Fidelity Capital Management

February 2018 Investment Letter

January 31, 2018	YTD
Sparrowhawk Fund (EUR)	**5,79%**
Royal Albatross Portfolio (USD)	**2,77%**
Kingfisher Portfolio (EUR)	**2,16 %**

DJ Industrial Index	5,47%
S/P 500 Index	5,64%
MSCI World Index	5,24%
Berkshire Hathaway	8,66%
Gold	2,96%
EUR/USD	1,53%
Oil WTI	1,60%

15.52%

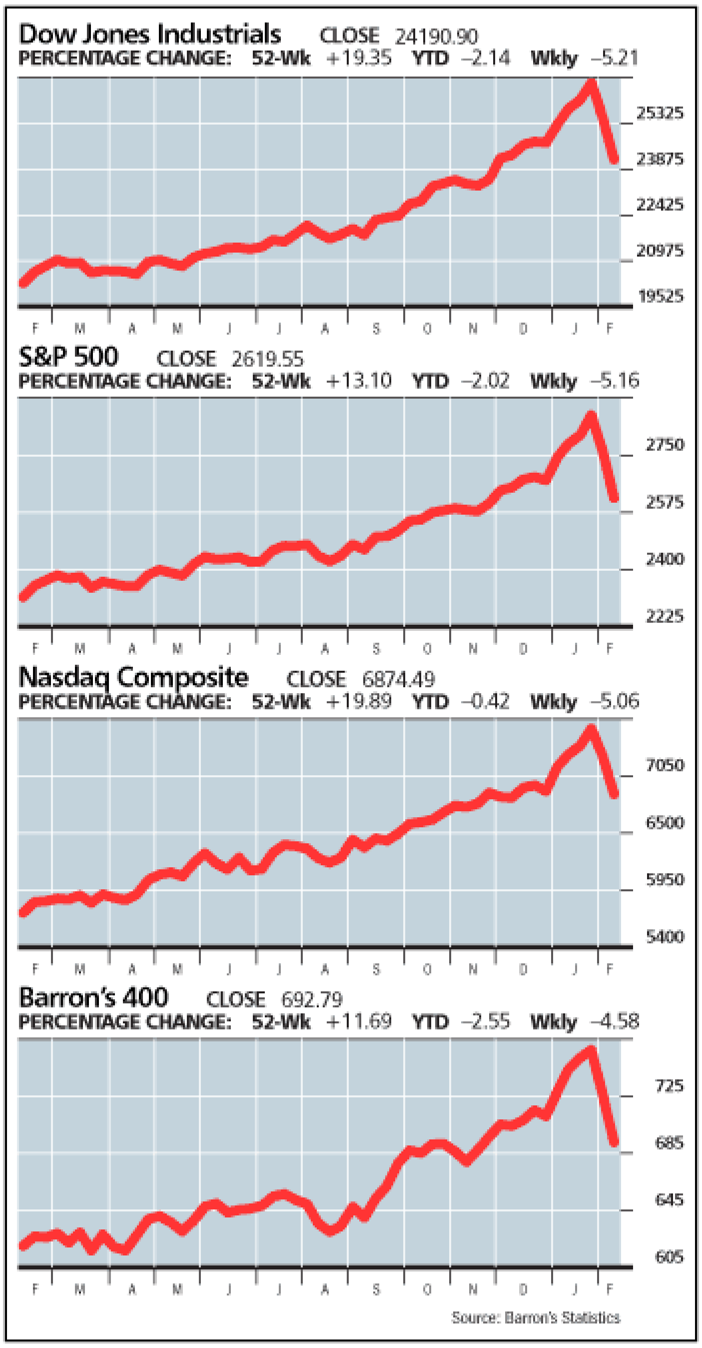
In 1980, 37 years ago, the investment manager launched the FCM Opportunity Fund (Sparrowhawk Fund as of 2009).

The value of the Fund has grown from $900.000 to $321 million at a rate of 15,52% compounded annually.

Outlook

2018

It’s been a long time since we have seen a drop like we saw this month. The Dow Jones Industrial Average tumbled 1330 points, or 5,2%, to 24190 this month, its worst since Jan. 2016. The S/P 500 index slumped 5,2% to 2619. The Nasdaq dropped 5,1% to 6874. Both the S/P 500 and Dow dropped more than 10% from their Jan 26 high, the definition of a correction, though they made back some of those losses in a rally.



And what a strange correction it has been. Unlike the past ones since the end of the financial crisis, this correction was caused by fears of too much growth, rather than concerns that there wouldn't be enough. When the S/P 500 tumbled 13% end 2015, it was caused by a collapse in oil prices than then spread into high-yield bonds, raising concerns of a recession. Not this time. Economic data continue to come in strong – the Atlanta Fed's indicator estimates 4% growth this quarter – while companies continue to report strong earnings and give upbeat guidance even when benefits of tax cuts are excluded. Even the high-yield bond market is refusing to act as if a crisis is at hand.

"There is nothing pointing toward a recession" (Martin Fridson)

Inflation is brewing and it's starting to gain momentum. How high it goes, we don't know, but the days of deflation is behind us. Producer prices have been rising have been rising for a couple of years now, hitting a six year high last month. In part due to the rise in commodity prices. Easy money has played a role too.

These upmoves have filtered through the pipeline, affecting the CPI, which also moved higher, from 0% to 2,1%. And it looks like prices will continue to move up. Last call, the CPI was higher than expected.

For the moment, the Fed Funds rate is lagging below inflation, despite last year's interest rate hikes. This tells us we'll likely see more upward pressure on interest rates in the months ahead.

Assuming inflation continues, you will want to avoid bonds, which will not do well. On the other hand gold should shine since it is the ultimate inflation hedge. The same is true of commodities in general.

The Royal Albatross Portfolio, has been long in that asset class since October 2017.

Deflation was the big concern not long ago. But those days are over and now inflation is starting to rear its head again. Will it keep going and pick up steam? That's the big question and we'll be watching out for this. If so, it'll result in the Fed boosting interesting rates to stem the inflation pressures and this is also weighing on the bond market. Rising interest rates alone, however, wouldn't necessarily hurt the stock market be - cause it would reinforce the economy is strong enough to handle higher interest rates. Also, don't forget that, even though interest rates are rising , they're still at low levels, pretty much across the board.

But perception is something else. If investors perceive that interest rates are going to keep going higher, then yes, it could make investors nervous, which is what we've been seeing. And that's certainly true of bond investors.

Most important, foreign bond buyers have been lightening up on their U.S. Treasury bond purchases. That's already been the case with China, Russia, Saudi Arabia, and others. In China's case, it's problematic because China is the U.S.'s biggest lender, holding nearly $2 trillion in U.S. government bonds... But now with trade tensions brewing, Chinese officials have recommended that they slow their purchases of U.S. bonds even further, or stop them. Meanwhile, the Fed stopped buying U.S. bonds too. So who's going to buy?

As you know, the Fed had been buying huge amounts of bonds to help boost the economy during the past few years. But with all this buying drying up, there is less demand and the 10 year yield has risen from about 2.05% to 2.90% in recent months, reaching a four year high and technically breaking out on the upside.

So again, stay on the sidelines and keep a minimum in bonds at this time... or better yet, avoid them.

What are the Markets telling us?

Usually a bear market precedes a recession, but so far this is not a bear market. And if you look at some other leading indicators, they are telling us the economy is on solid ground.

Consumer confidence, for instance, is up strongly and consumers are spending. Jobs are being created, manufacturing is very strong, jobless claims are at a 45 year low, and wages are up. Unemployment has dropped to 4%.

This is telling us there is no recession in sight. The yield curve also usually inverts prior to a recession. That means the short-term interest rate will rise above the long-term interest rate, like the 10 year or 30 year yields. That hasn't happened either.

The real estate market tends to lead the economy as well. If real estate turns down it could precede a recession. Here too, with new home sales soaring, there is no sign of trouble in this sector.

Stock Market

There really wasn’t a solid fundamental reason for the stock market to dropp so sharply. Mainly the stronger jobs numbers and the jump in interest rates were the trigger because this meant inflation could head higher, which would drive interest rates up even further. This in turn would be bad for stocks.

But it could have been anything…..the stock market has risen so far, so fast for such a long time it was simply overdue for a normal correction. The fact that the correction was so quick and extreme indicated some panic selling. It was also indicative of automatic trading systems, selling stocks based on a predetermined formula.

In the end it hasn’t really been that bad. This 10% correction has not been unusual. On the contrary, it’s actually been moderate in percentage terms. The stock market remains bullish and it is still looking good.

Anyhow, the Sparrowhawk Fund’s approach is to always be fully invested in quality companies. We have been busy buying some additional stocks on the recent dips.

Stocks should continue higher, especially because interest rates are still at very low levels, despite their moderate rises.

At some point, higher interest rates will bring the bull market in stocks to an end. But it is not currently the case.

The bottom line is, this has so far been a normal downward correction following last year’s big rise. Yes, its speed was record breaking, but the percentage decline has only been 10% to date on the Industrials and S&P 500.

That is, this downward correction has been more moderate than the two previous declines during this bull market, which began in 2009. In 2011 the S&P500 declined 19% and it fell almost 15% in 2016. These were normal downward corrections. In comparison, during the 2000 and 2007 bear markets the declines were much more severe, dropping 40% and 53%, respectively. So the big question is, is the current decline a downward correction, or the beginning of a bear market?

US Dollar

The U.S. dollar fell sharply again last month, in its worst beginning to a year in 15 years. Last week the dollar rebounded some, but it still remains bearish and it’s set to fall further. Here are the main reasons why...

Treasury Secretary Mnuchin let the cat out of the bag in Davos a few weeks ago when he said he welcomed a weak U.S. dollar. At the same time, Commerce Secretary Ross unnerved investors by saying a “trade war” is underway. Trump later contradicted Mnuchin’s comments, but Mnuchin simply stated what everyone already suspected... the U.S. wants a weak dollar to help U.S. trade. Currently, for instance, the U.S. trade deficit is huge. That’s because the U.S. has been importing more than it exports. Its biggest deficit by far is with China. It’s more than five times greater than Mexico, which is #2. The rule of thumb is that a country with a trade deficit more than 2½% of GDP is set for a major currency sell-off. The U.S. deficit is now more than 4% of GDP, so this dollar decline was basically overdue. A weaker dollar would make U.S. exports less expensive and imports more expensive. This in turn would help boost business, the stock market, the economy, reduce the trade deficit and help fuel some inflation. So of course a weaker dollar would be beneficial.

Demand for the dollar has been declining on the international stage. This too will keep downward pressure on the dollar. The same is true of more government spending for infrastructure and the military. This could result in budget deficits of more than $1 trillion per year and that’ll be bearish for the dollar.

Europe has been leading global optimism and its fundamentals are positive. Economic growth is good and Germany's Angela Merkel is back in business. As long as this continues, the euro will keep leading the way for the other currencies.

Gold and Natural Resources

The gold market rose further reaching a 17 month high in late January when Treasury Mnuchin said a weaker dollar is good for trade. Gold's rise was in part safe haven buying during the bond rout. The key here is the decent 10% "A" rise gold had from its December lows. It was a positive rise within its turnaround time.

The gold market, like many markets, got a boost from U.S. dollar weakness over the past year as the dollar fell steadily to a 3+ year low, also reached in late January.

Common knowledge says that the dollar and bonds are the safe havens in times of recession and in a deflationary environment. Conversely, gold and real estate tend to be the winners during inflationary times.

The bottom line is... gold and this universe are taking over the dollar and bonds as the better investment moving forward, and inflation times are coming back.

There are many reasons why we believe gold, hard assets and natural resources have been the growing bullish trend with a bright future. Not only are the bearish dollar and bonds, and rising interest rates and inflation a good reason, there's more .... Demand continues to grow. Starting with gold, it's interesting to see that paper gold (ETFs) have been more popular than physical gold, at least for now in the U.S.

China and India have bought about half of the global gold bars and coins. China is the world's largest gold market for a fifth straight year, and demand for jewelry was especially strong. This is the most gold that Chinese citizens have bought since 2013 when they took advantage of the huge gold price sell-off. That was during the worst decline in the bear market.

India is the second biggest buyer of gold. The point is, this growth will continue to rise as the bull market gains steam. The World Gold Council said in their annual outlook that the following trends will support positive gold performance in 2018... They said it'll be a year of synchronized global economic growth, with shrinking balance sheets and rising interest rates. Plus, frothy asset prices and greater market transparency, efficiency and access in the financial markets over the past decade, makes it more inviting for all kinds of investors.

The resource sector is getting a big boost from global demand and growth. Trump's infrastructure plans in the U.S., the housing growth, the weak dollar and worries about accelerating inflation are all adding to this growing demand. We're seeing pop up rises in many commodities.

Lithium, as well, due to its future in batteries. . From Tesla to Apple batteries, lithium faces long term supply constraints as batteries for smartphones and electric vehicles (EV) boom.

Copper is another base metal with great potential. This red metal was one of the best performing commodities last year, and it's in a major uptrend by staying above $2.85. Copper's investment demand is near all-time highs and as Robert Friedland says, copper, as well as aluminum, cobalt, nickel and platinum will be the biggest beneficiaries of the global transition to EV and clean energy.

We all know that China is the largest importer of copper, taking about half of global production. And last year China set a new record in copper imports. Copper is called Dr Copper because it's also the barometer for global growth. It's needed for construction, but now with this new huge demand, there's only one place copper can go, and that is UP.

Summary

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

US and global growth remain, healthy. Intertest rates may rise but are still low. Central banks are unlikely to be overly aggressive in raising interests rates.

But an upcoming downward correction would provide a good opportunity to buy into some of the stronger sectors.

Whatever happens, we're excited about the potential for this year. It's going to be an interesting and profitable year, and we look forward to sharing it with you.

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.

Robin Curry-Lindahl
LCL Asset Management AB
FCM S.A.
19 Avenue De Mot
1000 Brussels
Tel +32 2 6411590
Mob +32 496 166368
rcl@fidelity-sa.be

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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												**9,78%**	**5,79%**	**5,59%**

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

Robin Curry-Lindahl

LCL Asset Management AB
FCM S.A.
19, Emile De Mot Avenue
1000 Brussels, Belgium

Mob: +32 496 166368
Tel: +32 (0)2 641 1599
Email: rcl@ fidelity-sa.be
www.fcm-sa.com

Disclamer:
Past performance is not a guide to future performance.

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