



Fidelity Capital Management

Monthly Letter
June, 2017

May 31, 2017

YTD



Sparrowhawk Fund (EUR)

5,77%



Royal Albatross Portfolio (USD)

3,11%



Kingfisher Portfolio (USD)

4,44%

DJ Ind Index	6,31%
S/P 500 Index	7,77%
MSCI World	9,18%
Berkshire Hat	1,77%
Gold	10,48%
EUR/USD	6,92%
Oil WTI	-10,15%

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.

STAY ALERT

All eyes have been on France. After Britain voted to leave the EU last year, many feared France would follow. This uncertainty made the markets nervous. But now that Macron won by a landslide and he is pro EU, the markets are breathing again. At least that uncertainty is behind us.

We have other uncertainties hanging overhead. We are watching them closely. Geopolitical tensions in North Korea, is having the world on edge. We also have the US debt load, which currently amounts to about \$828,000 per family, and it keep accelerating. The 46 years since 1971 have seen the debt soar by 5,291%. We are now also doubling what was in 2008, just nine years ago. Some experts estimate Trump's tax cuts alone could cost the government \$2 trillion over 10 years.



The Big Picture

Crude oil has dropped 20% and iron ore is off 37%. Declining commodity prices is ok for consumers, but they also indicates a weaker global demand. The good news is that the weak oil price is due to more supply rather than by less demand. The bad news is that the pressures on oil and energy stocks may not go away soon.

Saudi's new crown prince, bin Salman, is for production cuts and also has a hand in their aggressive stance toward Yemen and Qatar. The weak oil has weakened Saudi's budget balance from a surplus of 30% of its GDP to a deficit that the IMF pegs at 17% this year. They may be forced to abandon its currency peg to the dollar and devalue the riyal. (T.Holland).

Shale producers like Russia and U.S. are pumping away greedily. For the first time shale wells can be drilled economically with oil below \$50 a barrel. The data suggest we will have an oversupply of oil in the order of 200,000 barrels/day this year and almost 500,000/day next year. Prices won't go much above \$50 to \$55 a barrel unless we have a war in the Middle East.

The money supply and the bank lending are both down and this tend to lead to recessions. Many economic signs also weakened lately, which causes concerns. Retail sales have been on the decline and retail stores are going bankrupt at a record pace. People would rather buy online, so Amazon, one of Sparrowhawk's major positions, is booming but malls and other retailers aren't.

So, US economic growth was stagnant in the 1Q, at the lowest level in almost three years.

But, the good news is still overpowering the bad news. Most impressive has been the rising stock market, good housing numbers and unemployment at a 10 year low.

Inflation has been pushing up this year and it finally reached the Fed's target for the first time in five years. So, the Fed feels ok about raising interest rates further this year, despite a struggling economy.

But now inflation expectations are falling, even as the Fed raised interest rates for a third time in six months. But the biggest risk for the stock market is that the Fed continues to raise rates as the economy begins to show signs of slowing.

What are the Markets telling us?

The stock markets are in a league of its own. It's not only impressive, but telling us things.

Five stocks with a total weighting of 13% in the S/P 500 accounted for 58% of the index's advance in 2017, through end May. Growth stocks were up 13% and value stocks were up 1,8%.

Its commonly known that stocks lead the economy by about 6-9 months. The stock market looks ahead and the fact stocks keep hitting new record highs strongly suggests the economy is going to keep plugging along. The Global Dow is also hitting new highs, which is bullish for the global economy.



The stock market is telling us there is no recession in sight, at least not yet. On the contrary, the world economy will probably soon pick up again, based on the stock market action.

In fact, global deflation suggests a sluggish economy in the US is unlikely to halt this stock market rise. It's basically a global situation.

This runs contrary to what a lot of doom and gloomers have been saying for a long time. Many feel a big bust could happen at any time. But as long as the US and global economies keep improving, things should generally be fine.

We are always concerned when we hear these forecasts, but we also know that many of these experts have been saying the same thing for decades. 2008 was scary but a total collapse just hasn't happened.

We know that debt, derivatives, fraud, credit growth and several other factors are at worrisome levels and some are in worst shape that in 2008. Like the subprime problem then, any of these factors could evolve into a wild card, triggering a crisis. At this point, there is no way of knowing when this may happen or how deep it could be, but here too we'll be staying cautious and on the alert.

The Sparrowhawk Fund's approach is to always be fully invested and avoid market timing, but positioned with a concentration in strong cash flow quality companies.

We are convinced about this strategy and let the power of compounded and capital growth patiently do the rest. The CAGR of +15% since 1980 is proof of our conviction.

Stock Market

The stock market is ending the 1st half on a high note. The S/P 500 index is up 8,95% this year and what is impressive is the maximum drawdown over the six months never exceeded 2,8%, which makes the second smallest drawdown in 89 years.

Over the past month, stocks took a one day tumble, due to Washington's ongoing troubles. But the market quickly, once again, rebounded and continued to reach record levels. Pushing worries aside, the market instead focused on positives.

The growth rate for earnings in the 1Q was a strong 14%. This was the strongest growth in more than five years and it coincides with the bullish price action.

“Central banks began buying stocks because they virtually ran out of bonds to buy. Meaning: once they bought so many bonds that interest rates fell to zero, they simply can't buy any more. To continue their “free money” policies, they had to continue to expand their balance sheets. They have done so by buying massive quantities of stocks, all around the world. For example, the Japanese central bank is the largest owner of more than 55 different companies and in 2016 alone, the Swiss central bank now almost owns \$500 billion worth of equities in market around the world”.

QE is global and central banks have bought \$1 trillion so far this year. That comes to \$3,6 trillion annualized. We know stocks are overvalued, so they are not going to keep rising to the sky. This means the next downturn, whether it's gradual or abrupt, is going to affect not only the commercial banks,



like in 2008, but it's going to hit the central banks too and the repercussions could be far reaching...or not.

So far the central banks have been able to come to rescue when potential problems arises. Whether we agree with their policies is not the point. The point is, every time there is a crisis, the central banks came in as saviours. So the question is, will central banks be able to keep doing this in the future?

We just do not know. We could go through an unprecedented financial crisis. But people have been saying this for decades and it hasn't happened. That doesn't mean it won't. But in the meantime the Sparrowhawk Fund's strategy is to stay invested in quality stocks worldwide and some positions in the precious metals market.

This has always been our strategy, to be fully invested and ride through the crisis periods, rather than time the markets. We are fully confident in our hedging discipline, which helped us in 2001, 2002 and 2008, but not really in 2000.

The Albatross Portfolio is up 3,11% with still 60% in cash.

US Dollar

Lower interest will make the dollar more unattractive to investors, putting even more downward pressure on the dollar in the months ahead. This in turn will put upward pressure on the stock and metals markets. So, interest rates basically call the shots. We will soon know if this scenario holds as the markets are forecasting. But until they tell us otherwise, we'll go with what the markets are telling us.

The main factors pushing the dollar lower is Washington...Comey, the Russians, the investigation and tensions with Europe all caused by worries, fueling concerns about the outlook for the US. Uncertainty is bad for the US dollar, but this is not a surprise...

The dollar has been forming a top for a couple of years now. This followed its safe haven rise, which during the financial crisis of 2008. Then it rose strongly in 2014. The dollar has been declining this year. Lower interest rates is negative for the dollar, so is the sluggish economy and the big trade deficit.

The euro is looking good, so far it's been the strongest currency, why?

Mainly, things have settled down in the Eurozone and the outlook has improved a lot. Macron's win in France is cementing European unity, political risks have faded and that is good for the euro. Germany's economy is doing well and it's the largest in Europe...inflation is slightly up, industrial production and business sentiment are strong, and exports grew almost 11% in March.

Gold and Natural Resources

Metals bounced up with gold reaching its highs since the Trump election. From uncertainties over the weakening dollar, President Trump, the Russian investigation, the UK terrorist attacks and election, and



the most important, the monetary inflation and debt that is a constant in the background, it's wise to keep a good insurance protection, which is gold.

Demand overall has been low so far compared to last year. According to WGC, China's consumer demand for gold rose 8% yearly in the 1Q, in spite of the 18% fall in global demand, mainly to lower central bank buying.

But investment buying was up in the first quarter. China's investment in gold bars and coins was the most impressive, jumping 30%, the 4th highest on record. Plus, global demand for bars and coins was up 9% during the same time.

Meanwhile, the 2Q's demand is coming from European investors, especially after the French election, doubling North American buying according to WGC.

The Russian central bank also bought up gold in May. Plus, demand for US gold and silver coins picked up in May.

Demand, however continues to grow in both India and China. Dubai is going to issue a gold backed currency; (Chuck Butler) This is all good news for gold, with a promising outlook ahead, even though this year's demand has been down compared to 2016.

Summary

The investment environment today is focused on two contrarian forces...improving fundamentals and high valuations. We have stronger growth in the US, Europe and most emerging markets, earnings estimates are rising, creating fundamental support for assets like stocks.

However, no broad asset classes are cheap, valuations are extended globally, while interest rates remain low. As a result, asset prices are supported from below by improving fundamentals but limited in their upside by stretched valuations. The global equity markets should offer positive returns moving into the second half of 2017 and into 2018.

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 chosen sector.



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	0,05	-1,09								12,41%	5,77%	7,69%

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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