly performance by position

(From 31/12/2024 to 31/03/2025)



Best and Worst Securities Performance (exc. dividends)

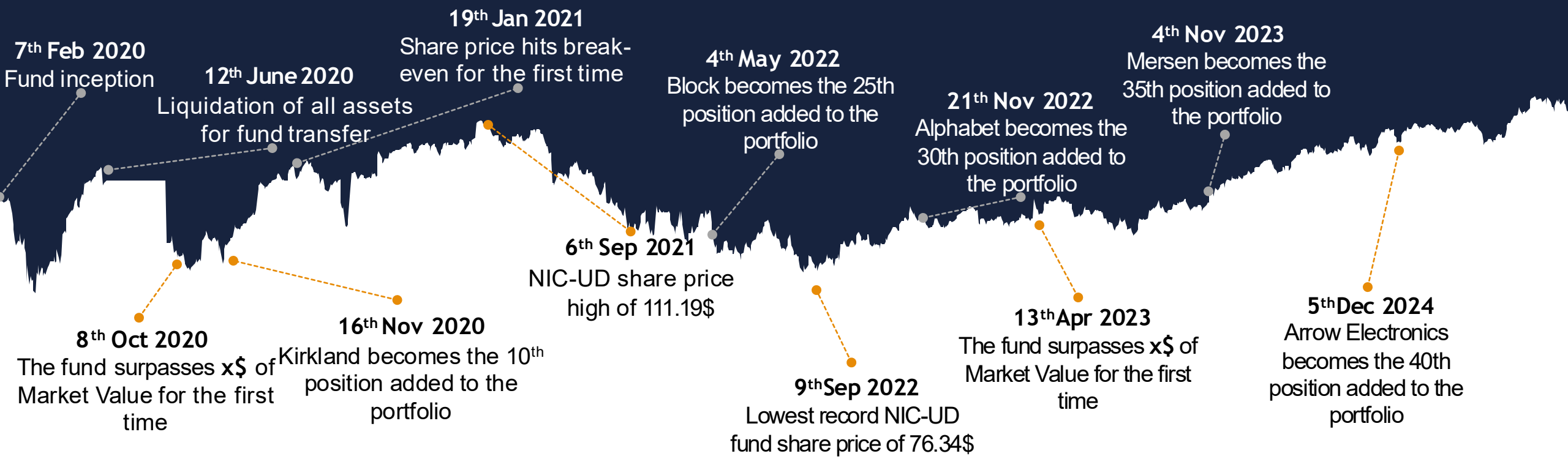
(From 31/12/2024 to 31/03/2024)



Portfolio

Portfolio roadmap

Portfolio share price



Portfolio

Portfolio Vs Benchmarks

Fund Performance

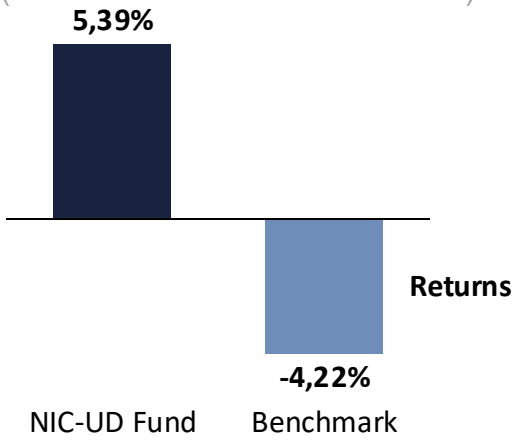
In the first quarter of 2025, the **fund outperformed the benchmark** with a **5.39% return**, reaching a Sharpe ratio of 0.95. These 3 months were marked by a sharp increase in international tensions, with the US imposing tariffs on close allies and sending shockwaves through the markets that started anticipating a tough time for exporters and importers alike.
While the MSCI decreased in value in anticipation of the impacts on margins and future capex, our fund benefited from the **exposure to gold, defence and telecommunications** to compensate for the losses and finish the quarter on a positive note. This highlights the importance of our **conservative capital allocation**, focused on **hedging cyclical risk** and specialising in companies we can understand with **clear motives for mispricing**.
It is important to mention that as part of the **portfolio statistics renovation**, the volatility data presented and used to compute the **Sharpe ratio is weekly** instead of the historically used daily standard deviation. This allows us to trim out abnormal movements in the market and focus on the longer-term performance.
As we move forward through the year, we see with good eyes the fear and volatility in the economy, as it is allowing us to be more opportunistic and purchase good companies at better prices, **investing countercyclically** and in more **concentrated positions** to avoid the correlation with the market.

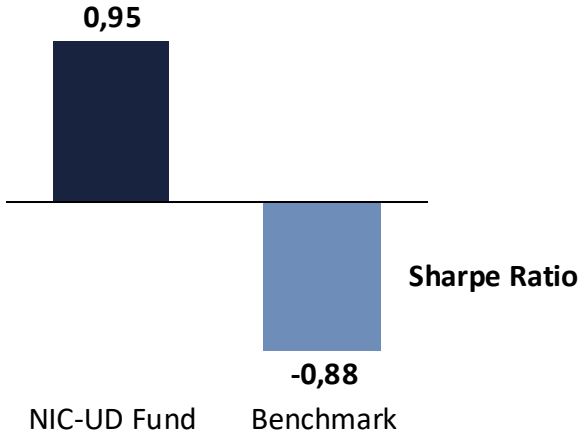
Benchmark Composition

During this quarter, we decided to change the benchmark utilized in our portfolio in previous periods, aiming to establish a benchmark with **risk metrics** and exposure similar to our portfolio. Consequently, we introduced iShares MSCI World Index as our benchmark, reducing complexity and enhancing comparability, since MSCI World Index features a regional asset allocation that closely resembles NIC-UD´s portfolio and maintains an industry-agnostic approach ,which is a core element of our investing philosophy. With this approach, we anticipate achieving a more **meaningful comparison** between the fund and its benchmark.

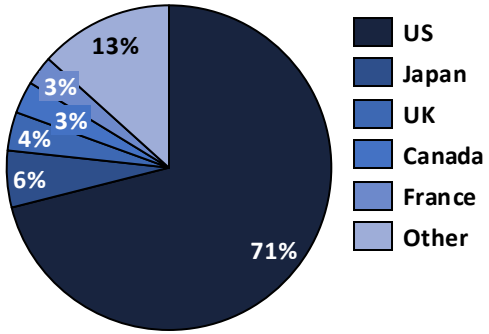
Quarterly gross returns and Sharpe Ratio vs benchmark

(From 31/12/2024 to 31/03/2025)

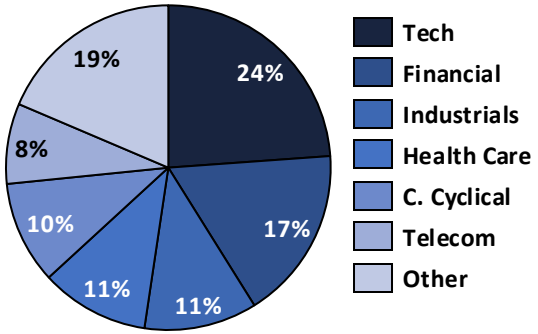




MSCI World Index Geographical Allocation



MSCI World Index Allocation by Industry



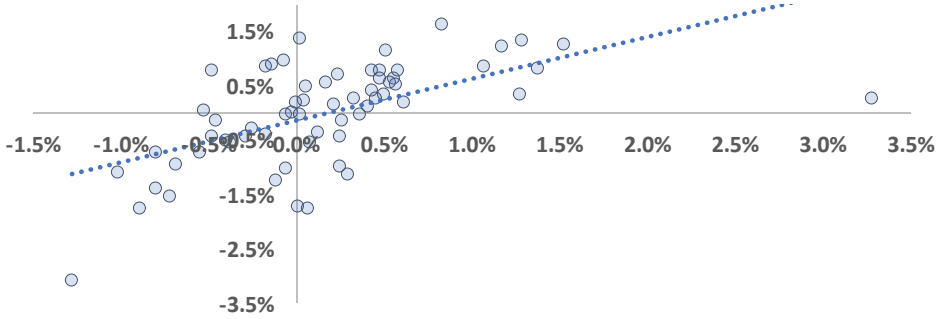
Portfolio

Risk measures

Risk-adjusted performance measures*

Annualized	6M	1Y	2Y	Inception
Gross Returns	*5,32%*	*11,10%*	*11,66%*	**3,78%**
Risk Free Rate	*4,39%*	*4,83%*	*5,08%*	*2,63%*
Variance	*0,66%*	*0,71%*	*0,79%*	*2,74%*
Std. Deviation	8,15%	8,40%	8,86%	16,55%
Sharpe Ratio	**0,11**	**0,75**	**0,74**	**0,07**
Semivariance	*0,315%*	*0,291%*	*0,345%*	1,462%
Semi-Std. Deviation	*5,61%*	*5,40%*	*5,87%*	*12,09%*
Sortino Ratio	**0,17**	**1,16**	**1,12**	**0,10**
Jensen's Alpha	*0,0013*	*0,0011*	*0,0001*	*-0,0004*
Beta	*0,5328*	*0,6115*	*0,6855*	*0,6805*
Treynor's Ratio	**0,02**	**0,10**	**0,10**	**0,02**
Gross Benchmark Return	*-4,58%*	*6,25%*	*15,52%*	**9,88%**
Tracking Error	*7,87%*	*6,77%*	*6,45%*	*13,85%*
Information Ratio	**1,26**	**0,72**	**-0,60**	**-0,44**

Portfolio vs. Benchmark: Alpha and Beta Regression 6M



Analysis of performance measures

In the last six months, the fund has achieved an annualised return of 5.32%, down from the last two years' annualised return of 11.7%, but still above our inception return.

The **Sharpe Ratio**, which measures risk-adjusted returns, allows for comparison between returns and the level of risk (as measured by volatility). Looking at the previous six months, the fund experienced a decline in the Sharpe ratio to 0.11, and in the longer run of the last two years, it has **yet to achieve a ratio above 1**, indicating inefficient risk allocation.

The **Sortino Ratio**, which focuses on downside risk, reflects how the portfolio's returns compare to the risk of negative performance. This metric shows a better performance for the fund, while overall volatility may be high, the fund is better protected against negative performance and has **consistently scored above 1** in the last 2 years.

The **Treynor Ratio**, which measures returns in relation to systematic risk (measured by the portfolio's **beta**), stands at a **strong 10%** over both the last year and two years, demonstrating good returns per unit of market risk. In the last semester, the ratio has **declined despite overperforming** the benchmark.

The **Information Ratio** measures how closely the portfolio tracks its benchmark. Despite a longer-term underperformance against the benchmark, over the last year and annualised six months, we have **surpassed it**, and stand at **a ratio of 1.26**.

** Returns and standard deviations were all expressed in annual terms. The MSCI World Index is considered a market portfolio for Beta and Alpha*

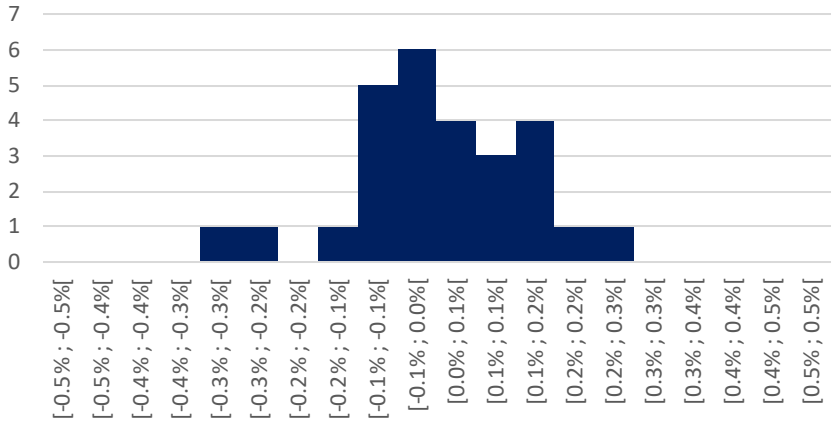
Portfolio

Value at Risk

VaR calculations

Histogram of portfolio weekly returns

From 31/12/2024 to 31/03/2025



Sample Statistics	Weekly	Annual
1 Year		
Mean	0.17%	9.13%
Std Dev	1.17%	8.46%
Pearson's Skewness Coef.	-18.08%	

Weekly returns are approximately normally distributed, so the normality assumption in the following derivations will **asymptotically hold**. (n=52)

1. Parameter approach (Variance-covariance method)

Brief explanation: *The variance-covariance method is based on the assumption that stock and, consequently, portfolio returns are normally distributed around its mean. Due to this, the VaR value will simply be the lower-end of the confidence interval of the chosen confidence level (90%, 95% or 99%).*

$VaR(\alpha\,\%) = E(r_p) - z_{(1-\alpha)\%} * \sigma_p$ *, where* r_p *is the average portfolio return and* σ_p *is the portfolio's standard deviation.*

	Value at Risk (%)			Value at Risk ($)			
% / Time Period	6M	1Y	Inception	6M	1Y	Inception	Z-score
90%	-7.2%	-1.7%	-16.0%				
95%	-10.2%	-4.8%	-22.0%				
99%	-15.7%	-10.5%	-33.1%				

2. Historical simulation approach (Daily VaR)

Brief explanation: *The historical simulation approach computes the value of first* $1-\alpha$ *th percentile returns of a certain time frame.*

	Value at Risk (%)			Value at Risk ($)		
% / Time Period	6M	1Y	Inception	6M	1Y	Inception
90%	-5%	-9%	0%			
95%	-10%	-15%	-14%			
99%	-13%	-18%	-51%			

3. Monte-Carlo simulation approach

Brief explanation: *The Monte-Carlo simulation is the most advanced approach to VaR out of the three methods. It creates an* x *"number" of iterations by supposing that stock prices (and, conversely, the portfolio itself) follow a strongly dependent stochastic process known as a random walk. To predict the future portfolio value, it is used a derivation of the Black-Scholes formula. Normal returns are assumed.*

$\frac{P_t}{P_0} = \exp\left[(r_f - \frac{1}{2} * \sigma_p^2) * \frac{t}{n} + \sigma_p\sqrt{\frac{t}{n}} * W_t\right]$ *, where* t/n *is the fraction of a given year (n=252, trading days), P the portfolio value and* W_t *is random normally distributed process.*

	Value at Risk (%)			Value at Risk ($)		
% / Time Period	6M	1Y	Inception	6M	1Y	Inception
90%	-5%	-6%	-33%			
95%	-6%	-9%	-42%			
99%	-10%	-14%	-55%			

Portfolio

NIC Undergraduate Division Fund

Summary Statistics

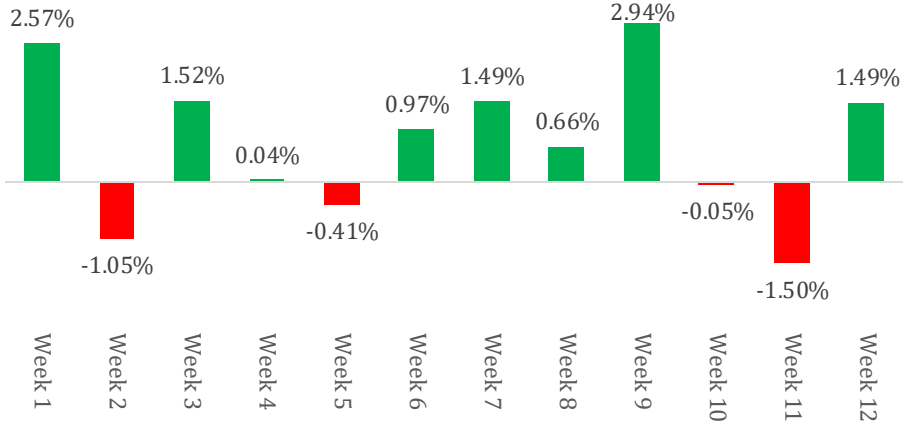
Correlation matrix between securities

(From 31/12/2024 to 31/03/2025)

	IWDA.L	ESPO.L	BATT.L	BN.PA	BA.L	EPD	BRK-B	CARB.L	MRN.PA	ITX.MC	G.MI	VOW3.DE	ATEN	ABBNY	VDTA.L	IKOR.L	JNJ	GOOGL	TMUS	MELI	AZN	EQB.TO	LEA	INGR	MC.PA	ARW	ZBH
IWDA.L	1																										
ESPO.L	0,87168935	1																									
BATT.L	0,81752021	0,80052824	1																								
BN.PA	0,57820834	0,54304475	0,33491818	1																							
BA.L	0,5731526	0,31842992	0,31989024	0,52327284	1																						
EPD	0,86250998	0,65913152	0,6935128	0,52080664	0,70280729	1																					
BRK-B	0,84326636	0,59554382	0,55379959	0,502617	0,7992469	0,83478865	1																				
CARB.L	0,24295225	0,03245553	0,11628758	0,01192287	0,41314515	0,40121901	0,41824315	1																			
MRN.PA	0,54755092	0,42136316	0,73885826	0,25529753	0,3171678	0,44658356	0,37538252	0,15596476	1																		
ITX.MC	0,69864722	0,65757312	0,5400799	0,68152423	0,41162708	0,56296927	0,50334748	-0,04973797	0,43869249	1																	
G.MI	0,90188615	0,74339161	0,67764523	0,66922653	0,6891001	0,86933741	0,87064056	0,34557673	0,47485952	0,71567775	1																
VOW3.DE	0,52243666	0,44158506	0,61666145	0,46521102	0,16238078	0,39577478	0,31099174	-0,19812066	0,68313557	0,52940945	0,47812433	1															
ATEN	0,6181594	0,48269834	0,51143624	0,20946647	0,45556687	0,63494876	0,59743921	0,50674646	0,3307635	0,32624603	0,6041292	0,01947335	1														
ABBNY	0,94693255	0,8484165	0,80196211	0,5958903	0,54370665	0,78694082	0,78068681	0,185802	0,56552278	0,73395507	0,86014091	0,51573699	0,58459956	1													
VDTA.L	-0,36872955	-0,05711492	-0,29703846	-0,04882347	-0,55652174	-0,61404277	-0,55705654	-0,41239815	-0,28275363	-0,18218853	-0,45299549	-0,15313976	-0,4315349	-0,31039528	1												
IKOR.L	0,59514123	0,64822584	0,83003367	0,27382691	0,06514813	0,38583386	0,26632238	-0,16771433	0,73782914	0,42260111	0,40608901	0,67411776	0,15043337	0,59397832	0,05734047	1											
JNJ	0,47360403	0,23895705	0,34809275	0,26278979	0,55939031	0,49713483	0,58981902	0,3457828	0,36927103	0,11563823	0,4595194	0,12931041	0,57880596	0,41692499	-0,34507191	0,22001021	1										
GOOGL	0,86954042	0,75083417	0,62102246	0,46634899	0,46710089	0,75623761	0,75303163	0,25478725	0,29357851	0,52630565	0,76575354	0,41363759	0,49515467	0,80246099	-0,34367629	0,37705631	0,29433972	1									
TMUS	0,8199316	0,80476598	0,67788526	0,49844733	0,49934532	0,74011398	0,69900708	0,16296998	0,3057694	0,63250427	0,77156497	0,28100882	0,62222334	0,80334071	-0,30337173	0,37123583	0,39417584	0,68612736	1								
MELI	0,76512708	0,82776016	0,87637336	0,39991728	0,27202297	0,58891619	0,45919225	-0,01534873	0,59014029	0,5189873	0,57620422	0,49500741	0,37994605	0,75263655	-0,06910098	0,78556211	0,23697496	0,63411445	0,68950419	1							
AZN	0,51135395	0,2915736	0,32591696	0,34817309	0,6937712	0,62217919	0,64629148	0,60242709	0,33239671	0,2218786	0,58542498	0,06449204	0,5741803	0,47590414	-0,3861414	0,05759584	0,66055753	0,44123531	0,45562371	0,25900991	1						
EQB.TO	0,87133343	0,71602821	0,76569362	0,48735309	0,46508357	0,75779158	0,73399642	0,14169231	0,55064842	0,66542039	0,77352142	0,56591327	0,47885106	0,83781546	-0,35929959	0,60972269	0,38341385	0,78369758	0,6918694	0,71758239	0,34646203	1					
LEA	0,51010124	0,5077518	0,79731855	0,16278861	0,01719699	0,38744829	0,18000424	-0,16084842	0,79187985	0,44246431	0,3417106	0,74550872	0,13500761	0,50287432	-0,08974705	0,86502784	0,12356334	0,31164344	0,30249143	0,69937336	0,00539616	0,57118493	1				
INGR	0,68276451	0,53354804	0,36823042	0,67233249	0,56389643	0,67376378	0,69383685	0,24388015	0,23308078	0,68892095	0,7784869	0,31910906	0,54511396	0,6678247	-0,35654896	0,08956507	0,37858823	0,55164168	0,61684161	0,28191287	0,45225487	0,5410525	0,09655536	1			
MC.PA	0,6759022	0,60298812	0,80626357	0,39488367	0,37377428	0,56091545	0,48117727	0,1112224	0,81550668	0,5806651	0,60200111	0,68915829	0,33075853	0,66793209	-0,25528394	0,71921156	0,29499867	0,45282057	0,47035158	0,66016827	0,37712247	0,55897687	0,7466999	0,38205193	1		
ARW	0,82910137	0,74730608	0,90390619	0,43201536	0,39555603	0,72698503	0,61014831	0,15395406	0,74263245	0,60701169	0,69479316	0,64046419	0,47349498	0,81246331	-0,3196946	0,77618511	0,36903151	0,65967077	0,63194751	0,79691126	0,38482042	0,80012211	0,77886754	0,4485158	0,75496704	1	
ZBH	0,42954253	0,41474837	0,62418565	0,31212578	0,10122859	0,33928937	0,15847983	-0,17315743	0,62305546	0,33640573	0,3028706	0,66021479	0,1010562	0,38712415	0,01896956	0,7336914	0,24486177	0,20634678	0,2349892	0,55165265	0,07160048	0,41997311	0,67193836	0,22101925	0,60270636	0,57278731	1

Weekly excess return over the benchmark

(From 31/12/2024 to 31/03/2025)



This quarter's **daily returns correlation** decreased to **0.09**, reversing the last quarter's trend. This came as increasing political uncertainty and mixed investor reactions to economic data led to more divergent performance across sectors.

The fund **outperformed** the **benchmark** in **8 of the 12 weeks** considered. Our positive weeks exceeded the negative ones,

In Q1 2025, our fund experienced an increase both the **LTM EV/EBITDA** to **14.19** and **LTM P/E** to **22.99**. The multiples expanded due to the expressive positive valuations of the companies that compose our fund.

Finally, **VaR decreased to 9%** in Q1 as market volatility decreased.

Basic Info		**Performance**	Inception
Total Equity		Sharpe Ratio	0.07
N of Shares		Sortino Ratio	0.10
Share Price	$106.15	Information Ratio	-0.44
Capital Invested (%)	85.48%	Jensen´s Alpha (α)	-0.0004%
Beta (β)	0.6805	Gross Returns per year	3.78%

Risk		**Valuation**	
Negative Weeks	5	Fund´s LTM P/E	22.99
Maximum Weekly Drawdown	-1.96%	Fund´s LTM P/S	308
Annual VaR (α=95%)	9.13%	Fund's LTM EV/EBITDA	14.19

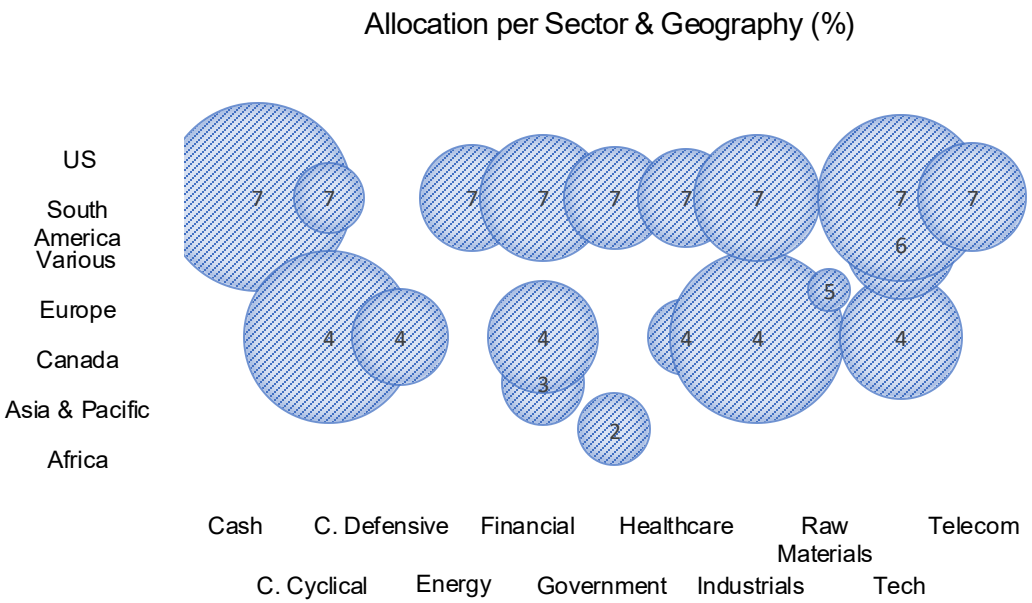
Allocation

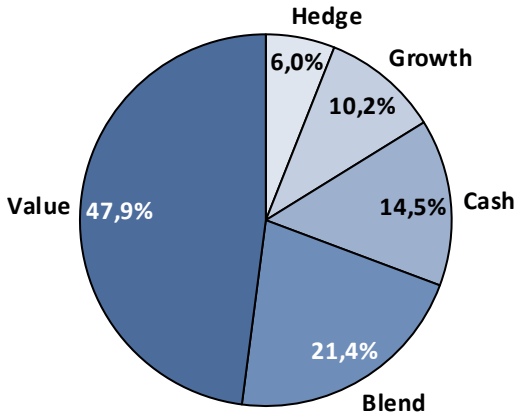
Current Allocation

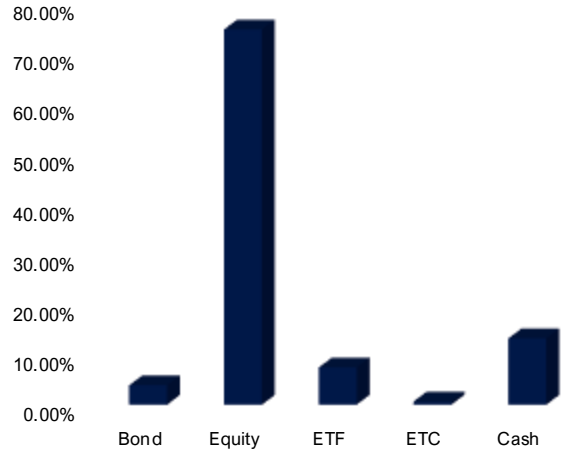
Rebalancing the Portfolio

The first quarter of **2025** was marked by **moderating inflation** and **stabilizing markets**, with **central banks maintaining a cautious easing stance**. The **European Central Bank** held rates steady at **3.00%** following **three cuts in late 2024**, while the **Federal Reserve** paused after lowering its target rate to **4.25%–4.50%**, signaling **data-dependent moves ahead**.
The fund's **overperformance relative to our benchmark** was primarily due to its exposure to **Defence, Gold, and Telecom**, due in large part to **global security concerns** and a **weaker US Dollar**. On the other hand, **MSCI corrected** due to **interest rate fluctuations**, **global uncertainty**, and **valuation concerns**.

During this quarter, we made only **two changes** to our portfolio. We **added Zimmer Biomet** (details were already disclosed in the last QSR) and **fully exited** our **CVS** position, according to out last QSR decision. Our **cash position remains above our 10% target**, reaching a total of **14.5%.**







Tactical Asset Allocation

Quarterly Macro Research

NIC Undergraduate Division Fund



Economic Cycles

Different asset classes perform heterogeneously given the economic environment at hand. By studying the world economic cycles, we try to be ahead of the curve through pre-emptive portfolio allocation adjustments.



Small Modular Reactors

Small Modular Reactors (SMRs) are transforming the energy landscape with compact, low-carbon, and scalable nuclear solutions. They offer faster deployment, lower costs, and are ideal for remote sites and industrial use, creating unique investment opportunities in the clean energy transition.



Japan Investing

Japan is undergoing a structural economic shift driven by structural corporate reforms, the discount against US equity, and government incentives.
With inflation finally returning after decades of deflationary pressure, it is reshaping consumer behaviour, stimulating demand and causing a shift of investor expectations.



Ukraine

The ongoing war in Ukraine has triggered one of the most geopolitical crises in recent decades. Ukraine's post-war reconstruction is emerging as one of the largest rebuilding projects of the century. As international funding intensifies, infrastructure companies stand to benefit from long-term projects regarding the country's reconstruction.

Tactical Asset Allocation

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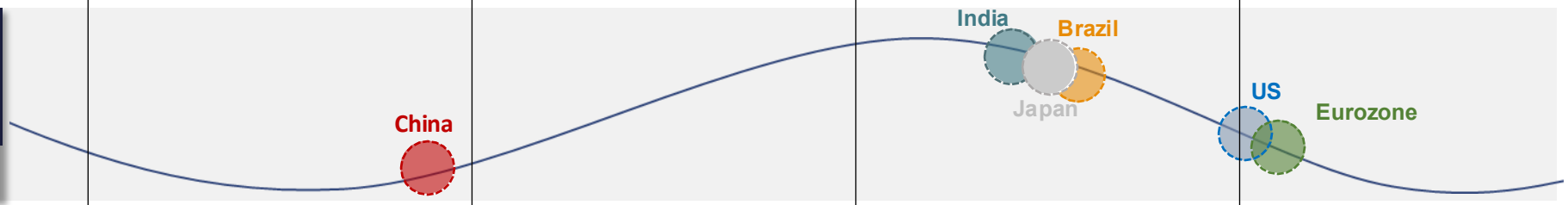
Economic Cycles



Phases	Recovery	Expansion	Slowdown	Contraction
Description	▪ **Rebound of economic activity** (GDP, Investment, Employment, …) ▪ **Credit begins to grow** ▪ **Profits grow rapidly** ▪ **Expansionary policies** ▪ **Low Inventories, sales improve**	▪ **High growth phase** ▪ **Output above L.R. GDP** (inflationary pressures build up) ▪ **Low interest rates** ▪ **Shift in monetary policies** ▪ **Tightening of labour market**	▪ **Overheated economy** (inflation picks up) ▪ **Real GDP growth declines** ▪ **Interest rate increases** (contractionary policies) ▪ **Earnings under pressure** ▪ **Unemployment starts to rise**	▪ **Economic correction** (GDP below Potential output) ▪ **Scarce credit** ▪ **Expansionary policies** ▪ **Profits decline** ▪ **Inventories and sales fall**
Asset Class Performance	1. Risk Credit (High-Yield) 2. Stocks (Cyclical) 3. Stocks (Defensive) 4. Quality Credit (Govt + Inv. Grade)	1. Stocks (Cyclical) 2. Stocks (Defensive) 3. Risk Credit 4. Quality Credit	1. Stocks (Defensive) 2. Quality Credit 3. Stocks (Cyclical) 4. Risk Credit	1. Quality Credit 2. Stocks (Defensive) 3. Stocks (Cyclical) 4. Risk Credit
Sectors	**Overweight** 1. Real Estate 2. Cyclical Cons. 3. Industrials 4. Tech 5. Financials **Underweight** 1. Health Care 2. Energy 3. Utilities	**Overweight** 1. Tech 2. Communication **Underweight** 1. Materials 2. Defensive Cons. 3. Real Estate 4. Utilities	**Overweight** 1. Energy 2. Real Estate 3. Defensive Cons. 4. Utilities **Underweight** 1. Cyclical Cons. 2. Tech	**Overweight** 1. Defensive Cons. 2. Health Care 3. Utilities 4. Cyclical Cons. **Underweight** 1. Financials 2. Real Estate 3. Tech 4. Industrials 5. Communic.

Sources:

-Fidelity Institutional

-Invesco Ltd.

-S&P Global Ratings

Articles:

- "Where Are We in the Current Business Cycle?" – The Balance

- "Portfolio Management: Sector Rotation" – Investopedia

Tactical Asset Allocation

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Small Modular Reactors



Japan Investing



Ukraine

Tactical Asset Allocation

NIC Undergraduate Division Fund

Small Modular Reactor (1/4)

Current situation

Small Modular Reactors (SMRs) differ significantly from traditional nuclear reactors. **Factory-built,** they require less capital and offer shorter construction times. **SMRs occupy a much smaller area**, approximately 0.06 square miles compared to around 1 square mile for conventional reactors. They can seamlessly **integrate with renewable energy sources** to ensure a steady electricity supply, especially during outages, which in traditional reactors can last up to 46 days. Additionally, SMRs feature autonomous, self-cooling safety systems, reducing reliance on active safety mechanisms. Globally, **nuclear energy accounts for about 10% of electricity production** and is the second-largest source of low-emissions electricity after hydropower. Many economies, such as France and Ukraine), rely heavily on it (almost **40% of energy consumption**). In the wake of energy crises, countries like the US, Canada, and those in Europe are intensifying nuclear investments. **Emerging economies like China and India are rapidly expanding nuclear capacity**, with the private sector also recognizing its potential for clean power.

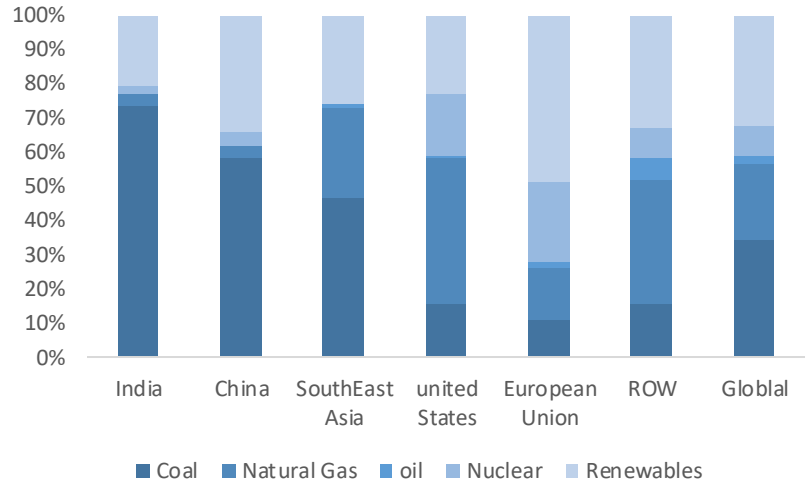
Future Outlook

SMRs represent a promising solution for **clean, reliable, and scalable energy**. However, their deployment faces **notable challenges, particularly in licensing**. **Regulatory frameworks remain outdated** in many countries, and the approval process for new SMR designs is often lengthy and costly. Although efforts to streamline these procedures are underway in countries such as the United States and Canada, regulatory delays continue to hinder progress. **Strong policy support is essential to advance SMR development**. According to the International Energy Agency (IEA), nuclear electricity generation is expected to **reach record levels by 2025**. Over 40 countries have outlined plans to expand their nuclear capacities in **response to rising electricity demand**. Notably, Canada intends to begin construction by 2025, while both France and the U.S. are **investing heavily in a range of SMR technologies through national funding initiatives**. From an environmental standpoint, nuclear power is a **low-emissions and safe energy source.** Nevertheless, public **opinion remains shaped by past accidents**, such as Chernobyl and Fukushima. Ensuring transparency and demonstrating high safety standards will be crucial to earning public trust and enabling broader adoption.

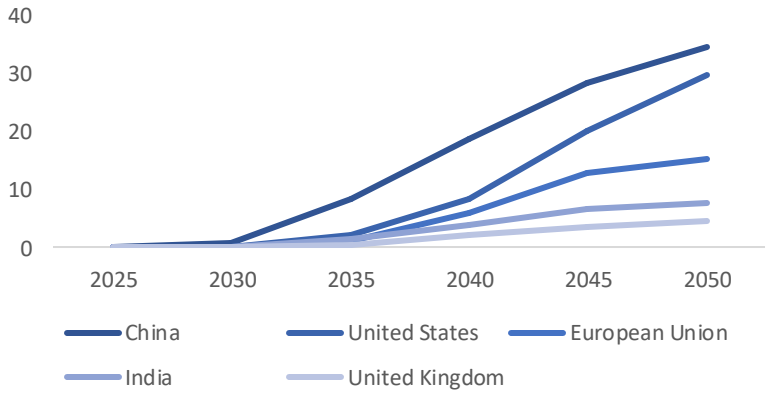
.

Sources: International Energy Agency, OECD

Electricity generation per region 2024



SMRs installed capaciity with Annouced Pledges scenario (2025-2050)



Tactical Asset Allocation

Small Modular Reactor (2/4)

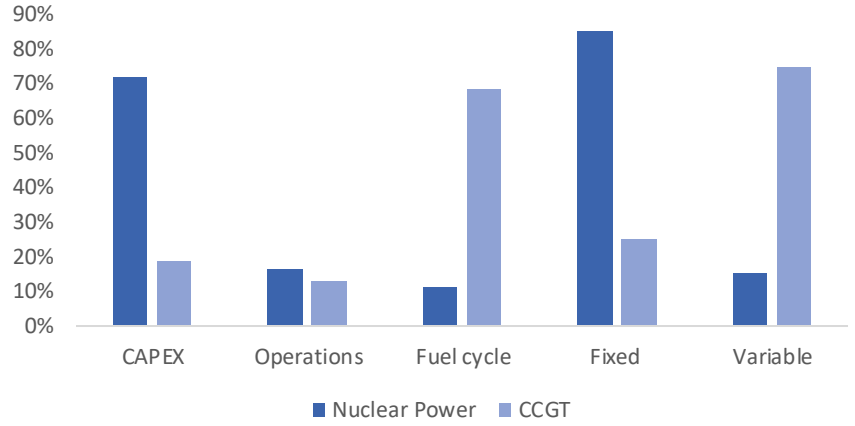
Industry analysis- costs breakdown

Although **Small Modular Reactors require a high initial investment**, their compact size and modular design enable faster, and potentially more **cost-effective construction** compared to conventional nuclear reactors. As production scales up, **economies of scale may further drive down costs**. In general, nuclear power is characterized by a cost structure dominated by high capital and fixed costs, while fuel and variable costs remain relatively low. Conversely, Combined Cycle Gas Turbines (CCGT) involve **lower capital investment** but significantly **higher fuel and variable costs**, reflecting their **dependence on natural gas.**

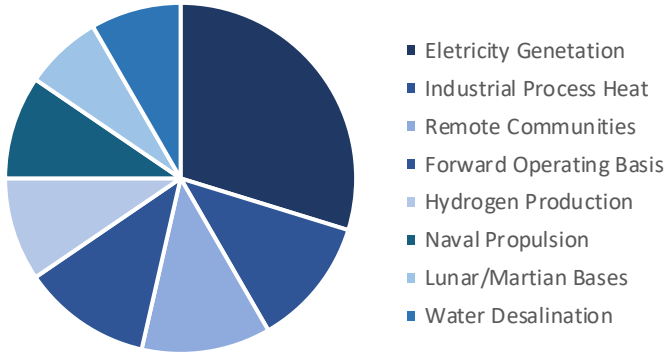
Small Modular Reactors Applications in Civil, Military and Space domains

Small Modular Reactors (SMRs) are **compact, factory-fabricated nuclear reactors** designed **for efficient and flexible power generation**, and so, they offer versatile and compact energy solutions with wide-ranging applications. **In civil infrastructure**, they provide reliable and independent **power for remote regions** and **data centres**, contributing to energy security and sustainability. **In military contexts**, they ensure continuous **power for Forward Operating Bases** and are essential to submarine nuclear propulsion. **In space exploration**, these reactors are being developed to **power lunar martian missions**, support scientific operations, and enable electric propulsion systems for faster deep-space missions, while also boosting satellite performance in demanding orbits.
An emerging and **lesser-known application** is their potential use in **disaster response and humanitarian missions**. Mobile SMRs could be deployed rapidly to areas struck by natural disasters or conflicts, where critical infrastructure is damaged, providing essential power for hospitals and communication systems, offering a stable and long-lasting energy source when conventional supplies are disrupted.

Generation costs of nuclear power and CCGT plants as percentage of total costs



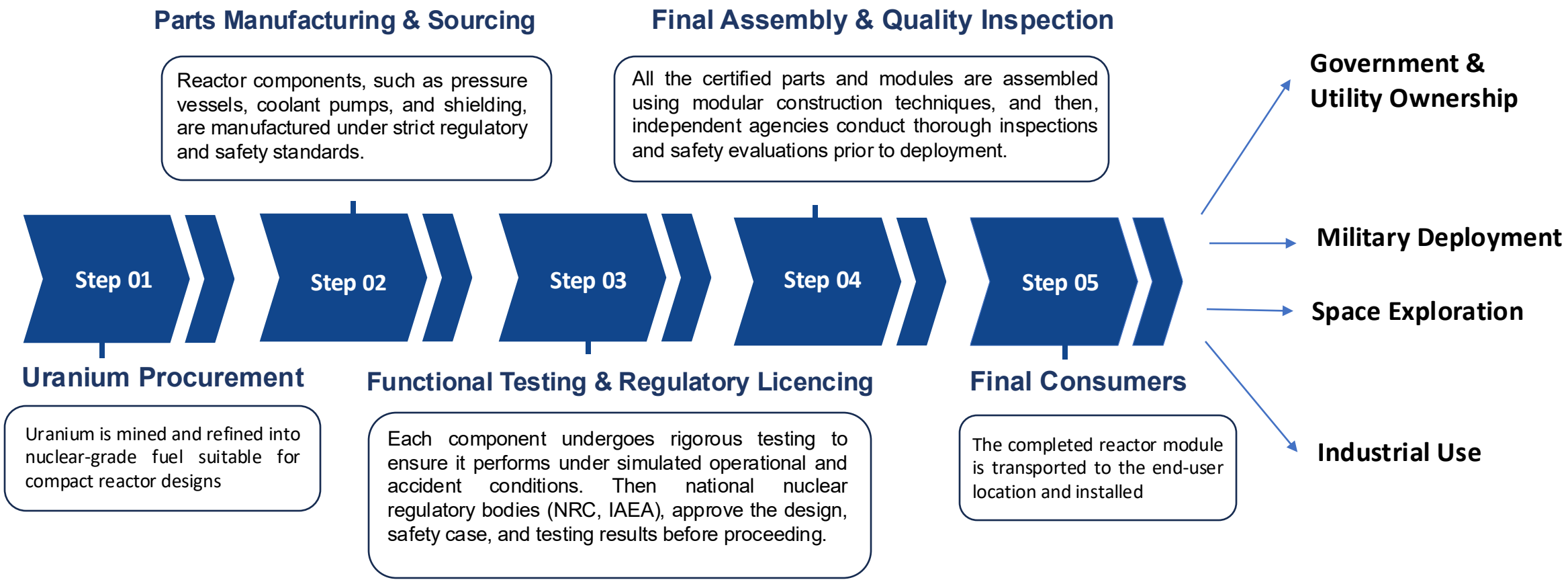
Applications of Small Modular Reactors as a percentage



Sources: Nuclear Energy Agency, World Nuclear Association

Tactical Asset Allocation

Small Modular Reactor (3/4)



Tactical Asset Allocation

Small Modular Reactor (4/4)

Possible Investments

NuScale Power Corporation (NYSE: SMR)

- **EBITDA: ($ 128.5) M**
- **FCF: $ (98) M**
- **Market Cap: $2.25 B**
- **P/E Ratio: --**

BWX Technologies, Inc. (NYSE: BWXT)

- **EBITDA: $ 470 M**
- **FCF: $ 270 M**
- **Market Cap: $9,87 B**
- **P/E Ratio: 34.9**

Lightbridge Corp (NASDAQ: LTBR)

- **EBITDA: ($ 13) M**
- **FCF: ($ 9.5) M**
- **Market Cap: $204 M**
- **P/E Ratio: --**

Oklo Inc (NYSE: OKLO)

- **EBITDA: ($ 63) M**
- **FCF: ($43.9 M)**
- **Market Cap: $3.75 B**
- **P/E Ratio: --**

Nano Nuclear Energy Inc (NASDAQ: NNE)

- **EBITDA: ($ 12.5) M**
- **FCF: ($12.3) M**
- **Market Cap: $872.7 M**
- **P/E Ratio: --**

GE Vernova Inc (NYSE: GEV)

- **EBITDA: $1.7 B**
- **FCF: $ 3.3B**
- **Market Cap: $108.62 B**
- **P/E Ratio: 57.1**

Tactical Asset Allocation

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Small Modular Reactors



Japan Investing



Ukraine

Tactical Asset Allocation

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Japan (1/4)

Where to Invest in Japan

The recent Japanese macroeconomic changes have been covered by us both during previous quarterly reports and in our quarterly newsletter. However, so far, we haven't analysed in depth the industries leading and benefiting from these trends. Japan has a well-developed industry with market-leading operation management systems, coupled with long-term shareholder focus. Geopolitically, the country is divided between its **major trade partner** (China), and its **biggest security ally** (US), leading to beneficial entry in both markets. Below we list some of the industries that can shape the country in the coming years.

Footwear

Japanese brands specialise in *performance-driven sportswear,* often prioritising biomechanics and durability over fashion. Supply chains are traditionally resilient with national production and diversified sources.

Trends in the Industry

- Production is shifting away from China and into satellite countries

Competitive Advantages

Brand loyalty from elite athletes and professionals

Preferential exposure to the Chinese and Asian markets

AI and Data Centres Supply Chain

Despite lagging behind in terms of consumer-facing AI development, the increasing need for physical infrastructure has made legacy companies specialised in precision motors and fans shift focus and employ their expertise in this growing end-market.

Trends in the Industry

- Increasing need for cooling systems and precision equipment

Competitive Advantages

Legacy know-how with reputation for efficiency

Infrastructure for production is already in place with easy conversion for the new growing markets

Smart Agriculture

The average age of farmers in Japan is 68 years *. This led the government to step up with infrastructure as the **Quasi-Zenith**, **WAGRI** and **API**. As one of the key industries in the country opportunities can be found across the supply chain.

Trends in the Industry

- Increasing automation with IoT and the use of drones for tasks and aerial imaging

Competitive Advantages

Public-private cooperation with major infrastructure developments already in place

Leadership in Hardware and Robotic Components from the partnership with technology corporations

*Statista

Tactical Asset Allocation

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Japan (2/4)

Multiples comparison JAP vs US in Japan main Industries (by % of GDP contribution).
It is observable that Japanese companies, across key sectors, trade at significantly lower valuation multiples compared to their U.S. counterparts, despite in some cases showing comparable or even higher returns on equity (ROE). This persistent valuation gap is explained by structural factors: lower investor risk appetite, limited buyback activity, persistent cross-shareholdings, and deflationary economic history. In sectors like construction and retail, the gap may be further explained by lower growth expectations as Japan is domestic centred and capital inefficiency.

	Japan				US			
Sector	**P/E**	**P/B**	**ROE**	**EV/EBITDA**	**P/E**	**P/B**	**ROE**	**EV/EBITDA**
Automotive*	~9.1x	~1.2x	~9-15 %	~6.9x	~7.4x	~6.85x	~9%	~6.9x
Electronics	~22.2x	~1.6x	~8-17%	~6.0x	~29.2x	~4.5x	~22.3%	~15.0x
Construction	~16.0x	~1.1x	~7-8%	~4.0x	~26.1x	~2.5x	~12%	~11.5x
Retail	~20.2x	~1.8x	~6-8%	~6.1x	~21.5x	~1.3x	~15%	~13%
Finance	~11.0x	~0.9x	~8-10%	N/A	~11.0x	~1.2x	~12%	N/A

*The US multiples exclude Tesla

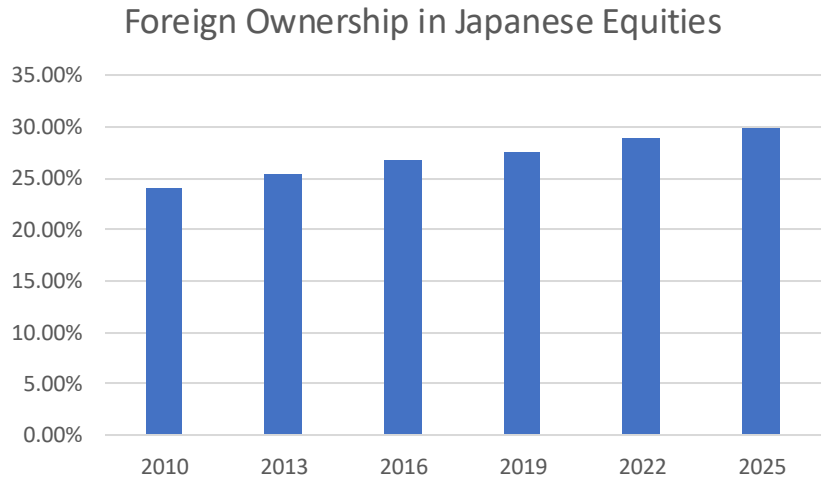
Tactical Asset Allocation

NIC Undergraduate Division Fund

Japan (3/4)

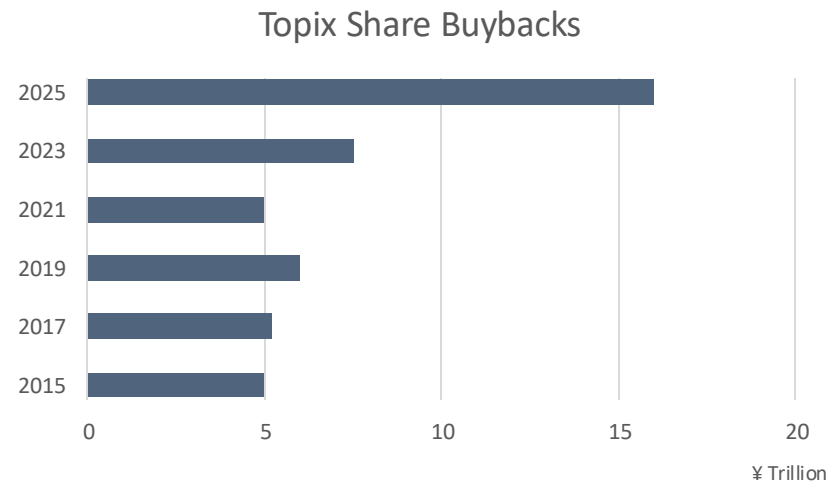
Traditional Management Practices in Japan: Stability Over Speed

The Japanese corporate management system is deeply rooted in principles of **long-term stability**, **internal cohesion**, and **consensus-based leadership**. Companies typically prioritize gradual career progression, with over **90% of senior executive positions** filled through **internal promotions**, a deep contrast to the more fluid and externally competitive U.S. model. Strategic decisions are often shaped by the ***ringi* process**, a traditional method in which proposals are **shared across departments** and **gradually elevated** through the management hierarchy, allowing **each level to review and approve the idea** before it reaches a final decision. This **bottom-up approach** fosters alignment and organizational unity but tends **to slow down decision-making**. Japan's emphasis **on continuity and risk avoidance** has contributed to **low executive turnover** and **strong employee loyalty**. However, it can also **reduce responsiveness** to global market shifts. Notably, only **8% of Japanese CEOs** have international experience, compared to **44%** in the U.S., reinforcing a leadership culture that remains **largely domestic and cautious in adopting disruptive change**.



Shareholder Engagement in Transition

In recent years, Japan has taken significant steps to modernize its approach to corporate governance and shareholder engagement. The introduction of the **Corporate Governance Code in 2015** marked a turning point, pushing companies to **improve transparency**, adopt more independent oversight, and increase capital efficiency. These efforts have led to a notable rise in board independence, with the share of independent directors growing from **just 5% in 2014 to over 40% by early 2025**. At the same time, foreign investors now hold around **30% of shares on the Tokyo Stock Exchange**, making them a powerful force in shaping corporate strategy. A notable catalyst in this evolution is **Warren Buffett's Berkshire Hathaway**, which has significantly increased its stakes in five major Japanese trading houses: **Itochu, Marubeni, Mitsubishi, Mitsui, and Sumitomo**. As of early 2025, Berkshire's holdings in these companies have grown to between 8.5% and 9.8%, with plans to potentially exceed the previous **10% ownership cap.** This strategic investment has not only signaled confidence in Japan's corporate reforms but has also encouraged other global investors to re-evaluate Japanese equities.



Tactical Asset Allocation

Japan (4/4)

Possible Investments

Smart Agriculture | Footwear | Smart Industrial & Electronic Components

Kubota Corporation (JPX: 6326.T)

- **EBITDA: 3.18 B**
- **FCF: 468.37 M**
- **Market Cap: 12.57 B**
- **P/E ratio: 8**

Asics Corporation (JPX: 7936.T)

- **EBITDA: 824.88 M**
- **FCF: 533.89M**
- **Market Cap: 16.22 B**
- **P/E ratio: 33.42**

Nidec Corporation (JPX: 6594.T)

- **EBITDA: 2.45 B**
- **FCF: 1.33B**
- **Market Cap: 20.47B**
- **P/E ratio: 17.84**

Iseki & CO (JPX: 6310.T)

- **EBITDA: 36.57 M**
- **FCF: 21.45 M**
- **Market Cap: 151.34 M**
- **P/E ratio: 13.7**

Mizuno Corporation (JPX: 8022.T)

- **EBITDA: 20.88 B**
- **FCF: 745 M**
- **Market Cap: 42.14 B**
- **P/E ratio: 52.67**

Sanyo Denki Co (JPX: 6516.T)

- **EBITDA: 91.2M**
- **FCF: 86.1M**
- **Market Cap: 868.8 M**
- **P/E ratio: 23.5**

*Forward P/E of 14.5x

Tactical Asset Allocation

Quarterly Macro Research

NIC Undergraduate Division Fund



Small Modular Reactors



Japan Investing



Ukraine

Tactical Asset Allocation

Afterwar Infrastructure (1/3)

Current Outlook

In recent years, the world has seen a sharp increase in armed conflicts — Ukraine, Gaza and recently rising tensions in regions like South Asia. These conflicts have not only resulted in human losses, but also in the severe damage of the infrastructure: housing, energy systems, public services, economic foundations. In 2022, Russian military struck Ukrainian energy system, leading to **40%** of its infrastructure being disabled. Entire cities have been reduced to rubble, power grids dismantled, supply chains severed, and millions displaced. As these conflicts evolve, this would lead to a massive wave of reconstruction.

The total cost of reconstruction and recovery in Ukraine is estimated at **$523.6 billion (€506 billion)** over the next decade. In Gaza, researchers conclude that **$53.2billion** is needed for extensive reconstruction and recovery effort over the next 10 years.

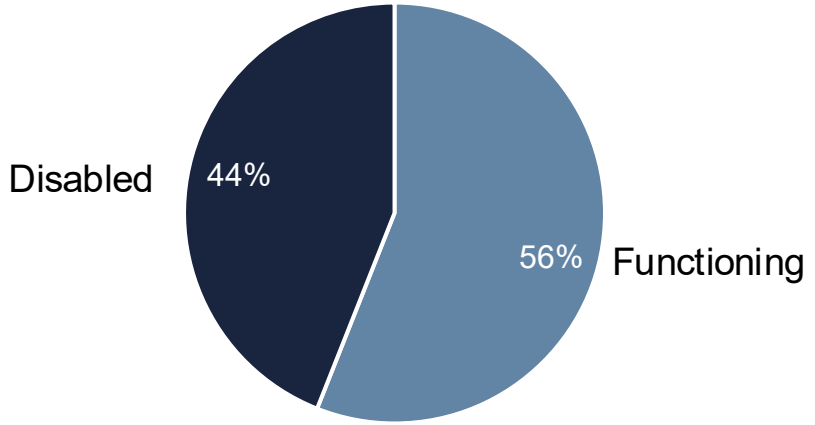
History has shown us how powerful reconstruction efforts can be. One of the most famous examples is the **Marshall Plan**, which helped Europe recover after World War II.

The Marshall Plan

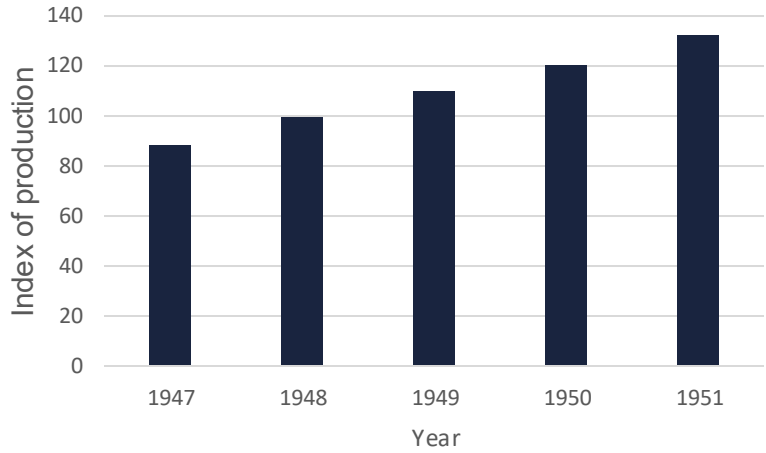
One of the most well-known examples of post-war reconstruction is the Marshall Plan, launched by the United States in 1948 to help rebuild Western Europe after World War II. Over four years, the U.S. provided **$13.3 billion** in aid (equivalent to around **$150 billion today**) to 16 European countries. This assistance helped jump-start economic recovery, stabilise governments, and modernise infrastructure. Industrial output rose by over 35% between 1948 and 1951, and the cooperation it created has laid foundations for European integration. Today, Ukraine faces similar moment. Much like the Marshall plan, the upcoming support is going to restore what was lost and modernise the economy in key sectors, such as construction, energy, transport, digital infrastructure, and critical raw materials like lithium and titanium.

But the Marshall Plan also tied Europe economically and politically to the United States. While Ukraine is being provided enormous U.S. aid, including billions of reconstruction funds and assistance, it is also becoming **dependent** on the U.S. Recent example: a 2023 agreement opening American companies' access to Ukraine's strategic minerals, such as lithium, cobalt, and rare earths — this is not just an encouragement, but growing strategic dependence.

Amount of power in Ukraine in 2022 (Giga-watt)



Increase in production in Europe (1947-1951)



Sources: UN News, Al Jazeera, World Bank, CRS Report

Tactical Asset Allocation

Afterwar Infrastructure (2/3)

How the reconstruction will be financed

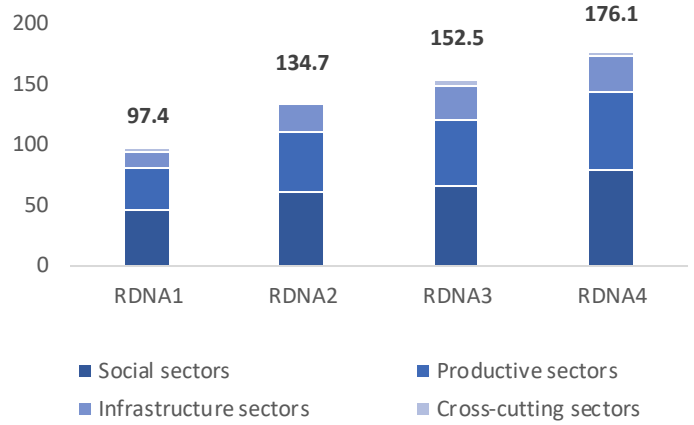
Post-conflict reconstruction financing is multifaceted effort, combining **international aid**, **institutional funding**, and **private sector investment**. Multilateral institutions like the **World Bank** and **IMF** provide subsidies and loans on favourable terms to stabilize economies and fund reconstruction projects. Pooled funding mechanisms, such as **Multi-Donor Trust Funds**, have been used in various contexts to coordinate donor contributions.
In the case of **Ukraine**, where the **total cost of recovery is estimated at $523.6 billion**, has already receive aids from these institutions. The **IMF has committed give $15.6 billion**, while the **G7 has agreed to provide $50 billion** in loans backed by earnings from immobilized Russian sovereign assets. Private sector involvement is also crucial, with the example of **International Finance Corporation planning to invest $2.2 billion in Ukraine**, targeting high-impact sectors. These combined efforts aim to create a robust financial framework to support the extensive needs of post-conflict reconstruction.

Opportunities

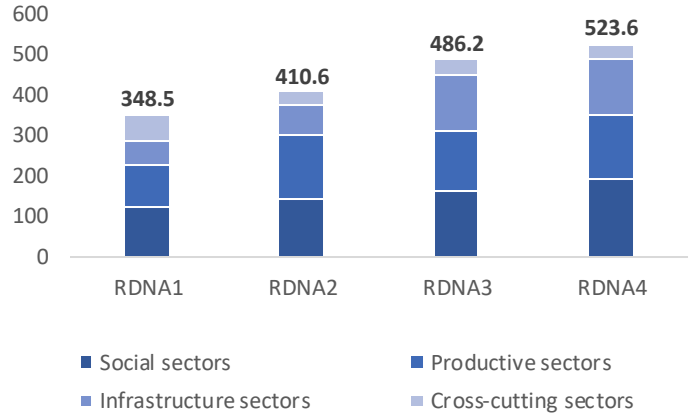
Infrastructure and **building materials** represent some of the most capital intensive and urgent needs in post-conflict reconstruction. In Ukraine alone, the **social and infrastructure sectors**, that includes housing, transports and energy, **account for approximately $350 billion** of the country's **$524 billion recovery needs**. Rebuilding critical infrastructure, such as **transport networks**, **energy systems**, and **water supply**, is not only essential for restoring stability but also attracts significant international funding.
At the same time, **Ukraine will need to produce 15-16 million tonnes of cement annually over a three-year reconstruction phase, 2-3 million tonnes more than the current capacity of the country**. This gives the opportunity to **regional suppliers** and **material exporters** to meet supply gaps in the early phase, while stimulating long-term investment in local manufacturing capacity. Donors increasingly impose **ESG-aligned conditions**, prompting adoption of low-carbon cement, recycled aggregates, and green construction methods. These two sectors stand at the centre of the reconstruction cycle and present compelling tactical exposure for long-term investors.

Sources: RDNA4 Report – Ukraine, World Bank, Reuters, IMF

Comparison of damage from RDNA1 - 4 (US$ billion)



Comparison of needs from RDNA1 - 4 (US$ billion)



(1) RDNA1 damage covers the period between February 24, 202,2 and June 1, 2022. RDNA2 between February 24, 2022, and February 24, 2023. RDNA3 between February 24, 2022, and December 31, 2023. RDNA4 between February 24, 2022, and December 31, 2024.

Tactical Asset Allocation

Afterwar Infrastructure (3/3)

Possible Investments

Materials Energy Heavy Equipment

Holcim AG (SIX:HOLN)

- **EBITDA: 6.83 B**
- **FCF: 4.02 B**
- **Market Cap: 54.17 B**
- **P/E ratio: 18.83**

CRH PLC (NYSE:CRH)

- **EBITDA: 7.12 B**
- **FCF: 2.41 B**
- **Market Cap: 66.79 B**
- **P/E ratio: 21.01**

Caterpillar Inc. (NYSE:CAT)

- **EBITDA: 16.04 B**
- **FCF: 8.82 B**
- **Market Cap: 166.29 B**
- **P/E ratio: 17.24**

Schneider Electric S.E (SU.PA)

- **EBITDA: 8.06 B**
- **FCF: 4.16 B**
- **Market Cap: 123.95 B**
- **P/E ratio: 27.78**

ArcelorMittal S.A (NYSE:MT)

- **EBITDA: 6.06 B**
- **FCF: 447 M**
- **Market Cap: 23.59 B**
- **P/E ratio: 19.56**

Siemens Energy AG (ENR.DE)

- **EBITDA: 3.67 B**
- **FCF: 1.38 B**
- **Market Cap: 60.03 B**
- **P/E ratio: 359.33**

Position Revaluation

Motivation

The **Position Revaluation** is the section where some of our positions will be critically evaluated regarding the relevance of the proposed investment thesis in the current environment, business risk analysis, Intrinsic and Comps Valuation, etc. The positions being revaluated this quarter are:

Alphabet
(GOOGL)
Technology

Proposed Decision:
Sell

Mercado Libre
(MELI)
Consumer Cyclical

Proposed Decision:
Hold

BAE Systems
(BAE Systems (LON: BA))
Defence

Proposed Decision:
Sell

Position Revaluation

Alphabet (GOOGL)



Position Revaluation

Alphabet (GOOGL)

Business Description

Alphabet Inc., headquartered in Mountain View, California, is a **global technology leader** and the parent company of Google. It operates through three main segments: **Google Services**, **Google Cloud**, and **Other Bets**. Google Services—encompassing **Search**, **YouTube**, **Android**, **Maps, and Chrome**—drives the **majority of revenue, primarily through digital advertising**. With **dominant market positions** in both **search** and **online video**, Alphabet benefits from **strong network** effects and **massive user engagement**. Google Cloud, offering **infrastructure and productivity solutions** through **Google Cloud Platform** and **Workspace**, is a key engine of growth as businesses increasingly adopt **AI and cloud-based tools**. Alphabet's competitive edge lies in its **seamless integration of services, data-driven product development**, and unmatched **global reach** across **digital platforms**.

Previous Investment Thesis Review

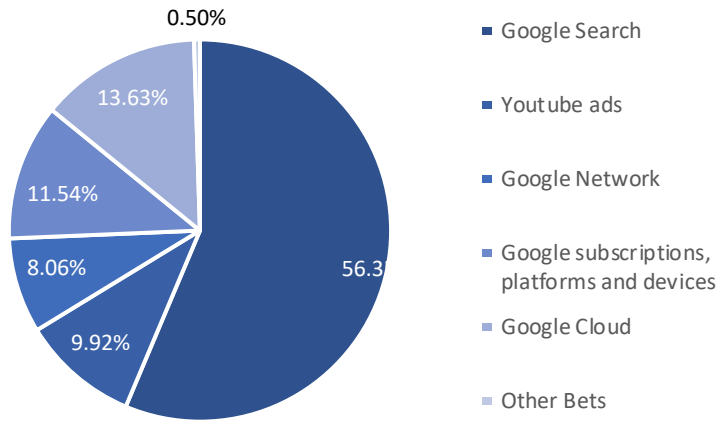
In our Fall 2022 stock pitch, we recommended adding Alphabet to the fund based on its **dominant position in digital advertising**, **strong momentum in cloud computing**, and **early leadership in artificial intelligence**. The company's **vast user base**, **data-driven ecosystem**, and **highly scalable business model** provided a strong foundation for long-term growth. At the time, Alphabet was trading at **$87.30**, reflecting a **market overreaction to short-term earnings pressure**. Our price target of **$106 implied a 21.5% upside**, supported by **robust fundamentals**, **margin resilience**, and a **compelling valuation** relative to peers.

Current Situation

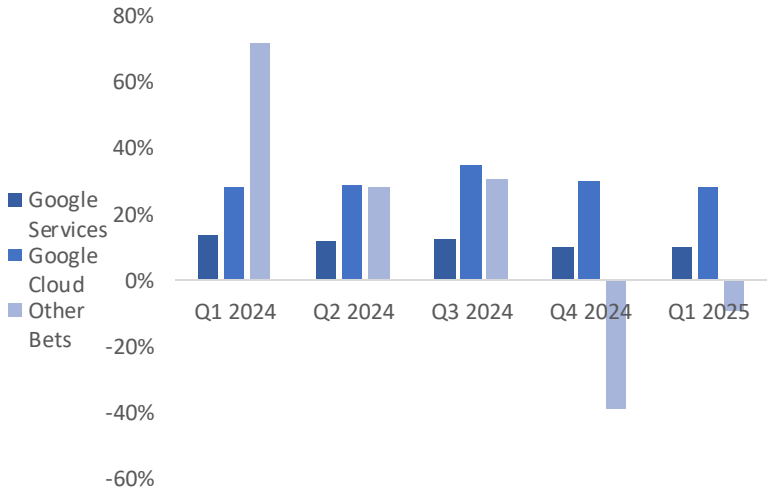
In the **beginning of 2025**, Alphabet's share price registered a **decrease of almost 10%**, with the majority of this drop occurring in February as **concerns emerged** over its **Q4 2024 performance**. Alphabet's Q4 **revenue growth fell short of both expectations and industry averages**, triggering an **8% sell-off** that **wiped $200 billion off its market capitalization**. Compounding this, the company's decision to **increase CAPEX by over 43%** to **fund AI-related projects** sparked scepticism among investors, given the **substantial investment required amid uncertain returns**. Although **Alphabet's cloud division posted a 30% revenue increase**, it **fell short of analyst expectations** and was notably **lower than the 35% growth achieved in the previous quarter**, reflecting signs of **slowing momentum**. Rising **competition from Chinese AI** startups and renewed **antitrust scrutiny** from both **U.S. and Chinese regulators** have added to investor concerns, casting **doubts** over Alphabet's ability to **maintain its competitive edge**. Despite these headwinds, Google's **search-linked ad revenue rose by 13%**, reaching **$54 billion**, contributing to a **12% increase in overall revenue to $96.5 billion** for the **first quarter of 2025**. This growth in ad revenue provided some **relief to the stock** but was **not enough** to **offset broader market concerns**, leaving Alphabet's shares under continued pressure.

Sources: Reuters, Financial Times, JPMorgan

Revenue by segment



Revenue Growth by Segment vs. Previous Year



Position Revaluation

Alphabet (GOOGL)

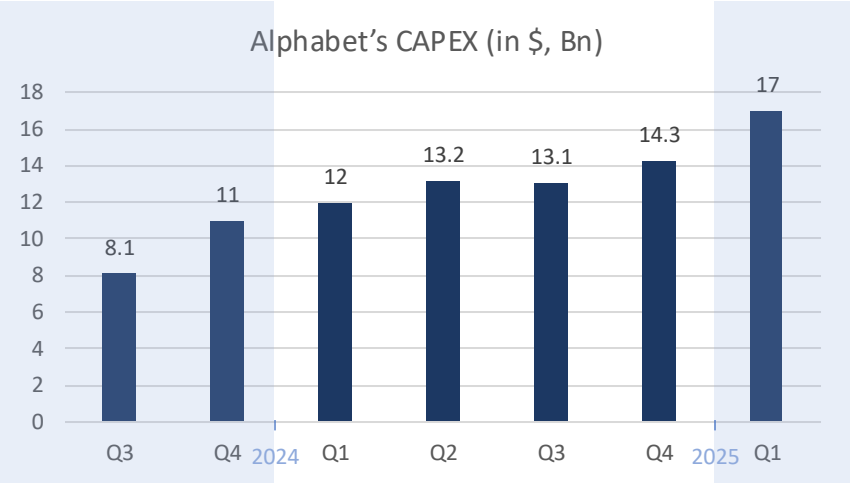
NIC Undergraduate Division Fund

Strategy Analysis

Alphabet's **strategic blueprint for 2025** is centred on an ambitious **$75 billion capital expenditure** plan, marking a significant **29% increase over Wall Street's expectations** and a substantial leap from the **$52.5 billion spent in 2024**. This investment is primarily allocated to **enhancing technical infrastructure**, with a focus on **servers, data centres and networking capabilities**, aiming to bolster the company's **AI and cloud computing services**.

In the **first quarter** alone, Alphabet planned to **invest between $16 billion and $18 billion**, underscoring its commitment to scaling its **AI infrastructure**. This move comes as Alphabet seeks to **maintain its competitive edge** in the **rapidly evolving AI landscape**, particularly in light of **emerging** competitors like **China's DeepSeek**, which has developed **cost-effective AI models**.

Despite underwhelming results in the **end of 2024**, Alphabet remains **steadfast in its belief** that these **investments will yield long-term benefits**. The company anticipates that the **expanded infrastructure** will **support the development** and **deployment of advanced AI models**, such as the **Gemini 2.0**, and **enhance services** across its **ecosystem**, including **Search, YouTube and Android**. By **investing** heavily in **AI and cloud infrastructure**, Alphabet aims to **solidify its position as a leader in the tech industry**, despite the **inherent risks** and **uncertainties associated** with such a **massive capital outlay**.



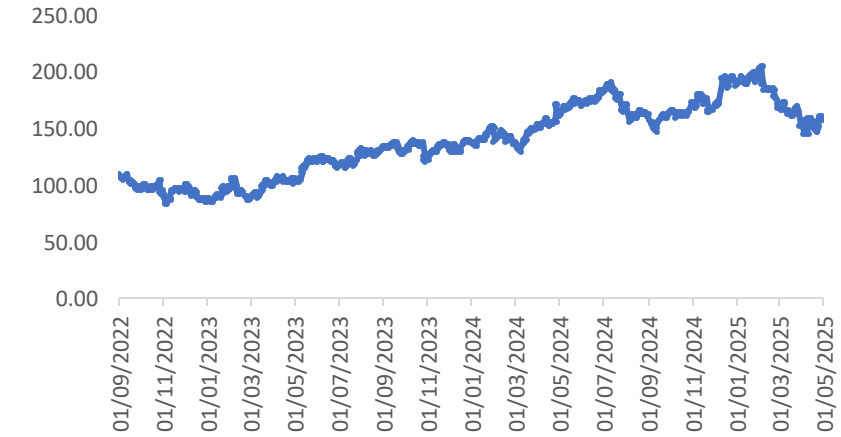
Final Investment Thesis and Position Suggestion

Since our initial **purchase of Alphabet Inc. shares in 2022**, the stock has delivered an impressive **56% return**. This growth has been **largely driven by Alphabet's dominance in digital advertising** and **strong momentum in cloud computing**, which continued to generate **robust cash flows** despite macroeconomic headwinds. However, as we move further into 2025, market conditions and Alphabet's strategic trajectory indicate that **now is an ideal moment to secure these gains and reallocate capital**.

Alphabet's **ambitious CAPEX plan for 2025** reflects its **commitment to future growth** but has also **introduced significant market scepticism**. Concerns over **execution risk**, **slower-than-expected growth in Google Cloud** and intensifying **competition** from agile **AI startups** have **pressured its share price**.

Given the substantial appreciation in Alphabet's stock since our initial investment, this is a compelling opportunity to **lock in gains** and **avoid near-term volatility** tied to Alphabet's **heavy capital outlay and market uncertainties**. Therefore, we decided to **sell** our position at its current valuation, allowing us to **crystallize a strong 56% return and redeploy capital** into **opportunities with more favourable risk-reward dynamics**.

Share price performance



Sources: Reuters, Financial Times, JPMorgan

Position Revaluation

Mercado Libre (MELI)

Position Revaluation

Mercado Libre (MELI)

Business Description

MercadoLibre, Inc. is the largest e-commerce and fintech company in Latin America, with major operations across Brazil, Mexico, Argentina and others. The company operates through three main segments: E-Commerce, which includes online marketplaces for new and used goods across categories, Fintech which offers financial solutions such as digital wallets, credit, and payment processing, and finally Logistics, which supports order fulfilment and last-mile delivery services through its Mercado Envíos network. The company also operates Mercado Crédito, providing consumer and merchant credit, and Mercado Shops, enabling merchants to create customized e-commerce storefronts. This segments create a vertically integrated digital ecosystem, where commerce, payments, and logistics reinforce one another to drive user retention and scalability. Its efforts on targeting underpenetrated markets are the underlying cause of the company impressive growth prospects.

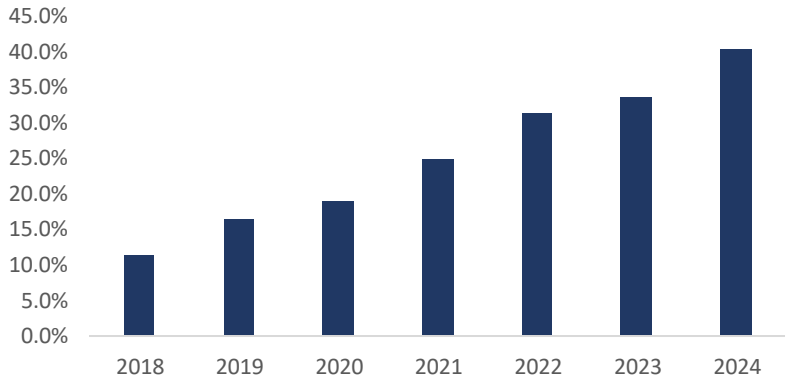
Previous Investment Thesis Review

In the Spring of 2023, MELI had been on an uprise for the past 5 years , nevertheless there were still strong signs of continuous growth and market expansion. At the time EBITDA margins were finally showing a stable improvement and the company had great competitive advantages being a first mover as well as market leader in the South America e-commerce, an industry projected to benefit greatly with the sustained increase of technology use. Indeed, Mercado Libre has since **doubled** its market cap (from $60bn to $115bn) but amid its excellent performance there were some questions raised regarding operating margins prompting this revaluation.

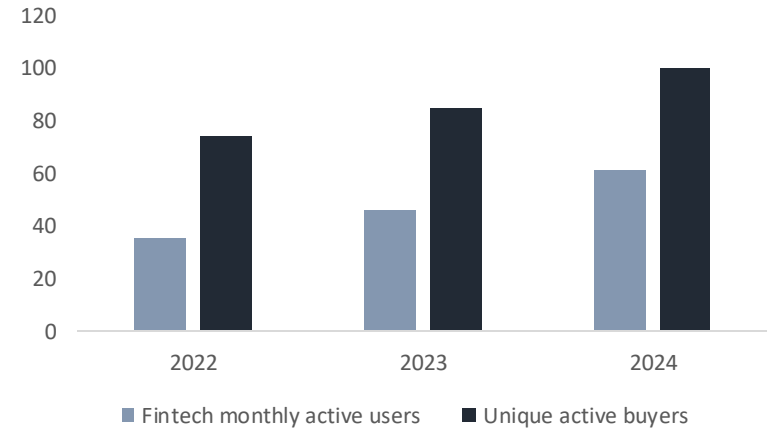
Current Situation

Mercado Libre has reported strong results for the Q4 of 2024 with excellent growth in all its Key Performance Indicators (KPI's). In the e-commerce segment, for the first time in history the company surpassed 100M Unique Buyers with a 24% YoY growth in the last quarter in addition to strong increases in Gross Merchandise Value(GMV) surpassing the $50bn mark and observed in all key regions including Brazil(+32% YoY),Mexico(+28% YoY) and especially Argentina (+141% YoY). There was also an expansion in the offered premium brands such as Lancôme, Ralph Lauren and Lacoste. On the Fintech segment it achieved 60 Monthly Active Users (+34% YoY) and currently has $10.6bn AUM a %129 YoY increase. "Credit Card" has now the largest share in Mercado Pago portfolio surpassing "Consumer" by 1% as there was a 74% YoY aggressive increase of the credit portfolio in the recent quarter but related to an **upmarket movement** meaning lower risk groups with lower rates. Finally, in the Shipping segment half of the 1.8bn delivered items of 2024 were on the last quarter. There was a 3% **decrease** on same or next day deliveries as MELI is betting on slow deliveries methods resulting in free shipping to drive GMV and user engagement.

MELI Take Rate (Revenue/GMV)



Active Users (Millions)



Sources: Mercado Libre Inc,Statista

Position Revaluation

Mercado Libre (MELI)

Financial Analysis

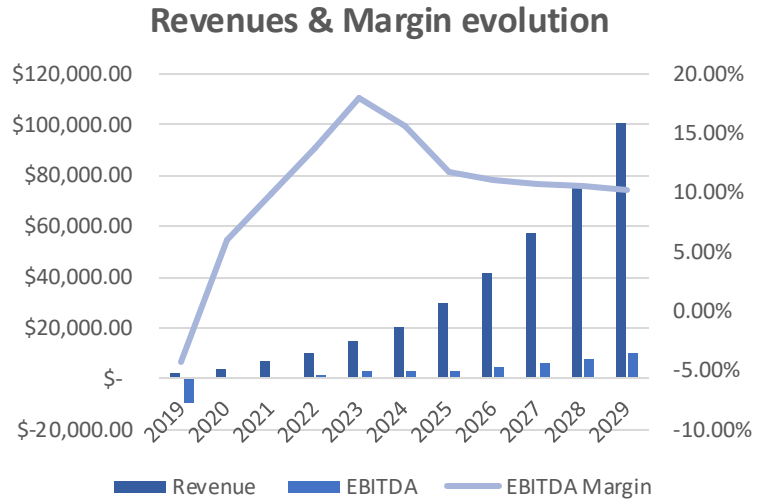
Mercado Libre ended Q4 2024 with strong financials, with **net revenue growth** of 37% YoY, while **net income surged** by 287% to $639 million, reflecting the continued success of its dual engine strategy in e-commerce and fintech. In 2024, Mercado Libre reported a significant increase in net cash provided by operating activities, which rose to **$7,9 billion**, up from **$5,1 billion** in 2023. However, it is important to note that this figure **excludes the impact of changes in loans receivable**, which represented a substantial **$4.69 billion cash outflow.** Additionally, the company's adjusted EBITDA margin declined by 2.5 percentage points YoY, landing at 15.6%. This margin compression was primarily driven by **the credit segment expansion** that requires a corresponding increase **in provisions** for expected credit losses in the short term.

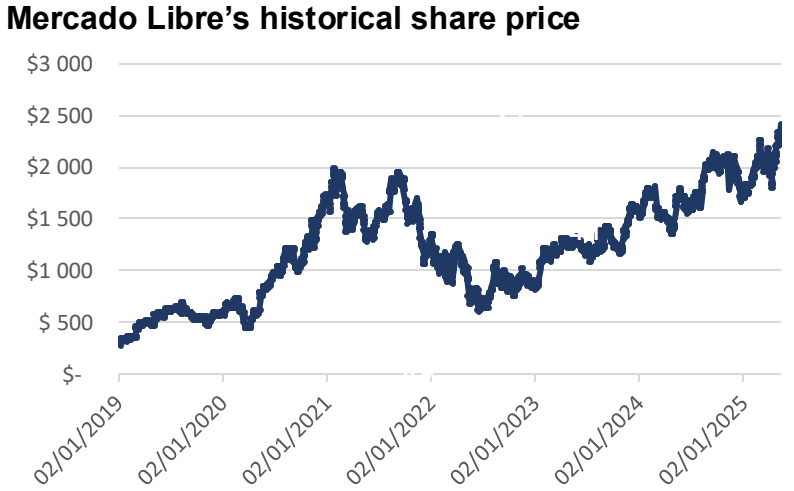
Strategy Analysis

Meli operates between two main segments: E-Commerce (58%) and Fintech (42%). Starting with E-commerce, they operate the South American equivalent to Amazon, but rely primarily on a 3P marketplace model, with under 10% of GMV coming from 1P sales used strategically to enhance pricing and inventory in key categories. Unlike Amazon's inventory-driven approach, Meli focuses on enabling transactions through its logistics and ad services. The Fintech segment, led by Mercado Pago, compensates and benefits from the underbanked nature of the region by offering digital wallets, payments, and credit. Notably, credit cards now represent over 40% of Meli's credit portfolio (up from 32% 2023), reflecting strong adoption and cross-segment growth.

Final Investment Thesis and Position Suggestion

Comparing the multiples of Mercado Libre now against our initial investment, the company appears at **a lower valuation**, continuing to deliver **growth above our initial expectations**. We view the shift to fintech services favourably, and the capex invested in new loans continues to benefit from good spreads and improving. Geographically, the company is well exposed to the Argentinian market as the country rebounds and has benefited from the overall shift in funds to South America as investors diversify away from the US high valuations. Our DCF output shows a **slight overvaluation** despite extending the current growth trends, with the stock at all-time highs following positive FY24 results. However, as the position's **long-term drivers are still in place**, stronger than before, we prefer to **maintain our current allocation** and wait for reinforcement opportunities down the road.





Sources: Meli Annual Reports, Yahoo Finance, JP Morgan

Position Revaluation

BAE Systems (LON: BA)



Position Revaluation

BAE Systems (LON: BA)

NIC Undergraduate Division Fund

Business Description

BAE Systems is a leading global **defence, aerospace, and security company** headquartered in Farnborough, United Kingdom, it operates across over 40 countries and provides advanced solutions in its major business segments: **Air, Maritime, Land, Cyber & Intelligence, and Shared Services.** The company has a significant position in the global defence industry, **ranking 9th** among major defence contractors by market cap. BAE Systems' largest market share is in the Tank & Armoured Vehicle Manufacturing industry. In terms of revenue by business segment, the **Air sector is the largest**, contributing approximately **38% of operating income**. Geographically, the **United States** is BAE Systems' largest market, accounting for **33% of total revenue**, followed by the United Kingdom with 25%. Its portfolio features flagship programs such as the Eurofighter Typhoon, the Astute-class submarines, and extensive cybersecurity and intelligence solutions.

Previous Investment Thesis Review

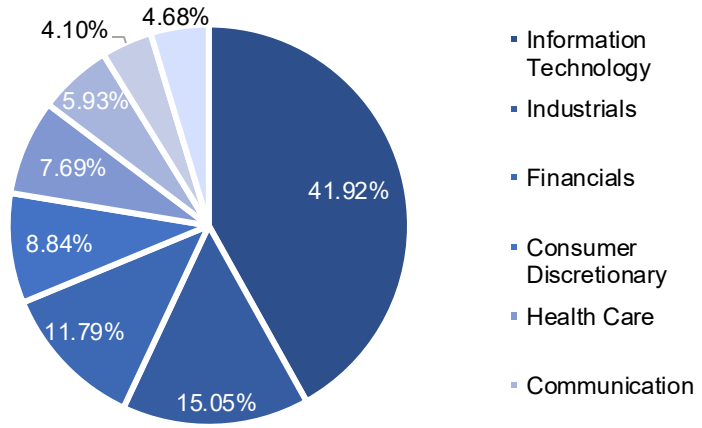
In our **Spring 2021** stock pitch of BAE Systems, we recommended buying the stock for its strong position in the global defense industry, high-margin government contracts, and exposure to long-term trends like cybersecurity, electronic warfare, and GPS. At £5.02, it offered a **19%** upside to our £5.96 target, supported by demand from governments including the U.S., U.K., and Saudi Arabia. We highlighted a record £42.5 billion order backlog and growth via **strategic M&A**, notably the Collins Aerospace GPS acquisition. While BAE offered a solid dividend yield and low beta (0.90), we noted risks from COVID-driven supply chain issues, budget uncertainty, and rising debt. Since then, defense spending has grown amid geopolitical tensions and the total performance this date is of 254%.

Current Situation

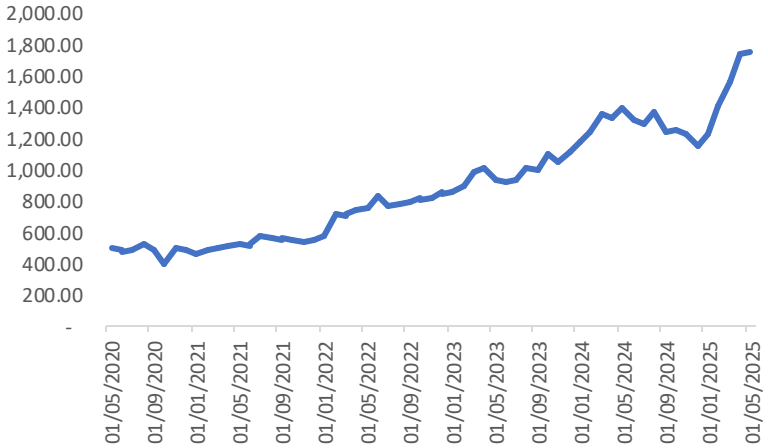
BAE Systems' stock is currently trading near its all-time high driven by surging global defence spending in response to rising geopolitical tensions. This increase in demand is partly fuelled by uncertainty surrounding international alliances prompting European and other allied nations to **accelerate their military investments**. While European nations are committing to 2% of GDP expenditure in defence, Trump´s administration plans to increase military spending instead of environment and sustainability causes. The company has **secured several major contracts** mainly with the US government and Uk ministry of defense, corresponding to their record order backlog, that have significantly contributed to its current momentum. However, BAE Systems' leadership has cautioned that while **short- to medium-term demand remains robust, greater clarity on long-term government spending commitments is essential** to support sustained investment and strategic development.

Sources: Bae System´s Annual Reports, Financial Times

Industry weighting



Share price performance (5Y)



Position Revaluation

BAE Systems (LON: BA)

Financial Analysis

BAE Systems is experiencing a **strong financial performance**, driven by escalating global defence spending and strategic investments. The company demonstrates **strong financials** with steady overall revenue growth, a solid order backlog, bolstered by significant contracts and increasing earnings per share. Despite these gains, the company's **profit margin declined** slightly, attributed to an increase in operating expenses, however the increase in defence spendings and the company's strategic initiatives positions it well for sustained growth in the coming years.

Strategy Analysis

Bae systems aims to strengthen its role as a global defence leader through technological innovation, strategic alliances and market expansion. Regarding the innovation process Bae systems has secured **partnerships with Microsoft** as cloud technology could be used to more easily combine and analyse different sources of data during military operations. Although maintaining and growing the defence businesses remains a core part of Bae's strategy, they are pursuing **growth in adjacent markets, including cyber security**. BAE Systems is **strategically positioned to lead future multi-domain operations** which ensures long-term growth and relevance in both defence and adjacent markets. The **company's robust order book** reflects a history of successful contracts and long-standing relationships with governments worldwide.

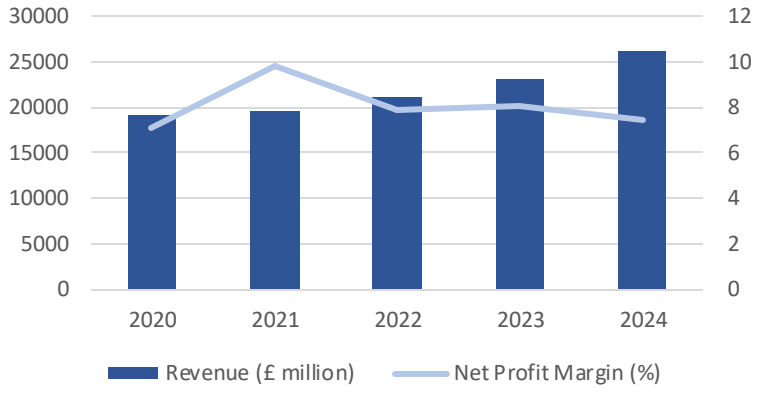
Final Investment Thesis and Position Suggestion

While BAE Systems has delivered exceptional performance, **returning 242%** since our initial investment, we believe now is the appropriate time to fully exit our position. The group remains bullish on the long-term prospects of the defense industry, particularly given the rising geopolitical tensions and sustained government spending across NATO countries. However, the stock's rally has significantly outpaced our fundamental valuation, which shows a **–43.40% downside** based on our DCF analysis.

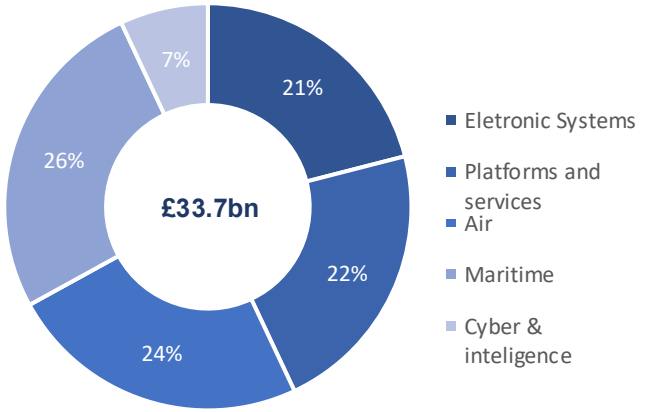
Recent tailwinds such as elevated defence budgets and expansion in electronic warfare, cyber capabilities, and aircraft programs are already priced in. Despite continued contract momentum and a record order backlog, we see limited incremental upside at current levels. The **company's valuation multiple has expanded**, and with no major near-term catalysts beyond already-announced programs, we believe the market has overshot intrinsic value.

Furthermore, BAE's low free cash flow yield, capital intensity, and potential normalization in defense order flows beyond 2025 present medium-term risks. While the fundamentals remain intact, we are disciplined in our valuation-driven process. With the stock now trading well above our estimated fair value and better opportunities emerging elsewhere, we recommend reallocating capital and **fully exiting the position**.

Revenues & margin evolution



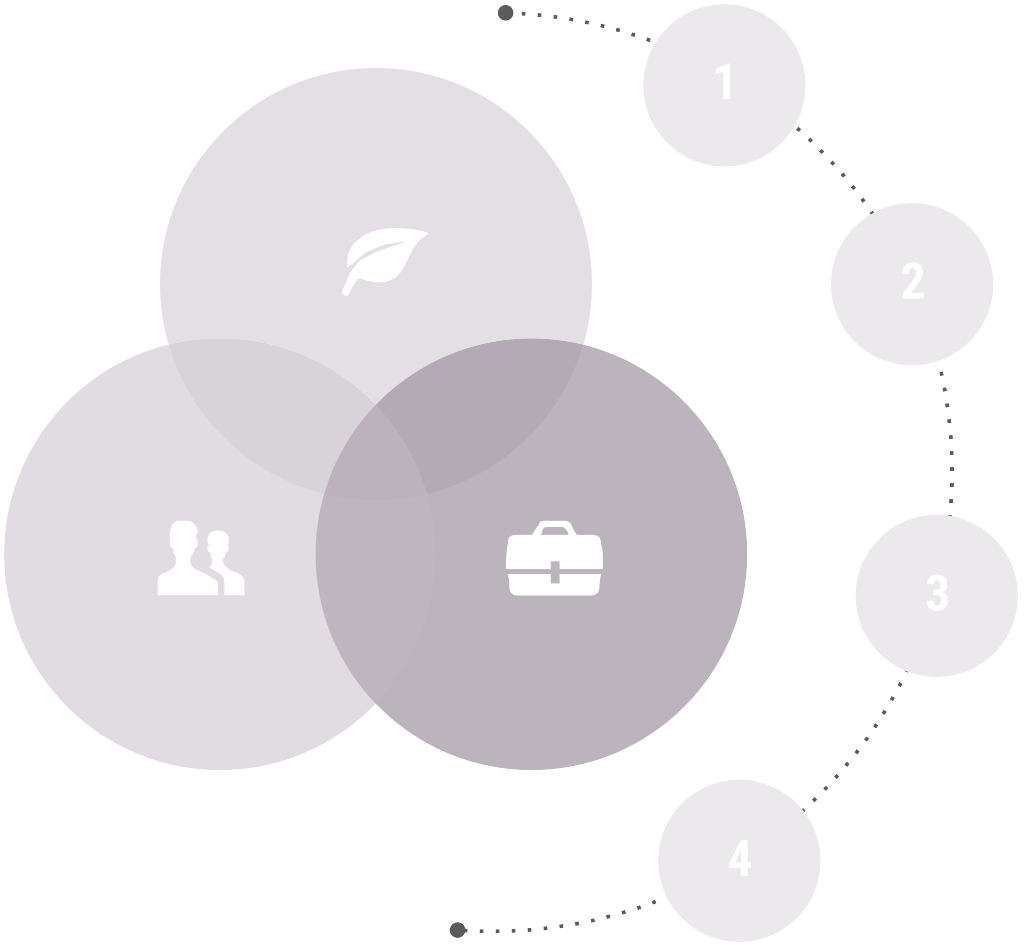
Order Intake 2024



Sources: Bae Systems's Annual Reports, Statista

ESG Analysis

Our commitment for a better tomorrow



Whilst the NIC-UD Fund does not prioritize impactful and carbon neutral investments, we acknowledge the importance of being part of the solution, and as such, we established the following goals to contribute to this desire to help the world around us:

1. **Inclusion of an ESG Analysis in the Quarterly Shareholders Report** to boost awareness of the overall ESG Performance of our fund to our members and shareholders

2. **Addition of ESG Evaluations into NIC-UD Stock Pitches** in the risk section, ensuring a more complete evaluation of the sustainability of companies' business models

3. **Incorporate ESG as a criteria for investment decisions** with the goal that this will positively translate to higher returns and lower risk, improving our Sharpe Ratio

4. **Further develop and improve our ESG Analysis** to ensure we have a greater understanding of our portfolio and positions sustainability as well as potential threats

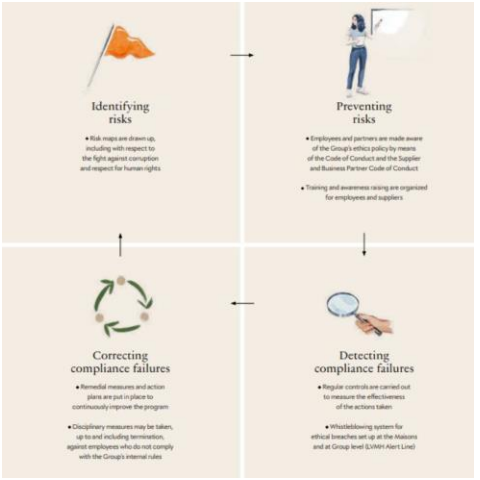
ESG Analysis

Importance of ESG & Company qualitative evaluation

NIC Undergraduate Division Fund

Importance of ESG

In recent years, the concept of **Environmental, Social, and Governance (ESG)** has gained significant attention from businesses, investors, and regulators. The concept of ESG refers to a set of factors that companies consider to **measure and improve their environmental impact, social responsibility, and corporate governance practices**. The importance of ESG has grown as companies realize that sustainable and ethical practices are essential to **long-term value creation** and the well-being of society. By considering environmental, social, and governance factors in their operations and decision-making, companies can create **long-term value for their stakeholders**, reduce their **negative impact** on the environment and society, and build a sustainable and ethical business model. Moreover, by recognizing the importance of ESG, investors can make informed decisions that align with their values and contribute to a **more sustainable and equitable global economy**.



REN Qualitative Evaluation

REN
MSCI Rating: AAA
Sustainalytics ESG Risk Rating: 15,1 (Low)

REN is demonstrating robust leadership in ESG performance, significantly **outperforming industry averages** across all ESG dimensions. In the **environmental sphere**, REN was named one of the **Climate Leaders in Europe for 2024** by the *Financial Times.* Looking ahead to **2030**, REN targets **100% green debt financing**, aligning financial strategy with long-term environmental commitments. The company also plans to allocate **€3 million to local development projects by 2027**, supporting infrastructure, education, and social programs in surrounding communities. From a **governance** perspective, REN is taking strong steps to ensure inclusive and sustainable decision-making. By 2030, it aims to **provide ESG education to all employees**, ensuring ESG principles are embedded at all organizational levels. Furthermore, **REN's Board of Directors (2024–2026)** includes **15 members, 6 of whom are women**, representing **40% gender diversity**.

Commitments and Actions

In 2024, the company reduced Scope 1+2 GHG emissions by 21% and contributed to a national total where renewables covered 70% of Portugal's electricity consumption. REN also installed 4.7 MW of self-consumption capacity, with 2.8 MW added in 2024 alone.

Sustainable Energy Innovation

REN is actively accelerating Portugal's energy transition: as of 2024, REN is facilitating the 150% increase in renewable installed capacity compared to 2022, in line with the updated PNEC 2030 targets. To support this growth, the company increased its annual Capex by 51%, rising from an average of €244 million (2021–2023) to €368 million, focusing largely on integrating new renewable energy production centers into the grid.

ESG Analysis

Implied Temperature Rise



Portfolio's Weighted Average Implied Temperature Rise:

2.25ºC

STRONGLY MISALIGNED	>3.2°C
MISALIGNED	>2.0°C – 3.2°C
2°C ALIGNED	>1.5°C – 2.0°C
1.5°C ALIGNED	≤1.5°C

Methodology: *Implied Temperature Rise from **MSCI ESG Research** is designed to show the temperature alignment of companies, portfolios, funds and indexes with global climate targets. It compares the current and projected greenhouse gas emissions across all emissions scopes (based on the company's track record and stated reduction targets) with its share of the remaining global carbon budget for keeping warming this century well below 2°C. A company projected to emit carbon below budget can be said to "undershoot" the budget; a company projected to exceed the budget "overshoots" it.*

Quick look at: Johnson and Johnson

By mid-2025, Johnson & Johnson had cut Scope 1 and 2 emissions by 78% since 2019 and aims for carbon neutrality by 2030. JNJ plans to source 100% renewable electricity by 2025 and is expanding its supplier sustainability program, targeting 80% of suppliers to set science-based emission goals by 2028.

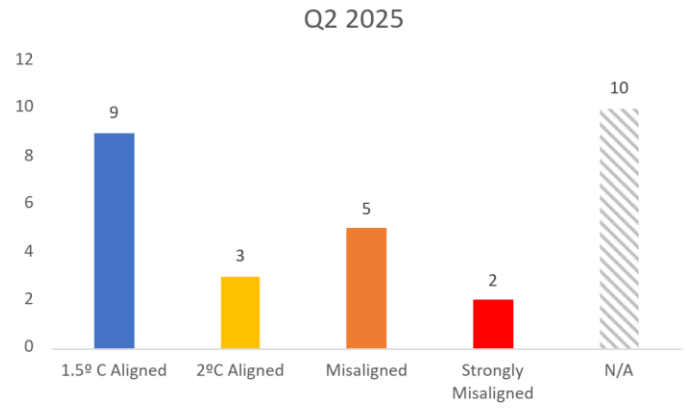
The **NIC-UD portfolio** has demonstrated a slight decrease **in its implied temperature rise**, now standing at **2.25°C**, compared to **2.4°C** in the previous quarter. While the **average temperature of most companies remained stable**, this decline was primarily driven by **strategic acquisitions** during the quarter. Notably, the addition of REN**(1.2°C)** and **DECKERS (1.4°C), that have a low value comparing w** contributed significantly to this improvement.

During this quarter, **BAE Systems' ITR** had a significant **drop from 2.5 to 2.3** reflecting its stronger climate targets, better emissions tracking, and recent innovations like its 2025 collaboration with Airbus on hybrid-electric aircraft technology.

On the other side, **Volkswagen** had an increase from 2.2 to 3.6, driven by its decision to postpone critical emission reduction targets, shifting the goal of a 30% reduction from 2015–2025 to a longer timeline of 2018–2030, delaying meaningful near-term climate action.

These developments underscore **our Group's commitment to maintaining a sustainable portfolio**, prioritizing investments in companies that actively contribute to **environmental stewardship and global warming mitigation**. Our goal remains aligned with the **Paris Agreement**, striving to **limit global temperature rise to 1.5°C** through responsible and strategic investments.

Implied temperature rise per position



ESG Analysis

Portfolio ESG Rating

Shortcoming of Ratings: Mismatches

The calculation of NIC-UD's ESG Rating involved a comprehensive examination of its entire portfolio using **MSCI, Sustainalytics, and S&P Global's** databases. The results revealed that the ratings differed depending on the agency being analysed. The correlations differed at a 10% significance level, with MSCI having a moderate correlation with Sustainalytics and S&P Global, improving when compared to past quarters.

Correlation Matrix between Rating Agencies

Correlation Matrix	MSCI	Sustainalytics	S&P Global
MSCI	1		
Sustainalytics	0,68	1	
S&P Global	0,50	0,37	1

Despite improvements, a possible reason for the disparity in ratings could be due to the **lack of standardization** in measuring a company's ESG efforts. There is no universally accepted definition for the key performance indicators (KPIs) to be used for each company and the weight to be given to each KPI in determining the rating.

Therefore, we decided to use the **MSCI Agency** as the source of analysis, given that its rating system already takes into consideration a company's relative performance compared to its peers.*v*

Ticker	Weight in Portfolio	Sustainalytics (Converted)
META	2,99%	6
ESPO.L	3,02%	NA
BATT	3,36%	NA
BN.PA	3,87%	2
BA	8,18%	4
EPD	3,79%	4
BRK.B	6,01%	4
CARB	0,60%	NA
FRA:VOW3	2,69%	4
ATEN	2,06%	4
ABB	2,65%	2
AMS:VUTY	3,52%	NA
LON:IKOR	1,91%	NA
NYSE:JNJ	1,77%	4
GOOGL	3,88%	4
TMUS	4,25%	4
MELI	6,04%	4
CVS	2,05%	2
ITX	2,05%	NA
MRN	3,30%	NA
G.MI	3,57%	2
GDX	2,16%	NA
AZN	1,93%	4
EQB	3,26%	2
LEA	2,21%	2
INGR	1,64%	4
MC	1,94%	2
ARW	3,42%	1
ZBH	2,27%	4



Final Output

Despite the advantage of relative comparison in MSCI's rating, it also has the drawback of being the **least comprehensive database.** That is why we used **Sustainalytics** ratings of our positions. Still, 8 out of 29 positions in our portfolio were not eligible for analysis. However, their combined percentage of total investment in NIC-UD's portfolio is close to **19%**, which we consider to be a relatively low percentage and the best achievable from the 3 ratings, that would not significantly impact our conclusions.

To determine NIC-UD's ESG rating, we calculated a **weighted average** based on each position's rating (converted to a numerical value between 1 and 7, with 1 being equivalent to AAA and 7 to CCC) and their **adjusted weight, considering only the positions with available data in Sustainalytics**.

NIC-UD's fund has maintained a **MSCI ESG Rating A (converted from Sustainalytics).** This means that investing in our portfolio is **equivalent to investing in companies that have an average good and concerned track record** in managing the most critical ESG risks and opportunities relative to their peers in the industry.

ESG Analysis

Opportunities and Improvements

Near-Term Improvements

In the last quarter, NIC-UD's Fund saw its implied temperature rise increase from 1.94°C to 2.4°C, mainly due to the addition of high-ITR companies like Zimmer Biomet and Mercado Libre's jump from 3.2°C to 4.9°C. While some holdings like ABB improved, the overall rise reflects strategic shifts. Despite this, we remain committed to aligning with the Paris Agreement and integrating ESG metrics at the core of our investment process.

Moreover, the increase in the NIC-UD fund's MSCI ESG Rating to A, is an example of this **continued effort to mitigate sustainability risks**.

Short-Term goals



Reach a portfolio implied temperature rise of 1.5ºC, this way being aligned with the **2050 Paris Agreement goal.**



Reach a portfolio MSCI rating (or equivalent) of AA.

Long-Term Outlook

In line with our commitment to sustainability, we are taking immediate actions to safeguard our portfolio from potential risks. However, our **long-term ambitions are even more pronounced**, aiming for a gradual yet substantial impact over time.

As for our long-term objectives, we are not only committed to create a portfolio exclusively comprising companies with an implied temperature rise of 1.5ºC or below but also to achieve an MSCI rating of AAA. We believe that investing in companies with strong sustainability commitments will enable us to make more informed decisions, reduce **sustainability risks**, and position ourselves advantageously for **future regulatory environments**.

Long-term goals



Only invest in companies with an implied temperature rise of 1.5ºC **or below.**



Reach a portfolio MSCI rating (or equivalent) of AAA.

Final Remarks

Going Forward

Mistakes:

- We identified some discrepancies in the timing of our decisions, particularly between the revaluations of QSR and the execution order sent to our broker. While this led to additional gains on CVS, it also resulted in us holding CARB longer than anticipated. The issue has since been corrected.
- Another timing-related issue was detected between stock pitches and the voting deadlines for the group, which consequently delayed the broker's execution. This mismatch may lead to slight differences between the pitch price and the actual investment price.

Lessons Learned / Key takeaways:

- The key takeaway is the need to enhance our time management in both investment and divestment decisions. We must act with greater precision and within the expected timeframes to respect the analytical work and expectations of our members.
- We also concluded that we should monitor our holdings more actively, rather than relying solely on QSR revaluations. A more proactive screening process will help us better identify revaluation opportunities and act accordingly.

Going Forward:

- As previously announced, the **renewal** of our **portfolio statistics** system has been **completed**. We now report statistics on a **weekly basis**, rather than daily, reducing volatility and offering a more realistic view of our fund's performance.
- Moving forward, we are committed to a more active and **continuous screening** of our portfolio. Each club member will be assigned responsibility for monitoring current holdings, allowing us to respond faster to **strategic developments** and improve the **timing** of our portfolio adjustments.
- Our monthly meetings will continue as scheduled. As we explore new industries, we remain optimistic about identifying promising investment opportunities and consolidating the share price **above $110** for the year 2025.

Final Remarks

Letter to Shareholders

Quarter highlight



Share Price increased **(5.4%)** overperforming the benchmark



Increased our exposure to US with the investment in Zimmer, offset by the sale of CVS



Increased implied temperature rise **to 2.4°C**, up from 1.94ºC in Q4 24

Letter to shareholders:

Dear all,

The first quarter of 2025 experienced a lot of uncertainty in the markets, mainly due to the threat and later imposition of tariffs by the Trump presidency, which were higher than anticipated by the market. Despite this events, NIC-UD fund rose by 5.4% outperforming the benchmark index, which fell by 4.22%, and the S&P 500 which also fell by 4.6%.

This quarter, our sentiment towards the market has changed. We believe that the market is not pricing in the uncertainty in capex investing that the largest institutions are experiencing due to the complex navigation of the tariff policies. As of today, the financial market has recovered the since April 2, "liberation day," and the S&P 500 is already up year to date.

Our portfolio declined primarily due to our positions in Alphabet, A10 Networks and Mersen that were the worst performers this quarter, driven by declining revenues, rising costs and lower guidance adjusted. In contrast, Bae Systems, VanEck Gold Miners ETF and VanEck T-Mobile, were the best performers this quarter, due to strong gains supported by accretive partnerships and sector growth.

In this context, we sold our position in Alphabet, achieving a 56% gain since 2022, and added Zimmer, a healthcare company we believe offers strong long-term potential. These moves aim to reduce risk while maintaining exposure to sectors we trust.

Our fund's performance this quarter was above expectations, and it is with great pleasure that we share that, as of today, since we joined the club in September 2022, the fund has managed to increase shareholder value by approximately 40%. This was achieved through the dedication and passion of all the members who have been part of the club over the past three years.

As usual, as the academic year comes to an end, it comes the time to say goodbye to the NIC-UD community. Leading this project has been one of the most rewarding parts of our time at NIC-UD. We are proud of what we have built and believe that the QSR is a fundamental part of what makes this club stand out. Next quarter, it will be announced who will be the future Co-Presidents of NIC-UD who will carry on the legacy of enhancing the QSR and this club.

Francisco Bragança and Rafael Mora

Final Remarks

QSR Team

NIC Undergraduate Division Fund

Q4'24 QSR Team



Final Remarks

Investment Team



Rafael Mora
Co-President



Francisco Bragança
Co-President



Leonel D. Lucas
Investment Manager



Afonso Freitas
Investment Manager



Afonso Monteiro
Head of Meeting Content



Raquel Mendes
NUR Editor-in-Chief



Constança Rodrigues
Head of External Relations



Madalena Morgado
Social Media Manager



José Pedro Trindade



Matilde Murta



Matilde Oliveira



José Francisco Faria



Alexandre Sacavém



Pedro Rebelo



Afonso Costa



Francisco Borges



Miguel Fernandes



Pedro Resende



Catarina Canha



Lucas Faísca



Yash Chauhan



Ivan Ataev



Inês Albuquerque



Rafael Dias



Miguel Patrício



Bernardo Figueiredo



Francisca Mora



Miguel Moura



Diogo Veríssimo



Joana Bonecas



Joana Santos



Francisco Viegas