




December 2018 Investment Letter

NOVEMBER 31, 2018 YTD

 Sparrowhawk Fund (EUR)	11,98%
 Royal Albatross Portfolio (USD)	0,04%
 Kingfisher Portfolio (EUR)	-7,50 %

DJ Industrial Index	3,31%
S/P 500 Index	3,23%
MSCI World Index	-2,97%
Berkshire Hathaway	9,54%
Gold	-6,25%
EUR/USD	-5,65%
Oil WTI	-16,01%

15.38%

In 1980, 37 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 15,52% compounded annually.

“Don’t Fear Volatility, Embrace It,
Bull Markets Make You Money,
Bear Markets Make You Rich”

The stock market just suffered its worst week in 10 years and as a result its raining undervalued blue chip growth stocks. There are now plenty of quality undervalued stocks



worth buying. “Be greedy when others are fearful” and take advantage of the market becoming insanely stupid and provide quality companies at obscene discounts to fair value.

What should investors do when confronted with market volatility? The conventional wisdom couldn't be clearer: Ignore it.

Often the wisest thing to do during periods of extreme market volatility is to stick with the investment plan that you have already put in place. “Resist the urge to sell based solely on recent market movements...it's best to ignore the noise and focus on the long-term goal”. Sudden market correction or crashes, such as the 2008 crisis and what we have seen in the past few weeks, could present buying rather than selling opportunities, at least for investors with stable finances and long investment horizons.

The conventional wisdom rests on strong foundations. It is very difficult, if not impossible, to time the price movements of markets. Also, there is a mean reversion in stock returns, so that a crash today is offset to a reversion to the mean later (price rebound), therefore long-term investors can ride through volatile periods. Finally, it is important to stay invested in the market. Just missing the 10 best days in the market during the 20-year period starting Jan 1st 1998, would have halved the performance.

The Sparrowhawk Fund is still exposed to strong cash flow US companies by 80% and now, more than ever, focusing on quality companies, safe dividends, strong long-term growth potential and dirt cheap valuations.

The Royal Albatross Portfolio is up 0,04% now with 100% 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

The Fed tightening, trade wars, China uncertainty, Italy's budget standoff with the European Commission and Brexit imply that 2018's volatility should continue into 2019. Some believe that 2020 marks the danger zone for a US recession, which gives equity markets some upside in the year ahead. For Europe, the main risks to the near future are the budget conflict between Italy and the EU, a disorderly Brexit and an escalation of the global trade war. These risks will probably fade during the course of 2019.

The reason for the strength in the US economy and corporate earnings in 2018 has been the Trump administration's fiscal stimulus. We believe that the peak economic boost from the fiscal



stimulus will last into early 2019, before it becomes a drag on the economy in 2020.

China's economy is on track for GDP growth of around 6,5% in 2018, its slowest since 1990. It faces headwinds from high indebtedness, slowing property construction, poor demographics and the trade war with the US. As a result, fiscal stimulus is underway, which should be enough to keep growth near 6% in 2019.

What are the Markets telling us?

Tensions have been heating up big time. It's been Trump versus the Fed for the past few months and there is no question, the Fed has been under attack.

"The Fed is a bigger risk to the US than China" (Trump), "I made a mistake appointing Jerome Powell to be the head of the Fed".

The Fed did actually change gears, suggesting the end is near for interest rate hikes. Trump was pleased.

In any event, interest rates are now expected to stay under pressure. Yes, there may be one more rise in the Fed Funds rate this month, but many believe that will be it.

The Sparrowhawk Fund sees opportunities and taking advantage of them will require discipline and a strong decision-making process. The most fundamental investment question is: do the potential returns justify the risks?

Bear markets don't normally start until six months before a recession, so equity markets still have some potential upside.

Stock Market

Wild. The indexes fell sharply in November, with plenty of bearish signs and as stocks continued to fall, erasing their 2018 gains, many respected some experts came out warning that the situation was "very serious" and "really scary". Tech stocks were especially hard hit. And once again, with the gloom and doom hanging overhead, the stock market did what it's done before....it started rising sharply.

The Fed head Powell said that interest rates were just below neutral. This got investors all excited because it was first time Powell has suggested a possible end to rate hikes. These hikes had been speeding up and making the stock market nervous. The G20 meeting between Trump and China's Xi was also a positive factor.

But, then again, suddenly investors seemed to have second thoughts on global trade and the economy, and the stock market fell sharply.



Index	2018 Peak	YTD
BSE SENSEX	15.04%	4.90%
Nikkei 225	6.61%	-11.42%
S&P 500	9.62%	-12.06%
CAC 40	6.17%	-12.92%
FTSE 100	2.47%	-13.03%
Hang Seng	10.81%	-14.26%
DAXK	4.96%	-20.01%
Shanghai	7.63%	-23.59%

As of Dec 24 2018

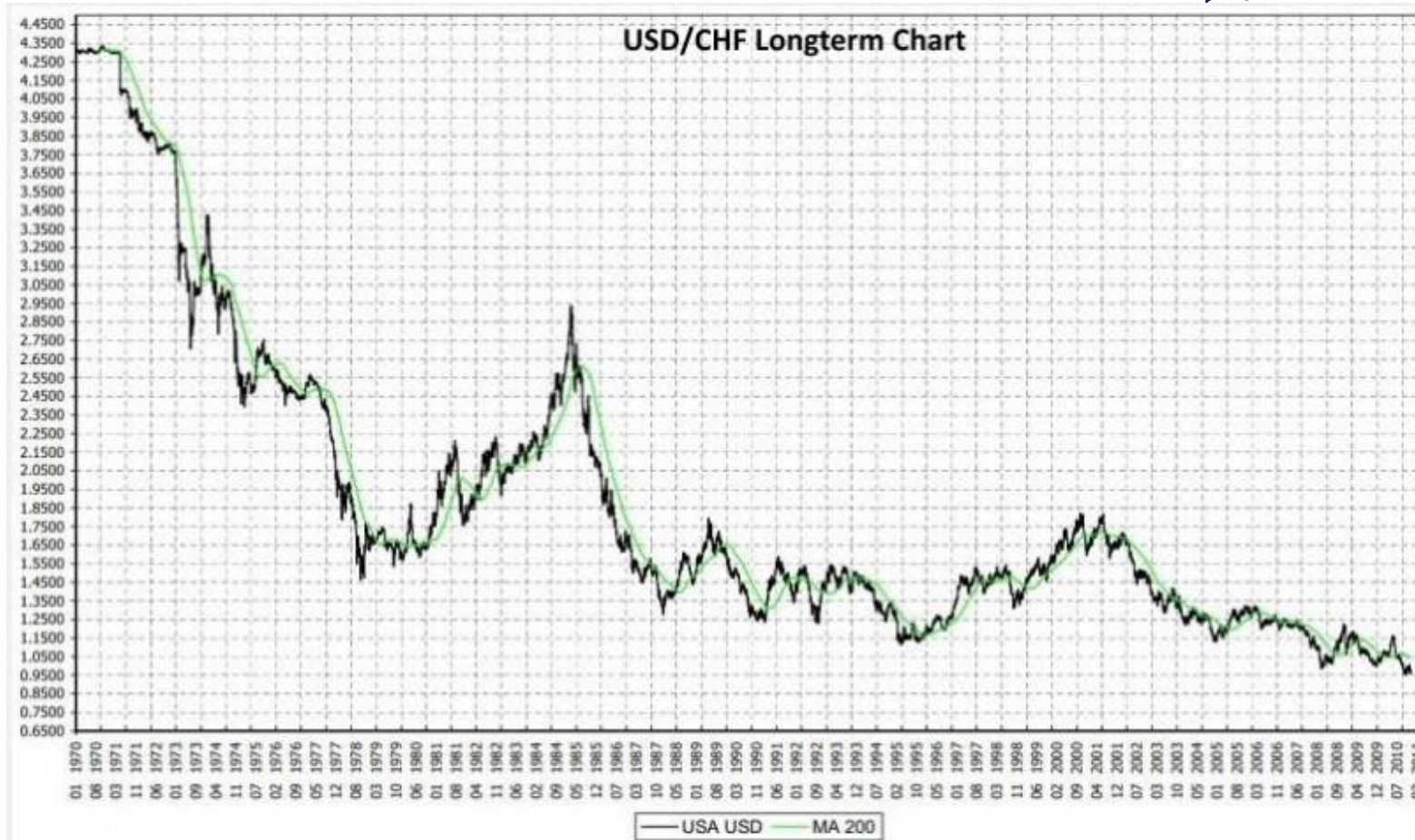
Meanwhile, the world stock markets aren't providing us with a lot of comfort. They are all looking weak, except India looks good. This is a big caution signal because the world stock markets generally move together. Some will lead and some will lag, but in this case it looks like so far, the weaker markets have been leading the stronger markets down. The US, has been one of the strongest world stock markets, but it's now getting pulled down by others.

Sparrowhawk Fund is holding strong cash flow quality companies, with experienced people in management. We have a fairly good cash position, which is temporarily OK until we see how things unfold.

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 dollar is holding firm despite the decline in interest rates. But there are several reasons to think the dollar will not stay strong for the long-term. Putin said "US actions are driving the world away from the dollar". He was talking down the dollar because of sanctions, ongoing US isolation and criticism over Russia's conflict in Ukraine. Other countries generally agree and increasingly they are pulling away from the dollar.



An important point to refresh your memory is that the US dollar has been in a mega decline for the past 47 years. Without a doubt, this is a primary trend and it's down. And the fact that the US is piling on ever larger amounts of debt pretty much guarantees that this mega downtrend will remain intact in the years to come.

But Europe is nervous about Brexit and Asia is transfixed on the trade war between China and the US, along with worries of a Chinese recession. These factors alone could keep the dollar strong.

Gold and Natural Resources

The wild erratic swings in the stock market, together with pressure on long interest rates and some pressure on the dollar, have given gold a further boost. It also has some safe haven buys in the mix, especially by central banks and big funds.

Crude oil took a dive, falling nearly 35% since October, but it is starting to rise together with gold.

Gold has played a key role in shaping global powers and it continues doing so by facilitating global trade and finance. Gold is appreciated and used in developed and developing economies. It's been a crucial asset in global economies dealing with growing



inflation, weaker currencies, negative government bond yields and geopolitical tensions. In fact, wealthy Chinese citizens with excess savings to invest were powerhouse buyers during 2011-2013 gold high area.

There is still an ongoing flow of gold from West to East. This shift in global consumption occurs wherever wealthy and risk averse consumers demand it. It is the path you usually see in gold buying. Chinese investors prefer to own physical gold in coins, bars and jewelry. And physical investment's global growth is set to rise even more. Chinese demand is the largest contributor to this rise.

Plus, renewed demand in India for the next year is also looking good. The two largest gold consuming nations seem set to be big buyers going into 2019.

Hedge funds see potential in gold going forward as well. Bridgewater has bought a lot of gold and they see a positive outlook.

Wells Fargo also recently turned bullish on commodities, and especially metals.

Summary

The Sparrowhawk Fund strategy is to always be fully invested for the long-term in order to catch the strength of the long-term compounded returns. (CAGR +15% since 1980).

Interest rates may rise but are still low. Central banks are unlikely to be overly aggressive in raising interest rates.

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%				5,65%	11,59%	3,24%

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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