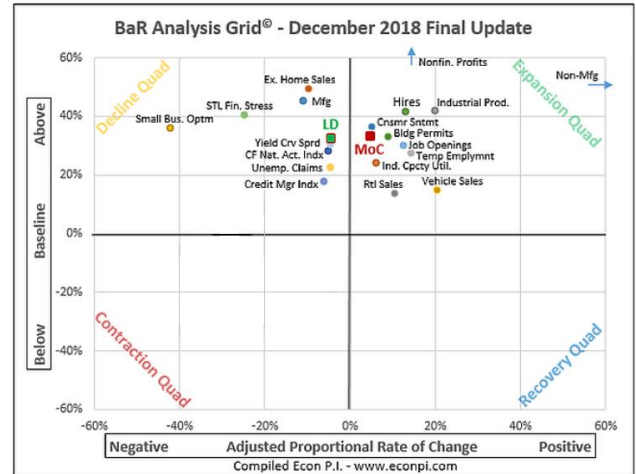


Market Macroanalysis

The final quarter of 2018 was not good for equity markets. Investors have had to contend with rising US central bank interest rates, a sharp slowdown in eurozone business confidence, weaker Chinese growth and rising geopolitical concerns (including Brexit, Italian politics and the ongoing trade conflict between the US and China). After a push towards 27,000 points in early October, the Dow has been under sustained pressure, with any move up to 26,000 reversing quickly. In December FED's meeting was the pivot point for the month's sentiment. Jerome Powell and colleagues resisted the political pressure heaped on them by raising rates for the fourth time this year. But the market failed to receive any further encouragement from the Fed's uncertain outlook for 2019's rate rises, with expectations growing for a US recession either next year or in 2020. Overseas equities suffered smaller declines than those experienced by U.S. stocks, with the MSCI-EAFE Index sliding 5.4 percent. Trade tensions, political uncertainty, and economic weakness drove broad declines in France, Germany, and the U.K. Pacific Rim markets were generally more resilient, with smaller losses in Australia and Hong Kong. Japan was among the weakest of the major international markets, losing 10.5 percent in December.

Looking at the BaR Grid Analysis, while most of the economic indicators are in the expansion quad, a number of them are in the decline quad, most significantly the yield curve spread, signaling a possible slowdown in the economy. C-score shows that possibility of a recession in the next 9 months is 24%, while the Leading Superindex shows that possibility of recession in the next 3-4 months is only 1.69%. Aggregate dividend yield for S&P 500 index is 2.07%, well below the 4.28% history average. That, along with Shiller PE ratio of 28.53 compared to history average of 15.70, point to a high market valuation.



Source: econ.pi

| Risk Indicator               | Current | Last Week | Last Month | Last Quarter | Interpretation               |
|------------------------------|---------|-----------|------------|--------------|------------------------------|
| <b>Valuation</b>             |         |           |            |              |                              |
| Ten-year note yield          | 2.72%   | 2.78%     | 3.00%      | 3.07%        |                              |
| S&P 500                      | 2486    | 2417      | 2760       | 2914         |                              |
| S&P Forward Earnings         | 170     | 171       | 171        | 169          |                              |
| S&P Earnings yield           | 6.82%   | 7.06%     | 6.21%      | 5.80%        |                              |
| Equity Risk Premium          | 4.11%   | 4.27%     | 3.20%      | 2.74%        | Very High                    |
| <b>Economy</b>               |         |           |            |              |                              |
| C-Score                      | 372     | 364       | 390        | 365          | 9 MoRecession Prob about 24% |
| Leading Superindex*          | 1.69%   | 1.69%     | 1.20%      | 1.04%        | 3-4 MoRecession Prob         |
| BCIp                         | 46.9    | 66.5      | 78.0       | 100.0        | No recession indicated       |
| SLFSI                        | -0.639  | -0.780    | -0.849     | -1.304       | Very Low Risk                |
| <b>Anticipated Inflation</b> |         |           |            |              |                              |
|                              | 1.74%   | 1.80%     | 1.94%      | 2.15%        |                              |
| <b>VIX</b>                   |         |           |            |              |                              |
|                              | 29.96%  | 28.38%    | 18.79%     | 12.41%       |                              |

Source: Jeff Miller



Source: multpl.com

## Commentary on Our Holdings

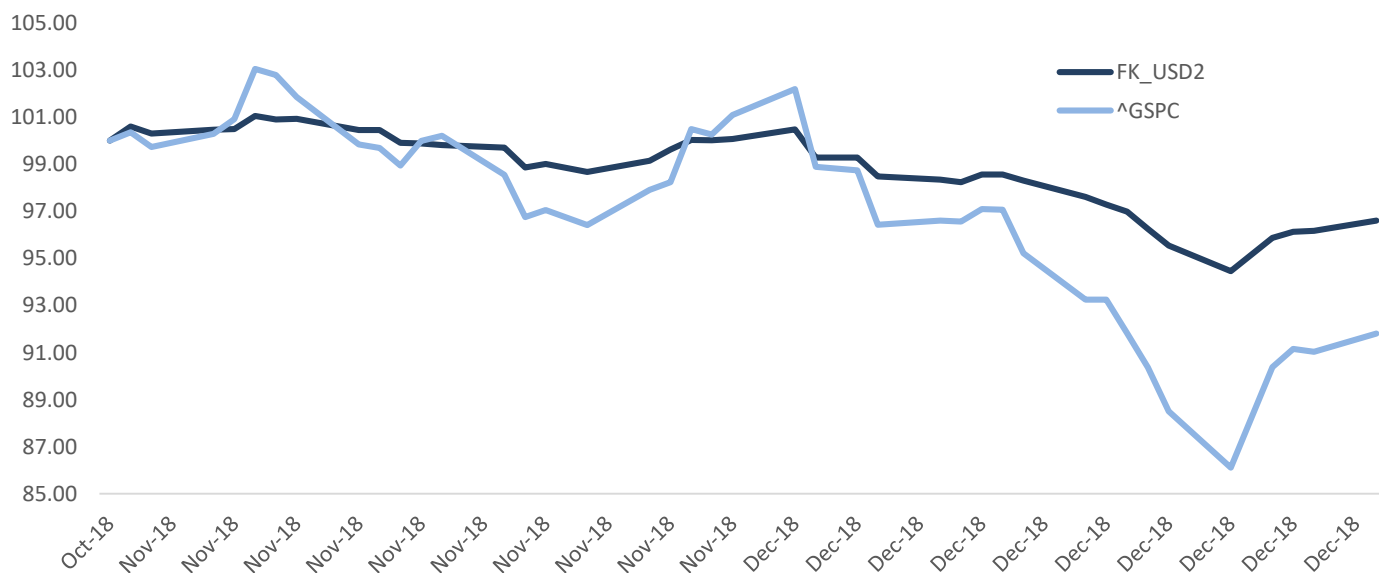
JPM stock price, at the beginning of the month, was \$ 112.24 and it ended the month and year 2018 at the price \$ 97.62, which is decline of 13%. On December 11th The Board of Directors of JPMorgan Chase & Co. declared a quarterly dividend of 80 cents per share on the outstanding shares of the common stock of JPMorgan Chase. JPM also announced that its subsidiary banks JPMorgan Chase Bank and Chase Bank USA have filled an application of merger with the Office of the Comptroller of the Currency. The merger application contemplates that Chase Bank USA will merge with and into JPMorgan Chase Bank, with JPMCB as the surviving bank. The completion of the Merger is expected to occur in the second quarter of 2019. Although interest rate hikes are good for banks, in case of yield curve flattening or inversion, it is not the case. Yield curve is near inversion, as the FED raised interest rates on the short end of the yield curve and low inflation rates keep the long end from rising. It impacts the bank's income from the spread of borrowing short term deposits and lending long term loans. So, hiking interest rates by FED could hurt banks' profitability. If economic growth slows down, then the yield curve could remain flat for a longer period of inverted (with short-term interest rates being higher than long-term rates). Although FOMC predicts rate hikes in the following years, the market does not, moreover, market expects FFR rate to go down.

Verizon Communications Inc. (VZ) opened the month at \$58,16 and finished it with almost 5% loss at \$55,27. The returns were poor due to several events both in the industry and in Verizon's "backyard". The mobile 5G race is officially at the starting block. 5G is dubbed as the technology of the future with faster download speed and seamless transfer of data. In December, VZ' competitor AT&T has turned on its mobile 5G network for the public in 12 cities around US. Unlike Verizon, which launched its first 5G network earlier this year as a home broadband replacement, AT&T's 5G network will be more traditional to mobile wireless networks. Verizon and AT&T are battling for the position of the leader in the development and application of 5G network

technology which is in the stage of early adoption. Another reason for drop in price was investor's worry about the contract for broadcasting Disney's channels (ESPN, Disney Channel and ABC stations) between Verizon Fios TV and Disney which was expiring at the end of the year. Negotiations were tough and slow. Fortunately, the agreement was renewed on the day of its deadline and it ensured continued channel access to Verizon's approximately 4.6 million customers. Verizon is parting ways with 10,400 employees despite the tax benefits from Trump administration which would save the company between 3,5 and 4 billion dollars according to VZ's estimates. Verizon said its new job cuts coincide with the creation of a "realigned organization structure designed to optimize growth opportunities in the 5G era." Also, VZ has admitted its Yahoo/AOL division is a failure. Verizon's media strategy has centered around Yahoo and AOL, but the former Web giants haven't been able to compete effectively against Google and Facebook in the advertising market under Verizon's ownership. Verizon also created an online video service, called Go90, but it announced Go90's shutdown in June of this year.

AT&T started the month selling at \$30.71. During the month, the price continued to fall, reaching the trough at the price of \$28.21, but then recovering during the next days, finishing 2018 with the price of \$28.57, which is a 9.98% decrease relative to the start of December. AT&T shares have dropped a stunning 28% in 2018. The steep stock decline is due to investors seeing a swelling debt load and suboptimal earnings growth. Debt for the company has swelled to more than \$180 billion since the company completed its acquisitions of Time Warner. As a result, the company's total interest expense over a trailing-twelve-month basis has hit its highest level since 2010 at over \$7 billion.

## Portfolio performance vs benchmark (indexed, since inception)



## Investment approach

The Fund seeks to achieve positive long-term returns by managing a portfolio of diversified investments that are believed to be undervalued at the time of purchase, are expected to hold significant growth potential in the future or have a negative or small correlation with the stock market, making them a mean of diversification.

## Fund Characteristics

|                      |                    |
|----------------------|--------------------|
| Fund name            | FK_USD2 UCITS fund |
| Fund Company         | Financijski Klub   |
| Fund type            | Mixed              |
| Currency             | USD                |
| Starting Share Price | 100                |
| Share Price          | 96.60              |
| Inception Date       | November 1, 2018   |
| Fund Domicile        | Zagreb, Croatia    |
| Reference Benchmark  | ^GSPC              |

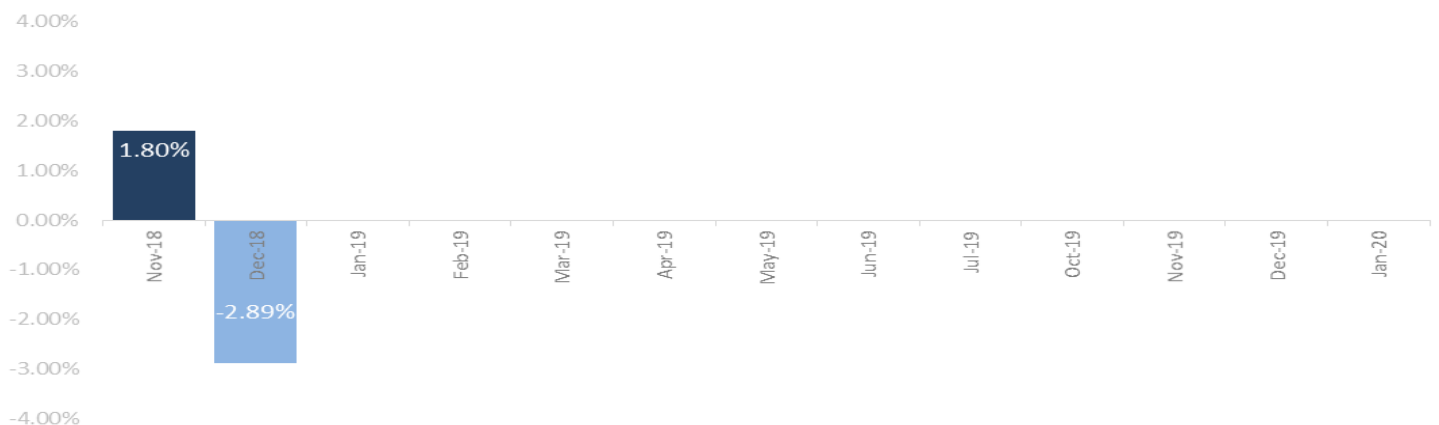
## Return since inception

|                                 |        |
|---------------------------------|--------|
| Price return (net of dividends) | -3.40% |
| Total return (with dividends)   | -2.12% |

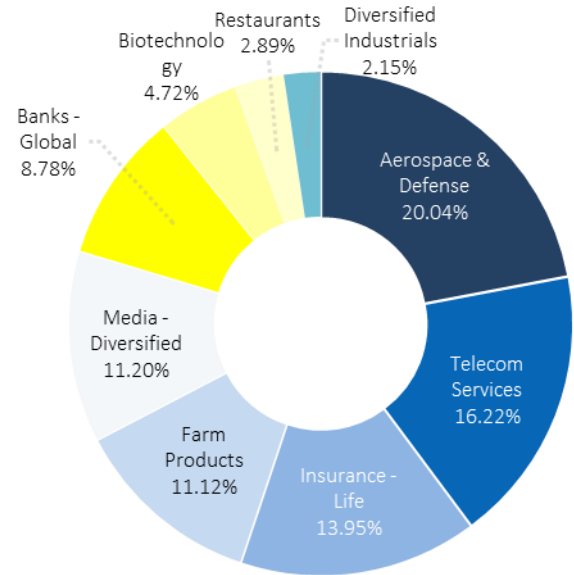
## Top 10 Holdings

| Ticker | Company Name                         | %      | Country |
|--------|--------------------------------------|--------|---------|
| LQD    | iShares iBoxx \$ Invmt Grade Corp Bd | 20.04% | USA     |
| VB     | Vanguard Small-Cap ETF               | 13.95% | USA     |
| DIS    | The Walt Disney Company              | 12.29% | USA     |
| GLD    | SPDR Gold Shares                     | 11.20% | USA     |
| ADM    | The Archer Daniels Midland Company   | 11.12% | USA     |
| BABA   | Alibaba Group Holding Limited        | 8.78%  | CN      |
| JPM    | JPMorgan Chase & Co.                 | 4.72%  | USA     |
| T      | AT&T Inc.                            | 3.93%  | USA     |
| MCD    | McDonald's Corporation               | 2.89%  | USA     |
| PRU    | Prudential Financial Inc.            | 2.15%  | USA     |

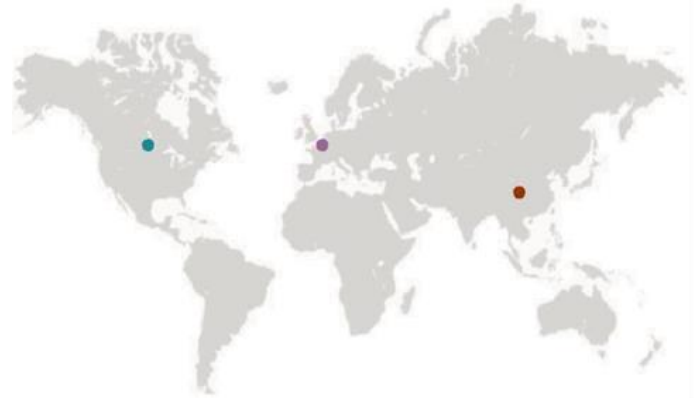
## Monthly Performance (MoM)



## Sector Allocation



## Geographic Allocation



## About Financijski klub

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Financijski klub (the Financial Club) is a specialized student association which aims to provide its members with additional financial education. That being our core business, we organize different projects, lectures, workshops and numerous other social events. The Club has been active since 2005, and is situated at the Faculty of Economics and Business of the University of Zagreb.

With our ongoing activities we have established a significant role within the finance oriented academic population. Through the years, our work has been recognized with numerous Dean's and Rector's Awards, and our members with internships and jobs at leading companies. Our most recent highlight has been the award for outstanding contribution to financial markets education, awarded by the Zagreb Stock Exchange in 2013.

### FK Portfolio Management

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#### All performance and holdings data as of 31 December-18.

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