

April 2019 Investment Letter

2019 YTD



Sparrowhawk Fund (EUR)

17,49%



Royal Albatross Portfolio (USD)

2,67%



Kingfisher Portfolio (EUR)

12,36 %

DJ Industrial Index

11,15%

S/P 500 Index

13,10%

MSCI World Index

11,94%

Berkshire Hathaway

-1,59%

Gold

0,77%

EUR/USD

-2,20%

Oil WTI

33,31%

16.96%

In 1980, 38 years ago, the investment manager launched the FCM Opportunity Fund (Sparrowhawk Fund as of 2009).

The value of the Fund has grown from \$900.000 to \$321 million at a rate of 16,96% compounded annually.

**Bull markets are born on pessimism, grow on skepticism, mature on optimism,
and die on euphoria (Templeton)**



The Sparrowhawk Fund, who doesn't do market timing, but rather is staying invested in quality companies for the long-term, succeeded in staying on the positive side in 2018, +2,47% and is up this year +17,49%. Also, the Fund is still holding the top spot based on the 3-year average total return.

The Sparrowhawk Fund is primarily an Opportunity Fund or a Conviction Fund, based on a concentrated portfolio exposed to strong cash flow companies, and, now more than ever, focusing on quality companies, safe dividends, strong long-term growth potential and cheap valuations.

The Royal Albatross Portfolio also remained on the positive side in 2018 with 80% in cash. This portfolio strategy has never had a negative year since 1973, except 2015 with a loss of -2%. The Portfolio is + 2,67% YTD and is divided in 5 asset classes and holding 40% in cash.

We are convinced that in order to gain decent returns (risk adjusted) from an equity portfolio is to seriously invest for the long-term.

The Big Picture

In a complete change of strategy, the Fed dramatically changed their position and this caught many off guard. Basically, the Fed announced they will not be raising rates for the rest of this year, and probably only once next year. The reason this came as a surprise was because the Fed has been raising rates eight times over the past two years. Plus, it was only last December when the Fed said they were going to hike rates four more times.

What happened? The Fed caved in. They were hit by angry investors last year when they announced a tightening. From the smallest investor to the US president, everyone complained. We all know that Trump has not been happy with the Fed's rate hikes and he has been quick to point this out. He noted that the Fed made a mistake by raising rates and using their quantitative tightening, which hurt the stock market and the economy.

Throughout history, the Fed has always been independent. If a president talked to a Fed head for whatever reason, it was privately and off the record. But Trump changed this policy the result is, the Fed has been feeling the pressure. The Fed didn't want to be blamed for possibly pushing the economy into a recession and they acted accordingly.



The decision has been made to keep rates low indefinitely. That goes for the US and most of the other major countries too. The rates in the Eurozone and Japan are already back to near zero. But the US rates are still higher than in most other countries.

The fed recently noted they are going to start reinvesting in bonds when the bonds they have mature. In other words, more QE is coming, which will help the economy as well.

What are the Markets telling us?

The S/P 500 index is near the top of the trading range set by the top of last year. The bottom of that trading range is where we were on Christmas eve. Our view at the start of the year was that stocks would rally, because basically there will be a trade deal between the US and China.

A positive surprise is not that the threatened tariffs don't get implemented, but that existing tariffs are also dropped. That would allow people to start to think that maybe globalization hasn't ended, after all. The tariffs were put in place to pressure China to do a trade deal, and if a deal is agreed to, logically they would be dropped. If I am Trump, I would want the stock market to like it. If you don't agree with that, equities for the short term is no good.

If I am China, I want to do a trade deal with Trump because the concerning development over the past year is that anti-China sentiment in Washington has grown on both sides of the political aisle, most particularly on the Democratic side. Trump is not anti-China, he wants just to make a better deal. But a lot of other people are anti-China.

What will the deal look like?

It will say something about China agreeing to buy X billion dollars of US goods, which would be silly, and some nonsense about the currency. The important fundamental things are that China will make concessions on intellectual property. It will allow foreign companies to have wholly owned businesses in China. But how to enforce this? China will probably not agree to a formal enforcement, which is a cultural humiliation. China doesn't want the US to be its compliance officer. If the US demands are too aggressive, there will be no deal.

Stock Market

We know the stock market loves low interest rates. It's been the primary fuel driving stocks higher since the early 1980s. And if interest rates are going to stay low for the next two years as Fed Chairman Powell says, then stocks would indeed keep rising.



If they do, this would suggest the economy is going to improve. It would mean there is no recession down the road, and it would suggest the trade tensions are going to be worked out.

Also, positive, the P/E ratio is about average. Historically it is not too high, not too low. In other words, stocks are not too expensive and they have room to rise further. Another positive is that global stocks have been rising, following the US's lead. China has been leading the pack and it will probably continue....Lower yields in yield in the US also help the global world markets and economies.

Two \$US trillion could flow into China's stock market in the years ahead. That's because billions will be moving into the MSCI Global Index. The end result is that Goldman Sachs, Morgan Stanley and others believe Chinese stocks will soar as a result.

The rise is just beginning but it's been the top performer this year. And historically, once this index gets going, it tends to soar. The Sparrowhawk Fund is invested in some high quality Chinese stocks.

The Chinese economy is probably not as disastrous as what people thought three months ago. They blame the whole Chinese consumption story on weak car sales, but car sales are weak for a lot of reasons.

On a long-term view, it isn't too late to buy China and Sparrowhawk owns a mixture of value and growth stocks. China and India are two regions to own in a portfolio, China will probably do better to start with, as the Indian election is in full force now in April and in May and it will keep investors nervous. 900 million voters will make some important decisions. It is the biggest political event in Asia. Probably Modi will be reelected.

Here are all eight world indexes in 2019 and the associated table sorted by YTD.

Index	2019 Peak	YTD
Shanghai	31.69%	28.90%
Hang Seng	20.00%	18.62%
CAC 40	17.47%	17.47%
S&P 500	15.83%	15.76%
DAXK	12.81%	12.81%
Nikkei 225	10.76%	10.76%
FTSE 100	10.66%	10.43%
BSE SENSEX	8.82%	8.40%

As of Apr 15 2019

The Sparrowhawk Fund has as a long-term strategy to be fully invested at all times, convinced that



spending time in the market is much more important than trying to time the market.

US Dollar

The US 10-year yield is almost 3% higher than the German yield. This makes the US dollar more attractive. So even though all global rates are declining, US rates provide the best return and that's keeping dollar demand high, which in turn is keeping upward pressure on the dollar.

Gold and Natural Resources

Investors in the energy business met in Houston last week to discuss the future of the market, and one thing is clear: Not much is clear. A number of variables could dramatically change how much energy is consumed and how much is produced.

On the demand side are the assumptions that electric cars will become commonplace and plastic will continue to grow quickly notwithstanding rising calls to limit its use in containers.

On the supply side, there's much uncertainty about the fate of Venezuela, the willingness of OPEC members and Russia to continue cutting oil supplies, the adaption of renewable energy, and the continuation of the US shale boom.

The price of Brent crude oil rebounded sharply this year as it became clear that the economy wouldn't fall off a cliff and OPEC and Russia made good on their agreement to reduce oil supply by 1,2 MBD. The nearby future price of Brent at \$66,67, is up 32% from its low on Dec 24.

There's also a great future in plastics. The biggest increase in demand comes from factories using petrochemicals to make plastics, not cars chugging gasoline. Total world oil demand is expected to increase by 9,6 million barrels per day between 2017 and 2030, according to a 2018 report by the OECD and International Energy Agency titled "The Future of Petrochemicals: Towards more sustainable plastics and fertilizers.

The Sparrowhawk Fund does not hold any position in the energy sector.

Central bankers are the biggest buyer of gold today. As more central banks reduce their dependence on the US dollar as a reserve currency, they are moving into gold. Some countries feel the US is ready to use the dollar and its links to world trade, as a tool for its foreign policy. So countries are basically protecting themselves.



Russia is also setting up a friendly way for its citizens to buy gold by eliminating a tax they had on gold purchasers.

Palladium, and to a lesser extent platinum are tied to the auto industry. Palladium is used for catalytic converters to reduce emissions from gasoline engines. Some argue that electric cars will kill demand for palladium. But for now 90% of cars need the converters.

Platinum are also popular for jewelry and it's always been more expensive than gold, but now it's cheaper to buy. Overall, the metals have room to shine. They also have an important fan, President Trump. He wants interest rates lowered and resume bond purchases. Is QE on the way? He would also like to see a weaker dollar. This is all good for a rising gold price and this sector in general.

The Sparrowhawk Fund is analyzing and watching closely the gold price and may take a new position if the fundamental view is supporting that.

Summary

The Sparrowhawk Fund strategy is to always be fully invested for the long-term in order the catch the strength of the long-term compounded returns. (CAGR +16% since 1980).

The Sparrowhawk Fund has a significant allocation to quality US focused companies priced at attractive levels in industries like media, payment industry, pharma, infrastructure and consumption.

The Sparrowhawk Fund, a Long Global Conviction Equity Fund that is actively managed based on views with a time horizon measured in years, emphasizing fundamental, economical and geopolitical analysis and select those sectors that should benefit from these movements. The Fund has a selection of a limited number of leading stocks in each chosen sector.

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Sparrowhawk Fund
Monthly Performance Figures

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD (USD)	YTD (EUR)	S/P 500
1980							7,04	3,45	3,77	5,46	16,3	0,54	41,70%	57,35%	18,83%
1981	-3,78	-2,08	1,23	-5,70	0,53	-2,60	-4,00	-5,64	-3,98	3,55	-2,1	0,15	-22,23%	-6,54%	-9,73%
1982	2,70	-5,83	-0,88	3,63	-0,42	3,93	2,92	9,78	8,83	12,96	9,02	9,05	69,77%	92,22%	14,76%
1983	3,26	4,96	5,07	9,53	5,68	7,51	0,05	-1,77	-0,45	-2,86	0,18	-1,28	33,20%	57,97%	17,26%
1984	-2,67	-2,98	-0,35	-1,91	-3,04	0,82	0,33	10,61	-3,33	4,6	-0,12	7,42	8,63%	25,61%	1,38%
1985	6,11	0,16	-1,19	-0,4	7,38	2,93	1,15	1,31	-1,95	4,42	5,04	3,57	31,95%	5,45%	26,36%
1986	1,71	4,30	1,59	-0,54	4,23	1,47	-2,39	1,65	-4,40	2,42	0,41	-1,53	8,89%	-9,69%	14,62%
1987	6,80	2,35	1,09	-3,85	-0,23	-2,31	7,59	-1,12	-2,11	-20,52	-4,48	5,03	-14,00%	-29,60%	2,03%
1988	4,17	2,54	1,08	2,65	-3,62	3,53	0,10	0,18	1,82	0,76	0,82	1,75	16,71%	30,43%	12,39%
1989	1,99	1,44	-0,09	1,46	2,05	0,99	3,99	0,67	-0,52	-0,71	1,69	-2,08	11,29%	9,62%	27,25%
1990	-2,2	1,23	3,18	0,09	6,79	3,21	2,10	-5,39	-6,21	0,58	3,24	2,44	8,64%	-5,29%	-6,56%
1991	5,73	6,16	3,8	0,45	-1,06	4,12	3,45	0,62	-0,32	0,67	-2,53	8,10	32,69%	35,65%	26,30%
1992	2,88	4,53	-3,22	-1,73	-0,33	-2,42	0,52	-0,33	2,50	3,85	8,52	-2,77	11,93%	24,27%	4,47%
1993	1,31	3,11	3,08	2,39	8,59	0,57	1,89	1,91	0,33	3,48	1,61	3,52	36,93%	48,19%	7,06%
1994	5,00	1,94	-0,14	2,36	2,4	0,07	5,65	5,25	1,25	-1,21	-6,24	-0,86	15,91%	5,15%	-1,55%
1995	3,43	3,26	5,03	-0,22	1,55	2,76	11,64	1,77	0,80	-0,73	7,45	-1,47	40,58%	35,01%	34,12%
1996	5,67	6,01	-5,00	5,88	-0,38	-3,34	-6,79	5,56	5,67	-0,34	8,17	-1,27	20,07%	22,34%	20,26%
1997	7,63	-0,27	-2,94	4,23	9,81	1,87	11,37	1,75	0,95	-2,25	3,28	1,17	41,93%	61,92%	31,01%
1998	-2,25	16,05	5,26	0,82	-4,70	6,31	-1,19	-12,08	0,00	11,64	10,66	14,16	49,43%	43,31%	26,67%
1999	6,37	-5,14	8,10	1,87	0,24	7,37	-3,04	2,64	-2,51	7,09	3,53	10,54	42,20%	61,76%	19,53%
2000	-1,56	5,36	9,32	-8,22	-5,69	5,95	-1,98	17,36	-8,48	-9,31	-12,12	1,49	-11,46%	-5,37%	-10,14%
2001	3,32	-14,68	-2,93	12,31	-11,19	-3,55	1,56	-1,09	-4,28	2,4	3,72	-1,88	-17,52%	-12,72%	-13,04%
2002	-0,64	-5,42	2,56	1,33	1,15	2,13	6,73	-0,78	2,8	0,33	-6,24	2,93	6,34%	-9,79%	-23,37%
2003	-0,18	-2,24	2,61	0,00	2,40	-4,62	0,88	4,33	-4,38	5,5	3,16	4,44	11,85%	-6,72%	26,38%
2004	2,01	3,32	1,12	-4,67	2,07	2,02	-1,67	-1,75	0,95	2,53	4,35	1,2	11,71%	3,70%	8,99%
2005	4,71	10,78	-2,84	-4,9	3,00	2,41	6,54	3,85	3,78	-4,17	6,2	3,87	37,24%	57,15%	3,00%
2006	21,12	-4,49	9,06	8,97	-5,29	-5,14	-4,86	2,62	-4,86	-0,47	5,10	-1,61	18,09%	5,95%	13,62%
2007	5,72	-3,93	3,2	7,28	6,50	2,25	-1,57	-2,05	15,1	9,58	-2,69	3,46	49,90%	35,58%	3,53%
2008	3,31	9,14	-6,09	8,25	0,62	6,98	-8,8	-8,56	-11,02	-4,71	0,81	4,39	-8,92%	-4,93%	-38,48%
2009	-0,08	2,82	1,29	7,80	7,74	9,18	-9,41	9,63	3,71	3,34	-0,08	2,98	48,08%	44,51%	23,45%
2010	-9,79	3,43	7,78	-5,85	-6,39	-4,61	9,02	3,11	8,70	3,77	1,11	9,89	7,71%	15,27%	12,78%
2011	3,02	0,40	-7,01	0,94	-2,98	-2,73	5,63	-8,41	4,32	-7,97	2,70	-3,27	-17,60%	-15,46%	0,00%
2012	4,49	0,03	-1,33	-1,03	-2,91	-1,10	3,18	0,53	0,73	-0,96	-2,14	-1,86	-0,73%	-2,60%	13,41%
2013	2,81	2,24	0,99	-3,69	-0,88	-5,21	-2,3	0,25	-1,70	1,55	1,45	-0,25	-1,36%	-5,31%	29,60%
2014	-0,02	2,94	2,75	-0,86	1,22	-0,49	-0,53	3,01	-0,51	-0,32	-0,01	-0,02	-5,71%	7,16%	11,39%
2015	1,59	3,94	1,79	-2,84	1,21	-1,90	0,55	-5,42	-2,47	6,06	2,15	-3,39	-9,62%	0,64%	-0,73%
2016	-2,71	1,16	-0,99	-0,04	1,17	-0,10	2,72	-1,08	0,37	1,84	1,78	2,48	3,28%	6,69%	9,54%
2017	2,17	4,16	0,39	0,47	-1,09	-1,46	0,49	-2,76	0,25	4,39	0,53	0,64	23,52%	8,33%	19,42%
2018	5,79	-1,20	-4,80	2,80	5,69	2,22	2,05	4,28	1,65%	-5,05	0,40	-8,49	-1,99%	2,47%	-6,24%
2019	5,82	3,32	5,22										11,25%	15,06%	13,10%

Performance prior to January 2009 is based on the FCM Opportunity Fund (USD) which has been managed by the Investment Manager since 1980 using the same investment strategy and approach as the Sparrowhawk Fund. Past performance is not an indicator of future results.

Audited YTD performance.
1980-2008 in USD
2009-today in EUR

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