Fidelity Capital Management

Monthly Letter
April, 2017

March 31, 2016	*YTD*
Sparrowhawk Fund (EUR)	**6,83 %**
Royal Albatross Portfolio (USD)	**2,06%**
Kingfisher Portfolio (USD)	**7,06 %**

DJ Ind Index	4,56%
S/P 500 Index	5,57%
MSCI World	5,86%
Berkshire Hat	2,35%
Gold	8,77%
EUR/USD	1,29%
Oil WTI	-5,94%

15.26%

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 $180 Million at a rate of 15,26% compounded annually.

Is Inflation for Real?

The Big Picture

The Fed raising the interest rates was widely expected and it's a vote of confidence for the economy. But .25% is not a big deal. But the Fed said they forsee two more hikes this year?

First, inflation is picking up faster than originally expected. This is happening not only in the US, but in other countries too. This is fueling optimism and investors are not worried about deflation anymore.

Second, China sold the most Treasuries ever last year. And in December, Japan sold the most in three years. This is a big deal because China and Japan are the US's biggest creditors. Trump has been criticizing these two countries, accusing them of manipulating their currencies. China and Japan could respond by selling even more of their Treasury bonds. And this could cause long-term interest rates to soar, which is the last thing the government can afford because it would make paying the interest on the debt more expensive.

Saudi, Belgium, Russia and Switzerland are also selling US bonds since the Trump elections.

Non-US central banks own almost half of all of the US Treasury bonds outstanding. And they have been a very important source of funds for financing the US debt. So if they cut back for whatever reason, the consequences could be a real wild card, affecting many of the markets.

More and more economists are becoming convinced that the Fed has little control over inflation. Years of zero percent interest rates and trillions of dollars of QE have not been able to lift core inflation back to the target of 2%.

Historically, one of the better guides to inflation has actually been the movement in commodity prices. Back in 2014, oil prices began to plunge, taking the entire commodity complex with it. Headline inflation levels fell from nearly 2% to almost 0%, where they stayed for over a year. It wasn't until oil and commodity prices began to rise in 2016 that inflation began creeping higher. Since then, commodity prices have been in an upward trend, but that trend looks like it may be stalling out.

The Royal Albatross is still invested with 20% in commodities, but very close to move out. The stock sections are still fully invested and 40% in cash.
If commodity prices continue to rise, then the reflation trade is likely to continue. But if prices fall back we could see a deflationary trend return to the markets.

The majority of people are giving Trump every chance and every benefit of a doubt. They want him to succeed.

Is this just part of the honeymoon period? It could be. But whatever it is, Trump still has sentiment on his side and that's good for the stock market and ongoing economic growth.

What are the Markets telling us?

There are good news and bad news. The good news is that investors are remain optimistic. They are waiting for Trump's tax plan and massive tax cuts that is included, fewer regulations, more infrastructure spending and better trade deals. Deflation pressures are weaker and inflation is picking up.

PPI, recently rose, the most in over five years and unemployment is at 4,7%, near a 43 year low and consumers are feeling better. Home prices are now near the 2007 highs and that is important for the economy, so it's a good sign that existing home sales recently hit a 10 year high.

This has been enough to make the Fed confident to raise rates.

Before the global economic situation was on thin ice, the global central banks had to leave rates near 0% for about seven years. But now it's a different story.

And everyone is ok with this third interest rate hike…it is reinforcing a more solid ground for the economy and it is strongly suggesting the start of a new, more positive era. This is all good news for business and the economy.

The better economic figures is one important reason why the stock market is up. It looks ahead 6-9 months. And fact that it keeps rising is telling the world economy is going to continue to do well this year. There is no recession in sight….for the moment.

But the bad news. The basic fundamentals have not changed. Debt is the biggest concern and it has been for a long time and it keeps growing. We have been talking about the debt for years, and you are probably tired of hearing about it, but the facts cannot be ignored.

The US government is $20trillion in debt. But this do not include Medicare, Social Security or Medicaid. As Casey Research points out, if you include these programs, the total debt shoots over $100 trillion.

That is 10 times the US economy's annual economic output. This means the government has more debt than it could ever pay back and eventually this will throw a serious wrench in the financial system.

Trump wants to spend $1 trillion on infrastructure and cut taxes. This is fine, but it will increase the debt. No one knows when this will break apart. These things can take a very long time, while the situation just keep chugging along. But it is a negative hanging overhead and it's not going away.

The Sparrowhawk Fund has been increasingly focused on quality stocks for these reasons.

Stock Market

Despite a small pullback in March, the Dow gained 4,6%, the S&P 500 gained 5,5%, and the World Index rose 5,8% in the 1Q 2017. The Sparrowhawk Fund made 6,83% during the same period.

We will do our best to use this correction as a good buying opportunity to modestly increase our stock allocation and to make adjustments if needed.

"Every major bull market that I have studied ends up with a wildly speculative third phase. This is where the public and the crowd rushes headlong into the market. This is accompanied by news and endless hype by Wall Street experts". Richard Russell.

Trillions of dollars have been pouring into the stock market. Investors see the market rising day after day and they don't want to be left behind. This sentiment is essentially feeding on itself, driving stocks sharply higher.
The Sparrowhawk Fund does not make any market timing, but is rather looking at investments with a long time horizon with the purpose of catching a strong compounded absolute return. So far our

CAGR are at + 15% since 1980.

Three major bull markets of the Dow Industrials, 1922-1929, 1932-1966 and 1982-2000. In each of these cases the moves were incredible. Up 58% per year for eight years, up 65% per year for 34 years and up 79% per year for 18 years.

On a forward PE basis, the US market is around the most expensive it has been in years compared to the UK, Europe and EM. Against Japan, it is at its most expensive in at least six months. Investors in $US stocks are paying almost $18 for every dollar expected in earnings over the next 12 months, compared with just above $14 for stocks on the London, Tokyo and European exchanges, and near $12 for those on EM exchanges.

More upside is seen in European markets this year. Reuters polls predicted a gain of under 3% in US stocks between now and the end of the year versus a rise of between about 5% and 6% for the STOXX 600 and EURO STOXX 50.

Making an argument for Europe over the US is very easy at this point, as many believe the US market is overvalued.

US Dollars

The US dollar is being boosted by the likelihood of more interest rates hikes in months ahead.
It is still the No1 on the international currency hit parade, and will probably stay in first position for a while.

What could push the dollar lower? Trump is one big factor. Traders are still uncertain about his tax and economic policies. Him calling China, 'the grand champions of currency manipulation', it also raises concerns about a possible trade war.

Trump has indicated he wants a weaker dollar, because the US is importing much more than it's exporting. This makes the US less competitive, it hurts producers of US goods, which end up hurting the economy.

If the dollar stays strong, the trade deficit will continue to grow, and this is something no one wants.

The weaker euro has helped fuel optimism about further growth in the Eurozone. The election results in Holland were another positive. The same is true in other countries where interest rates are now moving up and deflation fears diminish.

The bottom line is…most of the major world currencies have problems. The US does too but the general perception is…its problems aren't as serious as those other countries.

Gold and Natural Recources

The stronger dollar was a big factor in gold's weakness, but the dollar's rise looks limited.
The Fed's latest rise in rates included inflation expectations, which caused gold to jump up.
Gold and the metals sector and the cash, will be used to buy into the stronger sectors as opportunities arise.

Gold demand is up, it rises when there is trouble or uncertainty in the world, or when safe havens are needed. This is why governments really don't want to see gold rise sharply.

So there is no surprise to see the central banks loading up on gold. They have bought more gold every year since the financial crisis.

Germany has also been taking action with their gold. They have now completed a transfer of gold bars worth $13 billion from NY to Frankfurt as part of their plan to repatriate about half of the reserves they keep abroad.

China is also buying gold, especially during weakness. The president of the Chinese Gold and Silver Society said he drew his confidence from the turbulent global economic environment, which he feels will create a bull market for gold.

India is buying too. Their gold imports in February surged up more than 82% from a year ago.

Money managers and hedge funds says gold is undervalued and are buying.

"It would be best not to be short-sighted when it comes to gold. The risk of inflation is beginning to rise and significant increases in inflation will ultimately increase the price of gold" Alan Greenspan.

Uncertainty over US economic policy is weighing on the commodities. But overall the commodity market as a whole is still poised to rise further this year and beyond.

OPEC's cuts are being seriously tested, and crude is falling in its steepest decline in months. This weakness has been putting pressure on the energy shares this past month.

Summary

The Sparrowhawk Fund has a significant allocation to quality US focused companies priced at attractive levels in industries like media, payment industry, pharma, infrastructure, consumption, etc. Precious metals are also an important long-term position allocated to the Fund.

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 favourite sector is chosen.

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	5,49	-0,85										**7,94%**	**6,83%**	5,53%

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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