Fidelity Capital Management

February 2019 Investment Letter

FEBRUARY 28, 2019 YTD

Sparrowhawk Fund (EUR)	**9,34%**
Royal Albatross Portfolio (USD)	**0,16%**
Kingfisher Portfolio (EUR)	**7,59 %**

DJ Industrial Index	11,10%
S/P 500 Index	11,08%
MSCI World Index	10,72%
Berkshire Hathaway	-0,98%
Gold	2,33%
EUR/USD	-0,89%
Oil WTI	26,06%

16.21%

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 16,21% compounded annually.

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

The IMF lowered their world economic growth forecasts, warning of a serious slowdown and emphasized that risks are rising.
Does this mean a recession is on the horizon? Not necessarily, but it's fairly clear that things are slowing down and we have to keep an eye on global developments.

The stock market just had its best first two months of the year since 1991, during which most of the economic news has been more lousy than not. And this is just after the stock market's worst December since 1931, when corporate earnings and economic indications for late 2018 were, for the most part, pretty good.

This shows once again that markets look ahead. The recent stock market moves imply that the markets are looking past the current slowdown and view it as a temporary phenomenon. At the same time, early indications of 1Q activity are as poor as the stock market's performance has been good.

The S/P 500 was up 11,08% and the Dow Jones up 11,1% in the first two months of 2019, that made it up for the 9,18% drop in December 2018.

We can thank the Fed for this strong start. When Jerome Powell abruptly decided that he would hold off on further rate hikes, the market responded as if a recession was no longer a threat. It probably isn't. If the Fed really has managed to avoid a recession, there could be more gains ahead. The yield curve is still "almost" flat, but it hasn't inverted, which would have be sign that a recession is looming.

The Sparrowhawk Fund, who doesn't do market timing, but rather is staying invested in quality companies for the long-term, succeeded in staying on the positive side in 2018, +2,47% and is up this year 9,34%.

The Sparrowhawk Fund is a concentrated portfolio exposed to strong cash flow companies and, now more than ever, focusing on quality companies, safe dividends, strong long-term growth potential and cheap valuations.

The Royal Albatross Portfolio also remained on the positive side in 2018 with 80% in cash. This portfolio strategy has never had a negative year since 1973, except 2015 with a loss of -2%.

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 global markets have been in trouble for months and did not fall because of recent US politics. The problem is massive debt, overpriced markets, bizarre central banking policies, etc.

Will the massive debt one day overpower the markets? The debt has doubled in 10 years as it continues to reach new highs above $22 trillion. The record high government, corporate and consumer debt are contributing to an erosion of the global foundation, which has often been discussed. But these things take time as we have seen over the years.

But this is just the tip of the iceberg. This is just a funded portion of the debt. This is where the US government sells a bond and somebody owns a bond. It doesn't include liabilities like what the government owes for Social Security or guaranteed bank deposits or mortgages or student loans etc. That's not there. Those are also real liabilities, but they are not even part of the national debt.

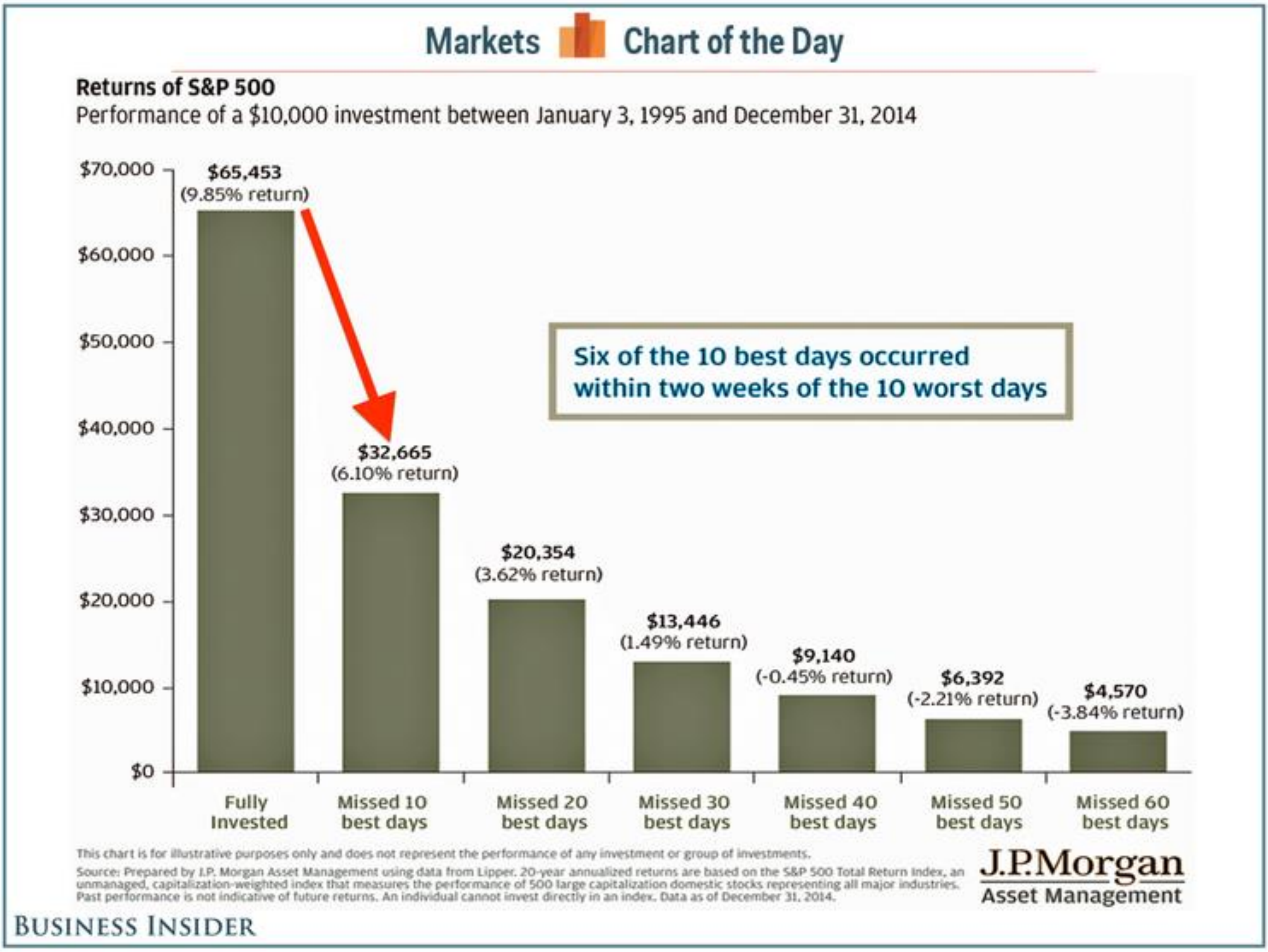
In the meantime, whether we like it or not, everyone pays attention to what's happening on the world stage. This goes for politics, economics and rumors. These things are followed closely by traders and they do affect the markets. These traders believe they can guess how thousands of incoming data will affect stock prices. This is something we believe is extremely difficult, if not impossible. Just to remind you again, that if you missed the 10 best days in the S/P500 since the last 20 years, you would have cut the total return in half.

Most investors are terrible at trading — that is, they're not good at predicting short-term swings in the market.

More often than not, investors find themselves buying high and selling low. And when the market starts selling off sharply, investors will panic, sell their own shares, and sit on the sidelines. Unfortunately, some of the biggest one-day upswings in the market occur during these volatile periods

Missing these days do so much damage because those missed gains aren't able to compound during the rest of the investment holding period.

"Plan to stay invested," recommends JPM. "Trying to time the market is extremely difficult to do consistently. Market lows often result in emotional decision making. Investing for the long-term while managing volatility can result in a better retirement outcome."



We are convinced on the importance of being invested for the long-term and avoid short-term movements.

Some of you may remember that there have been times when markets soared or plunged, for example, in reaction to a subtle comment by the Fed's head. The same has been true about sudden events, which came as a surprise from out of nowhere. The real reasons always comes out afterwards.

Sometimes the markets ignore the news and sometimes they cling to every detail.

So, what should you do? Ignore it. It has been proven so many times that staying invested in quality stocks has been the most effective strategy for the long term.

What are the Markets telling us?

The Fed has done a complete change of direction. This is not uncommon. It's happened many times before, and it's happening again.

A while back, the Fed's head, Powell, said he didn't think the Fed should be involved in the markets. And once he took over, he continued to raise rates. This was the key factor driving the stock market lower at the end of last year and making Trump comment on the danger. The pressure mounted and soon Powell began to change his jacket. He took a wait and see attitude on rates and this was enough to boost the stock market in 2019. He may even lower rates, primarily because of slowing economic signs.

During the financial crisis of 2007-08, the world was in chaos. Remember, this was the worst financial disaster since the Great Depression and it brought the system literally to the brink. The economy was contracting at the fastest pace in 50 years, so the Fed had to take desperate measures…

Not only did they drive rates to near zero, but they also started the QE program. This involved buying government debt and mortgage debt that other banks didn't want or need. This was done to contain the crisis and help turn the economy around.

The end result is that the Fed ended up buying $4,5 trillion in debt, adding this to its balance sheet. That is a ton of debt and it's still affecting the overall financial world.

Once the economy started picking up, the Fed eventually ended the QE program and began making efforts to get these bonds off the books.

They let maturing bonds expire, and last year their goal was to remove $50 billion per month from their balance sheet….unwinding their balance sheet, so to speak.

"Every $200 billion that comes off the books is equal to a 1/4 point rate rise. That means this was happening every four months, in addition to the ongoing rate hikes the Fed was enacting".

So, the Fed was tightening monetary policy in two ways…by raising rates and unwinding at the same time. The economy began to slow and this spooked the stock market and investors in general.

As uncertainty increased, Fed head Powell come under more pressure to cool it. So, he is now left holding trillions in debt. It's like a bad hangover that still lingers. But at the same time, the Fed will likely start easing again to help give the economy a boost.

The economy's strength is not built on a solid foundation and it's vulnerable. The US has a firm economy but rates are at 2,25%. "This simply does not provide any leeway" This means that if the economy were to slip into a recession, which many are expecting, there wouldn't be much room for the Fed to maneuver.

Basically the Fed's options would then be to buy more bonds in another round of QE, and to drop rates again, possible to below zero. These would probably be the only tools the Fed would have to stop a recession and boost the economy.

Stock Market

Uncertainty has been soaring lately and it's at record high. It is much higher than it was in 2000 following the tech boom or in 2008 during the worst financial crisis in nearly 80 years.

So why is everyone so uncertain? Mainly they are concerned about the trade war, which has slowed the global economy. Brexit, the US government shutdown, central bank policies and global tensions have also had an impact.

Tariffs are poised to rise on March 1, unless the US and China can come to an agreement before then, which would become a welcome relief. Trump already said today that he will delay plans to impose 25% tariffs on Chinese goods.

Global stock markets are rebounding too. These markets are still vulnerable, but they will likely continue moving in tandem with the US markets.
One market we are watching closely is the Chinese stock market, which has been slow to move up in 2018, which is a reflection of the trade tensions and it is a big concern. But in 2019 the Chinese stock market have risen on trade optimism. Shanghai posted the best week in 4 years + 6,5% and is now up 24%.

Alibaba is up 34% so far in 2019.

Here are all eight world indexes in 2019 and the associated table sorted by YTD.

Index	2019 Peak	YTD
Shanghai	20.12%	20.12%
Hang Seng	15.24%	15.24%
CAC 40	11.57%	11.57%
S&P 500	11.40%	11.40%
DAXK	8.35%	8.35%
Nikkei 225	7.56%	7.56%
FTSE 100	7.46%	6.68%
BSE SENSEX	3.02%	0.90%
As of Feb 25 2019		

India is certainly an interesting area to invest in for the coming 10 years. The Fund is looking at a few potentially long-term holdings.

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 doesn't do very much for the moment. It's basically going sideways, but still firm. The US economy is holding on pretty well. Even though several economic signs have been weaker in recent weeks, the overall picture has been better than the signs in other countries.

In Europe, Draghi said the economy has been weaker than expected. Germany, the European engine, is near a recession which is fueling concerns. The biggest worry continues to be the Italian debt situation, which is serious and it's already helped push Italy into a recession. Italy essentially never recovered from the 2008 crisis.
The fear that this could spread through Europe's financial system in a contagion type situation. And if it does, French banks would the most vulnerable. This alone is keeping investors on edge.

China's growth is still an impressive 6,4% but it's the lowest in three decades. This slowdown has fueled anxiety about the risks to the world economy, mainly because China has been a big contributor to global growth over the years.

Gold and Natural Resources

In recent weeks gold rose above $1300, hitting a nine month high. Gold has clearly outperformed all other currencies, including the US dollar this year. This is a good sign and we see many global equity funds holding a position in gold.
The Sparrowhawk Fund is analyzing and watching closely the gold price and may take a new position if the fundamental view is supporting that.

Gold is up 12% since the August, silver up 15% and gold shares up an average 25%. The gold mining industry has ben full of take overs and mergers. This alone is a first in years and investors are taking note of this bombed out sector.
Barrick Gold bought Randgold Resources, prompting others to do the same. Newmont joined in, taking over GoldCorp for $10 billion, almost the double size of Barrick's takeover.

Impressive has been the global central bank buying of gold. They are clearly protecting themselves from the changing tide. They bought more gold in 2018 than any year since 1967.

Worries over global growth have many countries buying gold, especially the top

consumer, China. Their demand jumped up in January, and India is right behind them in growing demand.
Russia is buying lots of gold too and it's considering eliminating a 20% tax on gold bar purchases. This will stimulate more Russian gold buying, which will add to the already strong demand.

Venezuela, in a desperate measure, sold over 40% of their gold reserves last year to keep the government alive. United Arab Emirates and Turkey were the buyers.

Gold is a solid safe haven that world history knows and respect. "We want to be ready with plenty of physical gold in our possession".

Summary

The Sparrowhawk Fund strategy is to always be fully invested for the long-term in order the catch the strength of the long-term compounded returns. (CAGR +16% since 1980).

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%	-5,05	0,40	-8,49	**-1,99%**	**2,47%**	**-6,24%**
2019	5,82	3,32											**1,39%**	**9,34%**	**11,07%**

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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