Fidelity Capital Management

February 2021 Investment Letter

*28/02/2021*

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|---|---|---|
| | **Sparrowhawk Fund (EUR)** | **+6,58%** |
| | **Royal Albatross Portfolio (USD)** | **+2,20%** |
| | **Kingfisher Portfolio (USD)** | **+5,73%** |

| | |
|---|---|
| DJ Industrial Index | +8,39% |
| S/P 500 Index | +1,47% |
| MSCI World Index | +1,37% |
| Berkshire Hathaway | +4,82% |
| Gold | -8,08% |
| EUR/USD | -1,38% |
| Oil WTI | +27,30% |

**16.50%**

*In 1980, 40 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 $493 million at a rate of 16,63% annually.*

Those who have knowledge, don't predict. Those who predict, don't have knowledge.

Wall Street does not wait for good news; Wall Street anticipates it.

Every few years something happens in the markets that seems to stun everyone. We've seen this happen many times and here are a couple of examples...

The soaring gold price in 1980... It more than doubled in less than two months in a frenzy that was head spinning. About the same time, interest rates skyrocketed to 20%, which was unbelievable at the time.

The dotcom bubble in the late 1990s was another unforgettable moment. It seemed everyone went crazy over tech stocks, driving them up to levels that were unreal. And then the bubble burst in 2000 and Nasdaq plunged about 80%.

The 2008 financial crisis and housing bust was also a super noteworthy event. The market plunged as the economy and several banks were very close of collapse.

More recently, the covid scare initially freaked everyone out. Emotions ran high, driving stocks and the economy down sharply -30% last year.

And the Bitcoin frenzy since December has been another one, up almost 500% in about two months.

Okay, so fast forward to today and last month we saw another big emotional wild card hit the markets. This one was different than those previous examples just mentioned, but the excitement and sentiment were certainly similar.

We're sure you've heard all about it, but to recap...

The big news all over the mainstream media was the GameStop story. David and Goliath, they called it, and here's what happened...

Some young generally inexperienced investors all got together on the Reddit Wallstreetbets Chat room. Someone pointed out that the big hedge funds had heavily shorted GameStop's stock, so they started buying. The buying snowballed so quickly that the hedge funds had to buy back the stock they'd shorted at a higher price, taking big losses along the way.

It was basically a classic short squeeze. This thrilled the "little guys." Not only were they making super profits, but they were hitting back at the big establishment Wall Street firms where it hurt.

This propelled others to do the same and the little guys then started going after other bombed out companies, like AMC, and silver too.

They were upset that silver was being held down and manipulated by "the man." They started buying big time, driving the price up sharply. Silver then fell back but this story isn't over yet. In fact, it could just be beginning.

For now, it'll be interesting to see what happens. Several experts are saying that some hedge funds may have to close. Others are happy the little guys have power and they'll continue to use it against the big guys who have always done what they want.

So far, this is making some of the markets nervous. Could this newfound power disrupt markets as we know them?

We don't think so. But it is something we're watching to see if it's just a passing fancy, or the onset of a more powerful trend that'll eventually change some of the framework of the market.

Heading into 2021, the US faces records numbers of COVID-19 cases. However, the stock market continues to chug along and hit all-time highs.

Some economists are pessimistic, mentioning more Covid cases, leading to new restrictions on businesses, which will hit the labor situation. Others are optimistic, talking about the second relief package of $1.9 trillion, which should stimulate the economy. $1 trillion of additional spending will add 2% to economic growth over the next two years. Statistics shows that Americans actually saved a surprising amount of their first stimulus check. In November, the US personal savings rate was 12.9%, well above the 7.5% a year ago.

Borrowing costs are remarkably cheap and the Fed will likely keep interest rates low for a long time. US companies are sitting on the largest pile of cash ever. With over $2.1 trillion dollars of capital, up over 30% year-over-year, this is nearly double cash levels in 2010. Eventually, these companies will have to put that money to work.

The US GDP forecasts are looking for growth of +4.2% this year. 2021 and 2022, the economy have to turn away from a work-from-home, business lockdown environment. Will this work and really improve in 2021, or will we fail to deliver on the promise of growth? What lies ahead? Will 2021 introduce more disruption, or will it be a year of opportunity?

The US consumer has no money to spend, if they are unemployed. Most countries need to add more jobs this year than during any other on record, dating back to 1939. However, job growth will likely return slowly, as businesses will remain cautious on the economy.

JP Morgan stated that 30% of its customers were still holding onto their prior stimulus checks.

Now that the second stimulus bill has been passed, we will see how the US consumer responds and spends. While many Americans have managed through this crisis, millions remain in difficulties. Will consumers keep these new stimulus checks? Or, will they begin to spend like crazy? The economy certainty would prefer the latter…

To even try to make accurate market predictions is futile. Did we see anybody mention a pandemic that would hit the global economy into the worst recession since the Great Depression and lead to one of the largest stock market corrections in history. Did anybody predict that the price of oil would crash, tumbling below $0 per barrel? No.

We have seen plenty of commentary about value stocks outperforming growth, a weak US dollar, rising inflation leading to higher commodity prices. Will this happen? Who knows! The only real prediction to make is that there will be tons of surprises in 2021, likely resulting in elevated volatility.

What mattered most this year was the scale and speed of central bank and government support. The Fed, European Central Bank and Bank of Japan have collectively expanded their balance sheets by roughly $8 trillion in 2020. The US's balance sheet grew as much in six months as it had over the prior 12 years. This response to crisis helped the markets. Despite the worst recession in centuries, the US stock market has quickly rebounded and climbed to all-time highs.

## The Big Picture

Well, if there was any doubt before, there's not any doubt now…For quite a long time Jerome Powell, the head of the Federal Reserve, was essentially the only one telling us that interest rates were going to stay very low for a long time. But he's not alone any longer.

Janet Yellen, the new Treasury Secretary and former Fed head, came in loud and strong, reinforcing all that Powell's been saying and more. In no uncertain terms, she said interest rates are going to stay low, and because of that the Fed can afford to spend more now. She pointed out that major fiscal stimulus is justified to support the economy while the pandemic continues. And she's all for the new $1.9 trillion stimulus package. Yellen also noted this is the time to "act big" without worrying about the national debt.

Some view this as a perfect reason to own equities.

Already, the Fed has been buying $120 billion in bonds each month since June. Remember, this is money that is essentially created out of thin air and it's pushed the Fed's balance sheet up to $7.5 trillion. But with this new round of spending upcoming we're certain these numbers will keep growing, hitting ever larger levels. The plan is that all this stimulus will boost the economy following last year's worst performance in 74 years. For now, the hope is that the global economies will strongly recoup in the second half of 2021 as the vaccines kick in and pandemic restrictions ease.

Interest rates, for instance, are expected to stay near zero through 2023 and that'll certainly help fuel an economic recovery. Others, however, disagree. Even though the new administration is doing all they can to help the economy, including infrastructure jobs, the massive stimulus, and a focus on domestic investments in workers, there are several unknowns hanging in the balance.

The biggest is probably the hangover resulting from covid. Many experts feel it'll take all year for a significant number of people to be vaccinated. But even then, things are unlikely to bounce back to the way they were before.

Our guess is that this will also probably coincide with an inflationary environment… not yet, but looking out to the long-term. If so, it'll be the result of the truly unprecedented money creation that's been ongoing since September, 2019.

At the time, we thought it was a big deal. But it proved to be a drop in the ocean compared to what ended up coming due to covid. The printing presses then went wild, and even though many experts feel this doesn't really matter and it'll be okay, history tells us otherwise. Massive money creation is, and always has been, the cause of inflation... Then why didn't it happen after all the money creation following the 2008 financial crisis?

We don't know but our best guess is that the deflationary drag was so strong at that time, it overpowered the inflation pressures. It was unusual but we don't think that one example means it's always going to be that way. More likely, we'll see at least some inflation and it could end up being stronger than anyone thinks. We'll see, but if this coincides with a falling dollar, it could indeed fuel the inflation fires.

## What are the Markets telling us

We wish we could a decisive answer to all economic questions. But we can't. Instead, we will remain focused on our fundamental research and disciplined to our 40-year investment process, strategy and philosophy. While it is good to look forward and plan for various scenarios, we strive to focus on the fundamentals, instead of getting caught up in the short-term headlines.

Also, for the last 13 years, growth stocks have materially outperformed their value peers. In 2020, growth stocks (in the S&P 500) returned +31% including dividends, while value stocks were down (1%). One of the more interesting trends we are watching is how the market is occasionally rotating towards underperforming areas like value, small-caps, banks, and energy. So far in 2021, the energy and financial sectors are leading the way. Will it last? Are these real signs of a rotation or just another head fake? A recovery may continue into 2021 while we wait for vaccines. For example, the housing sector is booming with low interest rates, while many service industries (where social distancing is difficult) continue to struggle.

Many experts are suggesting the market is overheating and valuations are too high. On the other hand, some claim that with low inflation and a zero interest rate policy by the Fed, valuations should be higher for equities, when compared to fixed income. Low interest rates have encouraged those seeking a yield to move towards riskier assets, like stocks, and should mean that the stock market should trade with a higher multiple. If an investor can only expect to earn a 1% return on a 10-year US Treasury, they will begin to look elsewhere for a better return. If the risk-free rate is only 1%, investors will demand an equity risk premium of 300 to 500 basis points for the added risk. A stock market earnings yield of 4% equates to a 25x P/E ratio.

Technology firms today generate substantial free cash flow and earnings. Twenty years ago, the darlings of that era had no earnings and were being valued on page views. In 2020, the largest technology stocks generated more than 15% of the S&P 500 earnings. All are posting impressive growth rates and looking out to 2023, these tech stocks are projected to exceed 20% of the market's total earnings.

4th quarter 2020 results are getting reported right now, but both revenue and earnings will likely be down for most companies. Besides just revenue and earnings, we consistently focus on operating profit margins and free cash flow. Everyone of our positions generates free cash flow.

Historically, markets typically reach a bottom four months before a recession officially ends. Since 1982, it has taken the US economy an average of roughly four years to fully recover from a recession. Following the Financial Crisis, it took six years. The 2020 stock market didn't need that long. After roughly one month, with the help of massive global fiscal and monetary stimulus, the stock market was able to quickly right itself.

While the stock market climbed higher, the US economy and small businesses were not as quick to restart, and the fundamentals have not returned to prior levels. As we know, the stock market always looks ahead to brighter days, to a more normalized environment.

Eye-popping rallies, by companies once left for dead, are the talk of Wall Street. A war has broken out between short-selling hedge fund professionals, who are losing billions, versus individual retail investors. By using social media, this new powerhouse has piled into hot stocks and overloaded trading platforms from Robinhood to TD Ameritrade to Schwab and E*Trade.

The price action in these stocks is completely divorced from the fundamentals of their businesses. This can happen for a few days, maybe even weeks, but eventually the fundamentals of a business begin to drive stock price performance. It shows the power of the retail investor base and how individuals can still influence the market. Is this the start of a bigger trend or just a passing, but fascinating curiosity? How long will it last? Will

a pullback happen? Absolutely! Stocks cannot climb +1,750% year-to-date (as GME did) without a fundamental reason.

Robinhood now has over 13 million accounts and it opened over 3 million new accounts last year, primarily in the attractive Gen-Z and Millennials demographic.

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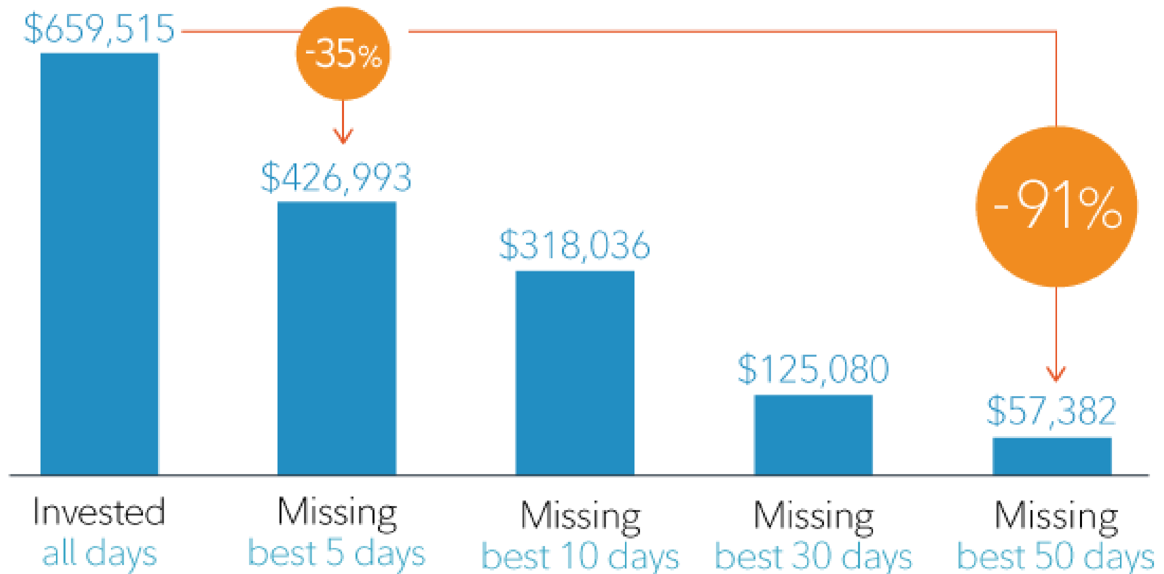
Investors that missed the 10 best days of the S/P 500 Index in any given decade would have seen more than 50% lower returns over the course of that decade on average.

Focus on time in the market – **do not try to time the market**
It can be tempting to try to sell out of stocks to avoid downturns, but it's hard to time it right.
If you sell and are still on the sidelines during a recovery, it can be difficult to catch up. Missing even a few of the best days in the market can significantly undermine your performance.




- Invest consistently**, even in bad times**
Some of the best times to buy stocks have been when things seemed the worst.
Consistent investing can give you the discipline to buy stocks when they are at their cheapest.

## Stock Market

As we've previously noted, the stock market has been basically ignoring bad news and focusing instead on the good news.

The market likes Biden's stimulus plan and the way he's going after the virus, along with low interest rates, and it's optimistic the economy will improve. This is being reinforced by some of the economic indicators, good earnings and the Baltic Dry Index, which has been rising from the lows, signaling that goods are being transported.

That's a good sign for the overall global economy and this is being reflected in rising stocks worldwide. Overall, the global markets are all focusing on better times ahead and this alone is a good sign.

Okay, but what about values... aren't stocks now very expensive?

Actually some are, but others are not. The overall price/earnings (P/E) ratio, however, is at high levels, no matter how you look at it. They're at levels near or approaching the 2000 and 2008 peaks. The point is, above 30 is high. But during a final phase, high values are not surprising. In fact, they're fairly common.

To give you an example... prior to the stock market peak in 2000, the P/E ratio was over 30 for one year before the peak was reached and the S&P 500 rose nearly 20% during that year.

The **bottom line** is, stay the course. Continue to buy and hold for the time being. That is what the market's telling us and that's what we recommend, but do stay tuned.

Timing is critical for any investment, but market timing is impossible to do. However, we expect a correction is coming, with frankly no idea the headline that will cause it. When, not if, a correction occurs, it really should not come as a total surprise. Analyzing the S&P 500 over the last 40 years, one notices that corrections are the normal course of business. Since 1980, the average intra-year correction for the S&P 500 is (13.8%). Only twice, in 1995 and 2017, has the market not dropped at least (5%).

Unfortunately, many investors do not follow an investment philosophy and attempt to put together a process based upon market timing and yesterday's news cycle. The benefit of active management is that a manager uses experience, judgement, and an investment process to differentiate a portfolio from the overall market. By simply using an overall market average, one fails to capture the potential benefits of active management versus passive, index investing.

Unprecedented monetary and fiscal stimulus came to the market's rescue in 2020, but individual company fundamentals will matter in 2021. Not all industries are equally capable of handling stress. Not all companies generate free cash flow and can "weather a storm" or a recession.

The stock market loves certainty, but forward growth expectations remain quite cloudy. There is widespread enthusiasm about vaccines, but the pace of rollout has been somewhat disappointing.

| Index | 2021 Peak | YTD |
|---|---|---|
| CAC 40 | 8.92% | 8.73% |
| Nikkei 225 | 11.02% | 8.46% |
| Hang Seng | 14.15% | 5.89% |
| S&P 500 | 5.67% | 5.67% |
| BSE SENSEX | 9.12% | 5.54% |
| DAXK | 5.88% | 5.10% |
| FTSE 100 | 6.39% | 4.48% |
| Shanghai | 6.42% | -1.53% |
| *As of Mar 15, 2021* | | |

The manager of Sparrowhawk Fund has a fundamental long-term approach to the markets:

**1. The pandemic has an end date.**

**2. Low interest rates.**

**3. Massive monetary stimulus.**

**4. Support from the winners.**

Stocks of tech companies that have enabled employees to smoothly transition to working from home have thrived in the market environment, as evidenced by the strong earnings reports from Facebook, Apple, Amazon, and Alphabet. "The good news extends beyond those companies, with about 40% of the S&P 500 classified as technology."

The manager is focusing on following global themes:
-Financial technology
-Digital Media
-Health Care
-Consumption
-e-commerce
-Online Education
-5G players
-Medical Equipment
-Plus, a basket of infrastructure positions such as Next Generation IT, Digital Control Tools and Robotics, Engineering equipment, Agricultural Machinery, Electric Power and Energy efficient automobiles.

The Sparrowhawk Fund own a highly concentrated portfolio with companies that generate significant free cash-flow and that have sizable amounts of cash on their balance sheets. Also, many of the holdings are dominate their industry and actually have businesses that benefit from this environment of uncertainty.

The Fund remain "fully invested", but from time to time the cash balances (7%) allow the Fund to buy names they like, when the Market throws them away.

Just as important as diversifying is rebalancing more strategically. One of the things to do, particularly in this Covid era, is volatility-based rebalancing. Instead of rebalancing quarterly or annually, let your portfolio be your guide. If you set limits on your allocations so you trim back on areas that have outperformed and add to areas that underperform, you can catch the wave of upside when those rotations happen.

We believe it is better to watch what politicians do, not necessarily what they say. When the political or social environment feels uncertain, we maintain our discipline and focus on our 40-year investing strategy, process and philosophy. We make our investment decisions based on the fundamentals. We have found this steady, patient, long-term-oriented approach, often leads to success.

## **Portfolio News**: Financial Technology

The use of contactless cards and mobile wallets for payments has experienced accelerated growth, especially during this global pandemic. Consumers simply want to avoid those sometimes slow POS terminals. Consumers have been switching to contactless as a new way to pay and those who used contactless prior to the onset of the pandemic, are now using it more.

The US isn't the only country adopting contactless measures. 97% of SMB's in the UAE are digitally enabled, as well as 96% of SMB's in Hong Kong. Clearly, companies are pivoting to meet a new digital-first era. Visa, Mastercard and PayPal remain the trusted engine of commerce and both are introducing new programs to assist consumers and merchants in adapting to this new environment. It is one of the best new technologies to come to market in years.

Some payment networks are permitting and accepting QR (quick response) codes. While some are saying that this trend will fade once the global pandemic recedes. But both consumers and merchants will embrace and advocate the simplicity of both cardbased and mobile-based technology. Contactless payments received a

material lift from this global pandemic, and probably the migration will continue. Even the older generation are comfortable making mobilebased payments!

Each day, digital payments (contactless, mobile-based, cards, etc) continue to steal market share from cash and paper checks. This is a trend that should remain for decades to come. The future of digital payments is being shaped now with the adoption of contactless payments, new digital transactions such as BOPIS (buy online, pick up in store).

In January of 2020, Visa announced its acquisition of Plaid for $5.3 billion. Who is Plaid?

Plaid connects various financial technology applications (i.e. apps) to over 11,000 financial institutions or funding sources. Stated a little differently. When a Gen-Z'er wishes to fund a Robinhood brokerage account, Plaid connects back to their Bank of America account and helps to move the funds. It works with thousands of companies like Venmo (owned by PayPal), SoFi, Betterment and it allows millions of users to connect their favorite apps to their financial accounts. It is like a plumber because it provides the necessary plumbing between apps and the critical funding source, like a bank.

To say that Visa dominates debit would be an understatement. A recent document filed by the Department of Justice stated that Visa possessed roughly 70% of the US debit market. Visa has key, long-term agreements and card relationships with many of the largest US banks, like JP Morgan, Wells Fargo, Bank of America, etc. This gives Visa the leading market share for processing debit transactions and volumes.

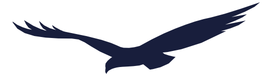
However, in January of 2021, Visa decided to terminate its acquisition of Plaid to bypass a legal battle. In its press release, Visa's Chairman and CEO Al Kelly stated: "We are confident we would have prevailed in court, as Plaid's capabilities are complementary to Visa's, not competitive," but Visa wanted "to simply move on" to avoid a lengthy and costly legal battle.

Going forward, there are multiple options Plaid can pursue. Even though Visa cannot purchase Plaid, because of that debit dominance, there might be signficant interest from other payment peers, like PayPal or Square or Fiserv's First Data. Another potential buyer, which is probably the most likely, is a SPAC or blank check company. The marketplace is flush with cash right now, with hundreds of companies looking to bring a company like Plaid to the public markets. These SPACs would be ideal partners for Plaid to partner with. Lastly, Plaid could decide to take itself public, just like Affirm just did. Affirm doubled in 1 to 2 days as a public company and Plaid would very likely receive the same warm public market reception.

In the private market, Plaid is currently trading at an implied valuation over $20 billion. That's 4x the price at which Visa was slated to buy it at a year ago.

There are three main companies that are providing BNPL – Affirm, Afterpay (Australian) and Klarna (Sweden). In terms of US accounts, Afterpay has 13 million, Klarna has 11 million and Affirm has 3.9 million. Afterpay, has quadrupled since the beginning of last year and is worth over $33.7 billion. Affirm doubled on its first day as a public company in January 2021 and now has a market capitalization of $26 billion. Klarna raised money last year, with an implied valuation of $10.7 billion.

For years, merchants have complained about the high cost of credit and debit card acceptance, commonly known as MDR (merchant discount rate). However, these BNPL companies earn the vast majority of their revenue from merchants, in terms of signficantly higher MDR's (in the 4% to 6% range). If merchants believe that BNPL is driving sales that otherwise would not have occurred, they should be willing to pay these higher fees. At Express and Foot Looker, Klarna drove a +25% increase in the average order value for customers last



month. Klarna and its BNPL process was the 3rd most popular way to pay at these retailers. However, if BNPL doesn't increase business and purchase volumes, merchants will quickly cease to accept these high-cost transactions. Time will tell if these BNPL trends add value and take market share from traditional credit and debit transactions.

## US Dollar

The dollar was boosted higher by several factors… mainly, positive sentiment that the economy will likely recover sooner rather than later. Basically, the dollar likes the uptick in long-term interest rates, the big stimulus package and more spending. It likes Janet Yellen and the direction the Biden administration is taking, at least for the time being. This applies not only to the economy but also to the covid response, the renewal of diplomatic relations with traditional allies and the fact that action is happening on many fronts. Overall, global sentiment is that the U.S. is back and that's been good for the dollar. In fact, the dollar could rise further in the weeks ahead and if it does, it would not be unusual.

Remember, the dollar fell about 13% over the past year or so. Following a decline of this magnitude, it's not abnormal for any market to then experience a rebound rise.

## Gold and Natural Resources

The precious metals are popping…. one by one. Silver got an additional boost with the Reddit frenzy but it already had the best market rise in 2020. It's a hot market on its own merit. Now platinum it giving silver a run for its money, by jumping up to a six year high. The covid months have basically seen the two sleepy markets wake up and run. And this is just the start.

Copper and crude oil are also soaring, reaching new highs for the move as February gets underway. They're on a tear and have room to rise further. Strong demand from China, an improving global economy, the commodity super cycle, low global interest rates, and then adding construction into the mix, you have a sector that has a very bright future for the upcoming years.

The U.S. dollar's decline this past year has pushed up the markets as well. You can see silver and copper are stronger than the S&P500. This rise has legs because, in part, the U.S. dollar is positioned to continue its descent in the coming years.

Meanwhile, even though gold production was down with covid last year, it didn't stop central banks and investors from buying physical gold. Last year 2020 had record inflows into gold's ETF. Its inflows surpassed the record held in 2009. Uncertainty surrounding covid was highlighted as the main reason why, and over 50% of these inflows went into SPDR Gold (GLD), and shares Gold Trust (IAU).

Canada's gold production also rebounded strongly in Q3 2020, an almost 30% increase from Q2-2020. Plus, India, the world's second largest gold consumer, cut their import tax on gold, which will help kickstart a recovery in demand. Also impressive, for the first time ever, Russia now owns more physical gold than U.S. dollars.

They surely understand the importance of gold ownership. And central banks worldwide continue to buy.

Overall, we agree with the WGC's optimistic forecast, noting that golds fundamental drivers, which took the precious metals to record highs are all still there. The environment of low to negative global interest rates, central bank bond buying, stimulus, uncertainty, the "everything rise" with the dollar declining, inflationary expectations... they're all here to stay for several years.

The $1.9 trillion bail out is the carrot dangling on top of the markets. With the Fed keeping short rates low and its ongoing monthly bond buying, it's helping the economy. Once passed of course, the obvious is inflation may be the encore. Janet Yellen isn't worried about that. She feels it's top priority to help the ones in need, and she will handle inflation later when it happens. She believes it's easier to handle inflation downstream rather than the covid problem today.

This environment for this year and the coming years makes gold the best investment long term. Buy and hold for about five years or more. This is one of the best strategies today. Easy money and constant stimulus have undermined the basic dynamic of the free market and we want to prepare ourselves.

Bitcoin speculation has taken the investing world by storm. And with reason. The "Wild West" is in full force as it jumps to $60,000. We believe the block chain technology is here to stay for an easy and cheap way to move money around the world. But it's another thing to see the hysteria buying in bitcoin.

Tesla said they would accept bitcoin to buy a car. And as each month passes more mainstream companies are jumping onboard. Bitcoin is unregulated and you can bet the central banks will start implementing this. Bitcoin has taken some speculation and funds from the gold price.

NATURAL RESOURCES

Copper is at an eight year high and oil has risen in its longest winning streak in two years. Oil producers' supply cuts, an unexpected drop in stockpiles and a hope the vaccine rollout will drive a recovery in demand have been the primary reasons. Copper is in demand.

China is looking better and the global economy looks poised to revive in the second half of 2021. China is the largest commodity consumer by far and it takes about half of the global demand for copper and other metals. With monetary conditions so easy, it all looks ready to grow.

Even the soft commodities and other metals are rising sharply. This is saying the whole commodity spectrum is on the rise and it's powerful.

2020 commodity winners were soybeans up +39.5%; orange juice up +26.8%; copper up +25.8%; and corn up +24.8%. The energy sector continued its struggles, down (37.3%); with gasoline down (17.1%); and NYMEX crude down (20.5%). However, nothing quite performed like digital currencies, with Bitcoin up over 300% last year. It took nearly 11 years for Bitcoin to reach $20,000 per coin (on December 16th, 2020), and then it took just 22 days for it to surge to $40,000 per coin. During the depths of the pandemic in March, Bitcoin traded as low as $3,867. With prices recently above $60,000, that's 15x growth in less than a year. The last rapid increase in Bitcoin occurred in late 2017, but that was quickly followed by a 1-month sell-off of roughly (50%).

Sparrowhawk Fund do not hold positions in any commodity and never will, except gold. Since 2018 the fund has a 4% position in the gold bullion.

It's time to be well positioned for 2021.

This is also tying in with Joe Biden's plan to rebuild infrastructure in the U.S.... And globally as well.

Construction has been growing globally since last year. China took the lead as they've been building new roads, bridges and infrastructure in general.

OPEC and the oil producing countries have lowered production, helping to boost the oil price. Energy shares are looking good too.

Crypto currencies have a future and digital money is growing. But it's future would never replace holding physical gold as a safe haven.

Physical gold gives you freedom and independence. If you've always had it, it's hard to imagine life without it. People who have fled from countries, who've given up everything for freedom, understand the power of having physical gold.

As we've often pointed out, many times we know a market is going to rise, but we don't know what the trigger will be, driving it higher. In this case, it might be the little guys or it could be the stimulus package, inflation, safe haven demand or some sort of wild card. We do know, however, that the trigger will become obvious in time.

## Summary

2020 put us all to the test. After an awful year, things are starting to improve. Despite the devastating impact to human life, we made a dramatic digital leap forward. We have seen incredible resilience from small business owners, consumers and policymakers, all striving to keep us on the course to recovery. With a vaccine getting distributed, we will be able to rebuild the connections lost and forge a better future.

Growth is returning, and the forward-looking economic picture is encouraging. This should have investors excited about 2021 and beyond. The stock market is pricing in what the US economy will look like in 12 to 18 months, not yesterday or even today. From our perspective, we remain cautiously optimistic. We are staying patient and focused on the long-term.
We have positioned the portfolio for a return to "normal"; however the exact timing of that "normal" is uncertain. We are not market timers, but are confident the economy is in a much better position than we were back in March. As Warren Buffett once said, "In the business world, the rear-view mirror is always clearer than the windshield."

The ESG Score for Sparrowhawk Fund is at 70 which is higher than the iShares ESG Aware MSCI USA ETF score of 68. This is the largest ESG focused fund and it is surprising to see funds which are having a common sense approach to investments but do not advertise any focus on ESG are actually having a greater ESG score.

We're bound to have lots of volatility going forward but keeping the focus on the bigger picture and the key trends will give the manager confidence and calm.

**The Sparrowhawk Fund's** major strategy is usually fully invested (today 10% cash) in a highly concentrated portfolio with long-term holdings of quality companies, with solid balance sheets that generally enables the company to go through any recession.

Since 1980 the fund manager has generated + 54.700%, compared to the S/P500 +3.080% or 16,63% annually vs 8,65% for the S/P 500.

The conviction of the managers to spend time in the market and catch the immense strength of the long-term compounded returns is much more important than trying to time the market, which the manager believe cannot be done successfully.

How can you catch returns such as 77.000% (Microsoft since 1980) if you once decided to sell this great company. There are a number of these companies that should be held for many years.

The Sparrowhawk Fund has a significant allocation to quality global companies focusing on those that can organically grow. Priced at attractive levels in industries like media, payment industry, pharma, online education, 5G players 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, not days, emphasizing fundamental, economical and geopolitical analysis and select those sectors that should benefit from these movements.

**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 | 5,22 | 6,33 | -7,29 | 2,94 | 3,68 | -0,80 | 0,86 | 0,74 | 3,63 | 1,19 | **24,59%** | **27,03%** | **29,30%** |
| **2020** | 4,08 | -3,18 | -8,70 | +12,05 | +2,40 | +3,90 | +1,58 | +5,58 | -1,60 | -2,05 | +5,33 | +1,16 | **27,66%** | **17,19%** | **16,26%** |
| **2021** | +2,31 | +4,17 | | | | | | | | | | | **5,38%** | **6,58%** | **1,47%** |

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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