Fidelity Capital Management

June 2020 Investment Letter

30/05/2020

Sparrowhawk Fund (EUR)	**+4,50%**
Royal Albatross Portfolio (USD)	**-0,98%**
Kingfisher Portfolio (USD)	**+1,22%**

DJ Industrial Index	-11,06%
S/P 500 Index	-5,77%
MSCI World Index	-8,93%
Berkshire Hathaway	-18,09%
Gold	13,80%
EUR/USD	-1,00%
Oil WTI	-42,14%

16.57%

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 $402 million at a rate of 16,57% annually.

Look Ahead and Buy on Dips.

A vaccine that will kill Covid-19?

This is one of the big uncertainties hanging overhead. No one knows what's going to happen next. With many countries beginning to open up, the big questions are, will everything eventually get back to normal? Or are we opening too fast at a time when the numbers are still rising? And if so, will this lead to a second wave?

Only time will tell and whatever the outcome, it'll affect the markets. The main point is, Covid-19 is the biggest wild card we've ever seen and it'll continue to be a major influence for probably a long time to come. So we are staying alert.

The S/P 500 Index has increased 2,400% since 1980. During that period we have seen several crashes, corrections of 20% or more and lots of volatility and scary investors. And still you would have made +2,400%. So there is no point in try to do market timing.

Also individual stocks are even better, as an example, JNJ, AMZN, MSFT have a total return of 6,000%, 40,000% and 79,000% respectively during the same period. So again there is no point in selling strong companies and trying to find something else….you cannot get these kind of returns if you trade.

Sparrowhawk Fund, a highly concentrated fund with strong holdings for the long term, made + 36,000% during the same period, by being invested at all times and riding through the crisis periods.

Conclusion: Stay invested. Do not forget, that if you are out of the market on the 10 strongest days on any 10 year period, the return decreased by more than 50%.

Currently, for instance, many of the indicators are negative, but the PTI has remained positive. And despite all the negatives facing the stock market, like the worse economy since the Great Depression, soaring debt, political unrest and more, stocks have continued rising.

Nevertheless, under these uncertain and unprecedented circumstances, the Fund has taken a cautious position with high quality companies with strong balance sheets. We feel it's warranted because we're in uncharted territory and anything is possible.

The Sparrowhawk Fund has actually reached +8,09% YTD, beating the market which is in negative territory.

Even though it may seem like it at times, it's not the end of the world. Yes, the economy is going to suffer, but we don't yet know how bad it's going to be.

The Big Picture

The economy entered a recession in February and it dropped 5% in the first quarter. Industrial production and retail sales had the worst drops in 101 and 73 years, respectively.

Unemployment is at levels not seen since the Great Depression when unemployment reached 26%

It's expected to stay high. If so, it will reinforce that we are indeed in a depression, or headed for one.

This has resulted in unprecedented money creation. In fact, the Fed's balance sheet is now at a new record high over $7 trillion.

This is an increase, which is already three times larger than the rise following the 2008 financial crisis.

This in turn, will likely fuel inflation, sooner or later. probably following the recession. Some are calling for stagflation (slow economy and inflation). But whatever the outcome, the soaring cost of food to the highest levels in 46 years could be a sign of things to come.

For many years the U.S. has depended on foreign investors to finance their deficit spending by buying U.S. government bonds. But now that tensions have intensified with many of these foreign buyers, and the global economy is suffering, it's a different story.

Foreigners have been selling their bonds by the most this century. This goes for China, the second biggest buyer, and Saudi Arabia to name just a few. This means the Fed's going to have to raise interest rates to attract foreign buyers back to the fold.

Sure, the Fed has been buying up huge amounts of bonds too, even corporate bonds. But they can't buy them all, especially since they're set to issue trillions in bonds to finance coronavirus-related spending.

And if inflation perks up downstream, this will only add fuel to the fire because interest rates and inflation tend to rise together.

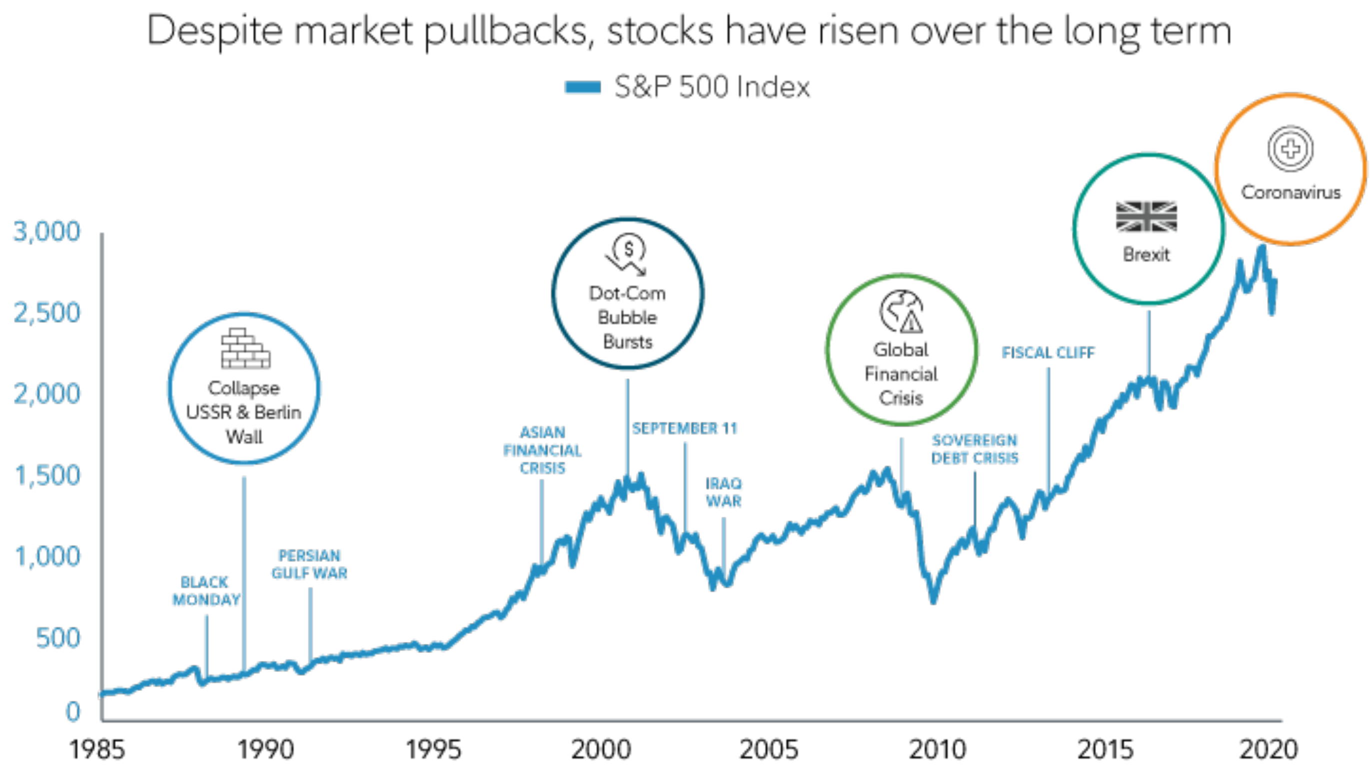
What are the Markets telling us?

The coronavirus is still on center stage and it continues moving the markets. With a second wave now possibly underway, the markets are nervous. If this indeed proves to be the case, this nervousness and uncertainty will increase and continue to dominate. This has put downward pressure on stocks, bonds and upward pressure on gold, while the other precious metals are firm.

It makes no sense that bankrupt and unprofitable companies are skyrocketing in value. Nor is it logical that day traders are being lauded for their stock-picking prowess, while investing legends like Warren Buffett and Carl Icahn are dismissed as being "washed up." However, in the short term, many things are irrational.

Over the long term, fundamentals and historical trends will prevail. Businesses that make no money will disappear, survived by their stronger competitors. Rookie traders will blow up their portfolios, due to their imprudent decisions. Additionally, despite temporary stumbles, the legacies of investors who amassed wealth over the course of their lifetimes will remain intact. Having a long-term, optimistic perspective is always important, even more so in 2020.

Keep perspective: **Downturns are normal**
On average since 1926, stocks have dipped into bear market territory every 6 years with losses averaging almost 40%.
But while market downturns may be unsettling, history shows stocks have recovered and delivered long-term gains.



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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.

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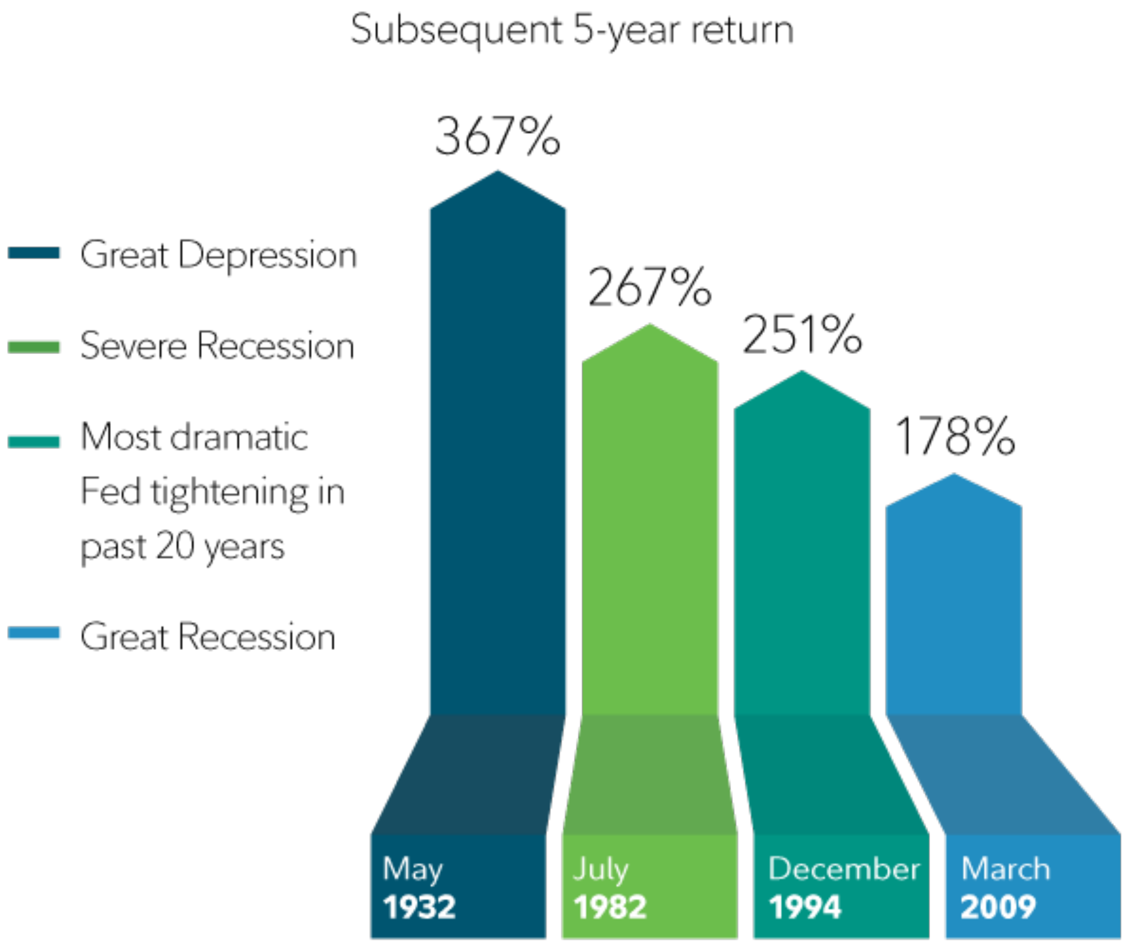
Invest consistently, **even in bad times**

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.



Past performance is no guarantee of future results. Source: FMRCo, Asset Allocation Research Team, as of January 1, 2019.

Stock Market

The stock market surged higher this month. It completely ignored any of the bad economic news, the protests and everything else as Wall Street and the Main Street move further apart.

Mainly, the stock market was looking ahead. It’s been optimistic about the reopening of the economy and it essentially felt the worse of the coronavirus was behind us.

But then suddenly, the stock market wasn't so rosy. On Thursday, June 11 the market did an about-face. It grew concerned about a second wave of coronavirus coming. Making matters worse, the Fed Chief suggested the economy could stay in a slump until 2023.

Index	2020 Peak	YTD
Shanghai	2.15%	-2.78%
S&P 500	4.81%	-3.50%
Nikkei 225	1.80%	-5.15%
DAXK	3.80%	-9.65%
Hang Seng	3.07%	-13.05%
BSE SENSEX	1.69%	-15.37%
FTSE 100	1.75%	-17.21%
CAC 40	2.23%	-17.22%
As of Jun 22, 2020		

US Dollar

The U.S. dollar is starting to break down. Interestingly, this is happening at the same time that long-term yields are starting to rise, which you'd think would make the dollar more attractive. But it hasn't.

Meanwhile, we all know the U.S. dollar has been the world's major reserve currency for many decades. But this too may be changing. Interestingly, more countries are diversifying their reserves, reducing their dollar holdings and opting for more gold and other currencies. Basically, everyone's in debt and their economies are all facing the same kind of problem... declining GDP, high unemployment and lots of debt to try and offset the effects of the coronavirus.

Still, a basket of currencies, which is what seems to be gaining momentum on the global reserve front could keep downward pressure on the dollar and upward pressure on some of the major currencies in the years ahead. We'll soon see but this, combined with other global political pressures, could end up being what drives the dollar lower.

Gold and Natural Resources

Gold peaked earlier in April after gaining almost 20% from the March lows. But it's been holding near the high ever since, about ten weeks now.

Silver also made a great debut, rising 60% from the March lows to its June highs, with most of its gain occurring while gold was holding near the highs.

Copper, and especially crude oil, also made impressive gains as well. Oil is up a whopping 230% from its March lows in a wild swing, while copper's steady rise is up 25% now this month. The resource sector is rising with the optimism of infrastructure and construction opening up.

There's no question the metals sector is growing and it will continue to grow under the environment we're living in.

The firmness in the gold price is telling us investors are uneasy and they want some gold. It's the time to own safe havens.

Taking the gold price rise since December 2015 to today, and comparing it to the major bull markets in the 1970s and the 2000s, the similarities between today's rise and the other bull markets. This is suggesting there's a lot more upside in gold over the next five years.

Gold is a safe haven because it's a hedge against the fiscal deficit, the out-of-sight debt, the ultra loose monetary policy, currency debasement, a global pool of negative yielding bonds, and very likely a big boost in inflation.

Covid-19 is the main driving force today and it's repercussions continue. The Federal Reserve, for instance, reinforced a buy and hold last week by announcing a gloomy forecast in their first FOMC meeting this year. They're continuing their "do whatever it takes" policy to keep the economy running as smoothly as possible.

Gold perked up on the news, and it's staying firm within the high side of this year.

U.S. and China tensions also help keep a floor under gold and this will continue. Meanwhile, the crisis in Hong Kong has also caused a run to safety, not to mention the civil unrest growing around the world.

As you know, central banks bought lots of gold over recent years, and while they're not buying much now they aren't selling either. Instead, they're using their gold as collateral for loans if and when necessary.

We’ve been seeing low physical gold buying in the East, while investor inflow grew in the West during the first quarter, according to the World Gold Council.

In China and India, jewelry sales were the lowest on record and demand was down. This seems understandable because of the pandemic.

Australia is set to become the world’s top gold producer in 2021, overtaking China with its plans for expansion. The cost effectiveness of Australia’s mining gives it a unique advantage to beat China in 2021.

U.S. grocery costs jumped the most in 46 years, led by rising meat and eggs. And even though U.S. consumer prices jumped 2.6% in April, the largest one month pop since February 1974, it was a sharp contrast to the dragging oil and gas prices during that time. As a result, the core CPI was down .4% when excluding food and energy.

But looking at a few of the soft commodities on**,** you can see they’re also bouncing up from their March lows. It’s a start, and we’ll end up seeing inflation come back, especially if the dollar continues to decline.

How could the social unrest situation affect the economy and the markets?

It’s become a perfect storm. Sadly, the corona- virus, the lockdown, soaring unemployment, the recession and racial tensions all came to a head. The trigger was the death of George Floyd. This unleashed frustrations, anger, protests and violence across the country, not seen since the 1960s. Other countries have joined in, and no one yet knows how it will end.

But this will delay the economic recovery and some experts are saying the recovery could take years. It also adds to uncertainty among the general population, which is made worse coming on top of the coronavirus and mounting deaths.

And depending on how widespread these tensions become, it will be good for gold and the metals arena due to their safe haven status.

Summary

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

Granted, the massive liquidity has helped the market, but it’s clearly the most difficult environment we’ve all seen in our lifetimes. The best we can do is stay safe, healthy and we’ll do our best to guide the Fund through this situation, with long-term quality holdings.

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 + 36.000%, compared to the S/P500 +2.500% or 16,5% annually vs 9,72% 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 we believe cannot be done successfully.

How can you catch returns such as 77.000% (Microsoft since 1980) if you decide to sell a 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 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. The Fund has a selection of a limited number of leading stocks in each favorite sector.

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								**+3,34%**	**4,50%**	**-5,77%**

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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