



Fidelity Capital Management

Monthly Letter
December, 2016

Merry Christmas and
Happy New Year!!

November 30, 2016

YTD



Sparrowhawk Fund (EUR)

4,11 %



Royal Albatross Portfolio (USD)

1,88 %



Kingfisher Portfolio (USD)

1,69 %

DJ Ind Index	9,75%
S/P 500 Index	7,63%
MSCI World	2,70%
Berkshire Hat	19,82%
Gold	10,51%
EUR/USD	-2,53%
Oil WTI	31,33%

15.52%

In 1980, 36 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 \$284 Million at a rate of 15,52% compounded annually.

“We have reached a profound point in economic history where the truth is unpalatable to the political class....the problem is larger than their ability to respond and it terrifies them”

The Big Picture

Deflation is changing and this could be a huge deal. Deflationary pressures have been in the driver's seat for years. They have intensified ever since the 2008 financial crisis. Since then, central bankers have tried everything to beat back deflation, including QE? Super low or negative interest rates...all in an effort to jackstart their economies. But despite these efforts, economic growth is low.

We know governments don't want interest rates to rise. In fact, they have been quite happy with interest rates this low for so long. That's why they have cut interest rates 670 times since the 2008



financial crisis. But the problems have not gone away, higher rates could make matters worse.

“For each dollar paid in taxes, in the US, 26 cents goes to pay the \$407 billion in annual interest that is owed”.....at a time when rates have been near zero. But with the debt growing, these interest payments are going to increase. So imagine if rates rise ?

Nevertheless, for now it is looking like the Fed will probably raise rates in December.

This could be a risk to the weak economy.

But now, inflation is starting to move up and deflation pressures are easing. It is the first sign inflation could start picking up and boosting the economy. The copper price is up strongly. That's good news for the global economy because copper is used in just about everything, making it an economic barometer. Observers are becoming more optimistic. They feel that Trump's policies, like infrastructure spending will boost the economy and commodity prices.

What are the markets telling us.

Trump as a business man, will likely be good for business. He is expected to spend a lot on infrastructure and cut taxes. So more deficit spending and debt, but the market doesn't seem to mind. The economy could pick up and hopefully inflation too.

This could help boost corporate earnings, create more jobs and get things moving.

The Republicans will now control the Senate, the House of Representatives and the Presidency. This has happened twice since 1950 and in both cases the stock market gained a lot. In 1953-54, the return was +36%, and in 2003-06, it was +61%.

Stock Market

Index	2016 Peak	YTD
FTSE 100	13.70%	7.82%
S&P 500	8.29%	7.24%
Hang Seng	9.97%	2.97%
BSE SENSEX	11.21%	0.43%
CAC 40	-0.97%	-2.33%
Nikkei 225	-2.74%	-3.19%
DAXK	-2.83%	-5.07%
Shanghai	-5.01%	-8.34%

As of December 2, 2016



The majority believed the stock market would crash if Trump won the election. But the market liked Trump's speech and began looking at the positive side.

The election proved to be one of the biggest upsets in political history. Basically, just about everyone got it wrong...the polls, the political commentators, the press and the markets.

The markets quickly adapted and so far they like it. Uncertainty turned to certainty. When the markets change, we have to change with them. And we have clearly seen some changes since the election. The markets decided Trump would be good in many ways and they took action, all in a matter of hours. Stocks soared and the US dollar jumped up. Commodities got a boost upward on big hopes of US infrastructure spending.

The big surprise was the interest rates. Rumor has it the Chinese sold billions of dollars worth of Treasury bonds. Was this a message to Trump in response to his trade war talks? We will never know.

There is a ton of cash sitting on the sidelines, roughly \$500 trillion. This money is mainly being held by nervous investors who have wanted to avoid risk. But if stocks keep rising only a small portion of these funds move into the market, stocks could go much higher.

One problem for the stock markets, is the sharp rise in interest rates since election. The stock market has been loving the period of low rates. If they stay low, the stock market should be ok.

There's an important rotation in stock sectors since the election, tech stocks are pulling back, industrials and transportations are the strongest, along with resources, leisure, insurance and small caps. The Fund are raising their stock position and looking at resource stocks and financials.

US Dollar

The strong dollar is of course due to the steep rise in interest rates and the expectation that spending for infrastructure could result in inflation, which could keep upward pressure on interest rates. There is not much competition for the \$US in other currencies. So the dollar could rise further.

Of course a super strong dollar will lead to slower economic growth. This is something, no one wants, but the big question, will anybody be able to stop it.?

One country that's currently on the radar screen is Italy. There is a lot of concern about Italian banks and the fact that they are on thin ice. Italy was the country chosen as most likely to leave the Eurozone within the year. Others are worried about France too. Also concerns about Deutsche Bank are still lurking in the air. This is no good for the euro.

Meanwhile the GBP continues to be the weakest currency, trading near a 170 year low.

The Aussie and New Zealand dollar are outperforming, due to its resource currency and thanks to Trump's infrastructure movement. Plus, China tends to be the locomotive for global growth and if it continues to look better, it too will be buying more resources, which is good for the Aussie dollar and global growth.

The Fund keeps most of its positions in US dollars.



Gold and Natural Resources

The strong dollar has been putting pressure on the gold price. But considering how strong the dollar has been, especially since the election, gold hasn't declined that much. This means gold is holding up well. Overall, the environment for 2017 and beyond looks good for gold, regardless of the election reaction.

In fact, the commodity world is looking better. Copper jumped up, following the other base metals. Infrastructure demand has been the mover, due to lots of building potential in the US under Trump.

“Gold is a good place to put money these days given its value as a currency outside of the policies conducted by governments”. (Allan Greenspan 2014).

We saw many investors move into gold during past month's weakness. WGC reported that Chinese and Indian consumers bought gold directly on the weakness, and some still waiting for lower prices before buying more. Many hedge funds are hiding out in gold.

Summary

Equity investments face a big choice for 2017. Bet on appreciated “Trump” stocks in the hopes of a stronger economy, or focus on more quality and defensive sectors. Since the election, economically sensitive stocks, banks, and energy stocks have risen, while traditionally defensive groups like consumer stocks and electric utilities have suffered from concerns about higher rates and inflation.

Real assets are gaining more ground than financial assets. And it clearly makes sense in today's debt ridden and liquidity driven world. While major central banks are on a spree, many others like China and Russia also continue to buy gold for their growing reserves.

The Sparrowhawk Fund has a significant allocation to quality US focused companies priced at attractive levels in industries like media, payment industry, consumption, etc. Precious metals are also an important long-term position allocated to the Fund. The cash position is rather strong at + 20% and the main reason is to have money readily available to buy new profitable investments at better prices during the upcoming downward corrections.

The Sparrowhawk Fund, a Long Global Conviction Equity Fund that is actively managed based on views on long-term trends of fundamental, economical and geopolitical analysis and select those sectors that should benefit from these movements. Usually 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			4,11%	7,58%

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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