Fidelity Capital Management

January 2019 Investment Letter

DECEMBER 31, 2018 YTD

Sparrowhawk Fund (EUR)	**2,49%**
Royal Albatross Portfolio (USD)	**0,04%**
Kingfisher Portfolio (EUR)	**-7,50 %**

DJ Industrial Index	-5,63%
S/P 500 Index	-6,24%
MSCI World Index	-10,44%
Berkshire Hathaway	2,82%
Gold	-1,51%
EUR/USD	-4,36%
Oil WTI	-24,81%

16.21%

In 1980, 39 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 $315 million at a rate of 16,21% compounded annually.

The Dow Jones Index has its best start since 1997.
Sparrowhawk Fund Top Ranking in 2018

Last year was a tough year for equities, actually for all asset classes. The U.S. and world markets were the biggest losers. But our picks in the portfolio saved the Sparrowhawk Fund from red figures.

The U.S. and China will begin 48 hours of trade talks today in what will be the highest-level discussions since President Trump and Xi Jinping agreed to a 90-day truce for their trade war in December. Treasury Secretary Steven Mnuchin expects to make "significant progress" toward a comprehensive trade agreement, although many remain skeptical about whether the economic giants can bridge their differences.

The Fund's return in 2018 of +2,49% outperformed 97% of its Morningstar large-growth funds. The S&P 500 lost -6,24% over the same period, and the MSCI World lost -10,44%

Companies like Visa and Microsoft, and other top performers were among the positions that made the Sparrowhawk Fund number one in the EUR FUND list for 2018 and also number one for the 3-year total return.

2018
This ended up being the worst December since 1931 and the worst year since 2008. Then the Dow turned and made the biggest one day rise ever. So, the volatility continues. It is no wonder investors are uncertain, nervous and scared. This is stock action they have never seen in a long time and it has fueled some panic selling. Gurus of technical analysis all indicate bearish signs as we are below the 65-week moving average.

2019
But now optimism about a trade deal between the U.S. and China has lifted the market. Earnings will now have to keep it there. Hope about the prospect for a trade deal lifted the Dow Jones Index to its best start in more than a decade and now stocks will have to earn it.
The Dow is now up 5,9% in 2019, its best start to a year since 1997, and the S&P 500 has gained 6,5%, its best start since 1987. Plenty of headlines about progress on trade talks between the U.S. and China has helped the market rise even when gains looked unlikely. Investors even ignored reports that the U.S. had opened a criminal investigation into Chinese tech giant Huawei Tech, for example.

But there was another reason for investors to feel optimistic recently: corporate earnings. It's not that profits were so good, but the reactions to them were. JP Morgan Chase, Blackrock and Schlumberger were among the high-profile companies that missed numbers but still managed to finish higher on the trading day of their release. That was very different from the reaction to earnings during the 3Q and 4Q, when even a good number often became an excuse to sell.

The good news is that the market can turn before earnings estimates do. We think the news flow around earnings could stay tough for a while longer, and we don't rule out a retest of the December 24th low in the S&P 500. But we also think there's a good chance that the stock market bottomed on December 24th and that much of the pain has already been priced in.

The damage could be greater. Some of the economic hit will be made up when the government reopens, but other economic activity will be lost permanently. And that could show up in corporate profits. There are sectors in the S&P 500 that won't recoup the earnings even if the shutdown ends.

The Big Picture

Interest rates are in an abnormal situation…the 3 month rate is higher than the 10 year yield. Long-term rates should be higher than short-term rates, which is the normal relationship, simply due to the fact that if you are lending money for a longer time period you should earn a higher rate. When the opposite happens, like now, it is yet another warning sign that a recession will likely follow.

The Fed raised the Fed funds rate again for the ninth time since December 2015. Many felt this was unnecessary. After all, the economy is slowing, so why would the Fed want to tighten monetary conditions by raising rates? But the Fed funds was rate near 0% at that time. So even though it has been increased nine times, it's still only near 2½%. In other words, it remains super low, even if the Fed raises two more times this year, like they said they would, it'll remain very low.

Also, gold and the stock market tend to generally move in opposite directions, the weakness in the stock market has been providing a boost for gold.

This could continue this year, especially if the US dollar also heads lower. If so, gold will get a double boost and become the world's safe haven.

This may be coming….already gold hit a 7 month high, thanks to its safe haven status during these volatile times.

What are the Markets telling us?

Despite the negative economic outlook for this year, there will be some good investment opportunities…like it always does. Basically, traditional investments like stocks will likely prove to be disappointing. And tangible assets, like gold and real estate, which struggled in 2018, may move to center stage.

If the markets are sending messages about what lies ahead, like they usually do, then we may be headed for some surprises and wild times as the year unfolds.

What does the market see and we don't? The economy is doing fine. We all know the trade war, rising interest rates and the slowing global economy have been putting downward pressure on stocks for the past year or so. But still, the market was doing okey.

In December, however, things changed. For the first time, the market started reacting to problems out of Washington, which it hadn't before, and this marked a turning point.

Suddenly, the Mueller investigation made the market nervous. The same was true for tensions with Fed head, Jerome Powell. The government shutdown was yet another worry and so was the US plan to withdraw from Syria, along with the resignation of the Defense Secretary. Meanwhile, the wall has become more of a hot spot and these problems will likely continue as the new year unfolds. If they do, it's going to keep stock investors nervous.

We all know that bear markets aren't fun. They can be moderate, medium or severe. The current bear market has declined almost 19%. And looking at the declines of the past, you can see that most declines were more severe. In other words, as volatile as it's been, this decline hasn't been that bad.

What has always been right is that quality stocks drop on every decline and become great buying opportunities, whether it is a modest or severe decline.

Stock Market and Sparrowhawk Fund

U.S. indexes overnight, rising as much as 1%, after Apple's quarterly results sent relief waves through the markets. Investors are now looking to the outcome of the Fed's rate review later in the session, amid heightened expectations policymakers will reinforce their dovish stance and hold off on hikes for at least the next few meetings. The spotlight is also on Chair Jerome Powell and whether he has any inclination to slow the drawdown of the Fed's balance sheet by up to $50B/month.

Index	2019 Peak	YTD
Hang Seng	9.74%	9.74%
DAXK	6.63%	5.96%
Shanghai	5.89%	5.34%
S&P 500	6.40%	5.33%
CAC 40	5.04%	4.25%
Nikkei 225	3.79%	3.17%
FTSE 100	3.51%	0.19%
BSE SENSEX	1.92%	-0.65%
As of Jan 28 2019		

Seven of eight indexes on our world watch list posted gains through January 28, 2019. The top performer is Hong Kong's Hang Seng with a 9.74% gain and in second is Germany's DAXK with a gain of 5.96%. In third is Shanghai's SSE with a gain of 5.34%. Coming in last is India's BSE SENSEX with a loss of 0.65%.

It is surprising, perhaps, that the Fund were among the top in the ranking of sustainable mutual funds published earlier this month. But it isn't accidental. While the 30-holding fund doesn't name itself as ESG, or focused on investing with an eye toward ESG issues, we always looked for businesses with strong financial performance and these companies often have the resources to be good stewards and employers.

Barron's selected the top U.S. large-company, actively managed funds with the most sustainable portfolios, and ranked them by one-year returns. Of the funds, 39%, beat the S&P 500 Index's negative 6,24% return in 2018. Sparrowhawk Fund is number 8 out of 288 funds in this selection. The ranking is based on data provided by independent research firms Morningstar and Systainanalytics.

The Sparrowhawk fund was launched in 2009 and follows a high-conviction, low-turnover strategy developed over 38 years ago by the manager. His mentor was Shelby Davis, the founder of Davis Group. Since 1980 the Fund, then FCM Opportunity Fund, has been managed according to this strategy and generated +16,21% as compounded annual growth rate.

Investors often associate concentrated portfolios with above-average volatility, but the Fund's results challenges that view. The S&P 500 lost nearly 40% of its value peak-to-bottom from the tech bubble's bursting in 2000 through 2002. But the strategy fell 28% in that time. In 2008, it declined 9% versus 37% for the index.

One of the largest holdings, MSFT, is also safety, although its recent trajectory puts it closer to the high performer of the spectrum. We bought first time in 1999 and sold it briefly during the 2000 tech crash to leave room a defensive position in JNJ. In 2013 the team saw a new potential in MSFT as it moved to a subscription model and became more open to collaborate with other companies. This past quarter, organic revenue growth was 18%. It's surprising for a company that big to be able to grow at that pace.
Another chosen theme for the Fund is payment systems, and credit-card giants like MA and V and also PYPL are examples of companies the team aims to own. In addition to healthy balance sheets and an abundance of free cash flow, these companies have a return on capital double the Fund's 20% requirement. Their costs are relatively fixed, so as transaction volume increases, profit margins do too. MA went public in 2006 with operating margins in the mid-teens, and today it's getting close to 60%. The annualized return on V and MA is about 24% and 28% respectively since 2013. The shift from cash to electronic payments has been driving growth for this duopoly, but there is still room to

take a greater share of the world wallet. Less than a third of global personal expenditures are electronic.

The Royal Albatross Portfolio ended 2018 up 0,04% now with 80% in cash. Another positive year and this US$ based strategy has had only one year of negative return since 1973, and that was in 2015 with -2%.

US Dollar

The US dollar is still holding its own. But do we see some vulnerability ? Despite its recent strength, the dollar is on thin ice for a number of reasons. The huge debt is one. The fact that foreigners are backing away from the dollar is another. Political uncertainty is also a big influence, but the gold price rise is probably the most important.

Yes, it's currently the world's main reserve currency, but it's power is diminishing. And in the end it will end up like all of the thousands of paper currencies before it…..but not now. As you know, Brexit is having problems which are affecting the euro. And China is having some problems too. So, despite the dollar's problem, it is the best bet for now.

Gold and Natural Resources

The oil price also fell sharply in 2018, along with some of the other commodities. This is adding fuel to the fire of a likely coming recession, perhaps later this year. This is also being reinforced by the interest rate market. Interest rates are starting to invert….the 3 month Libor rate is now higher than the 10 year yield.

Gold, silver and gold shares are shining. Investors have taken refuge in the yellow metal during the stock market rout and a slowing economy.

Gold shares are coming alive. Some like, RGLD and GDXJ are moving impressively? They have been one of the most bombed out markets but it looks like brighter days ahead. The Fund is out of gold mining stocks

Summary Sparrowhawk Fund

It is a conviction-based concentrated portfolio as a source of long-term outperformance.

As a long-term investor, the team is able to concentrate capital in their highest conviction ideas.

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 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 +16,21% since 1980).

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%**	**-6,23%**

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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