Fidelity Capital Management

March 2018 Investment Letter

February 28, 2018		YTD
	Sparrowhawk Fund (EUR)	**4,52%**
	Royal Albatross Portfolio (USD)	**0,25%**
	Kingfisher Portfolio (EUR)	**-1,60 %**

DJ Industrial Index	1,25%
S/P 500 Index	1,50%
MSCI World Index	0,69%
Berkshire Hathaway	4,25%
Gold	0,61%
EUR/USD	1,61%
Oil WTI	1,60%

15.52%

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

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

TARIFFS

No sooner had the Federal Reserve announced an expected rise in the Fed Funds rate of 0,25%, when the stock market took a dive on Trump's announcement on new trade tariffs targeted at China. Gold and Bonds rose, while the 10 year yield declined.

The stock market was hard hit. The proposed tariffs on China spooked the market on fears of a trade war. And Facebook's troubles didn't help matters either. This pushed the Dow Industrials down more than 700

points and the other stock indexes fell sharply too. But despite this drop, the stock market still remains bullish, and the declines are technically downward corrections.

With the US economy now at or near the Fed target of full employment and 2% inflation, the US central bank should continue raising interest rates until they are no longer stimulating growth.

The Big Picture

After many years of sitting on the back burner, inflation is coming back. It continues gaining momentum and this will likely continue. The U.S. dollar dropped 10% last year. This makes foreign products more expensive because their currencies rise as the dollar falls. The end result is that import prices surged 1% in January alone, which helped fuel inflation. Producer prices have also been rising and these upmoves are now being reflected in higher consumer prices. In fact, one measure of inflation recently had its biggest gain in one year.

What happens next will depend, in large part, on the U.S. dollar. If the dollar keeps falling, inflation will head higher and this will have a wide range of consequences... It'll mean higher interest rates, for instance, and lower bond prices. Rising currency prices, and higher prices for the precious metals and commodities could also be expected. It would be bad for stock prices and, overall, it would signal that a new investment era is indeed underway. We're already seeing some signs of this. A final confirm of a new era beginning would be a sustained rise of gold.

The economy is holding up well, and there are many positives, but a few cracks are beginning to show... On the bright side, Consumer confidence hit a 17 year high and Sentiment keeps rising too.

These are good signs that consumers remain optimistic, which is very important because consumers drive the economy. The index of Leading Economic Indicators has also been surging for four consecutive months, signaling no recession in sight. Jobless claims are near a 48 year low, new jobs are surging and the Misery index is low.

Retail sales have been down, and so have car sales and durable goods. This suggests consumers are not so keen to spend. And since consumer spending accounts for the majority of economic growth, it's a sign of caution, especially if it continues. Industrial production has also been down, along with factory orders. Here too it's something to keep an eye on. And it doesn't help that household debt is at record levels. This coincides with the big surge in government debt, and neither one of these is healthy or conducive to a solid underlying foundation.

So these are the items most important to be watching... Depending on which way they tilt, it's going to tell us a lot.

What are the Markets telling us?

Suddenly, everyone is talking about tariffs, and opinions are all over the place. This all started when the U.S. put tariffs on Chinese solar panels, which were flooding into the U.S. Then, after several warnings, Trump surprised the global community by announcing a 10% tax on aluminum imports, and a 25% tariff on steel. The main reason for these actions was to bring steel jobs back to the U.S. But according to the experts, the results could end up being the opposite. For example, they point out the tariffs will hurt the workers at steel consuming manufacturers. Why? Because the price increases for steel and aluminum users, like the auto and oil industries, will disrupt jobs, not create them, amid rising supply costs. Meanwhile, the hardest hit steel producing countries are looking to retaliate, possibly sparking a trade war. (Canada and Mexico were excluded.)

Already, the European Union has announced tariffs on U.S. goods, like jeans, bourbon whiskey and motorcycles. And we don't think it's a coincidence that bourbon is produced in Mitch McConnell's state of Kentucky, and Harley Davidson's come from Wisconsin, home of Paul Ryan.

Other countries are likely going to follow. In other words, this could end up hurting global economic growth and the U.S. dollar. So this is one of those wild cards that seems to pop up from out of nowhere.

For now, however, we'll want to keep an eye on these developments.

Interest rates are the most important markets in the world. We know this may sound strange because most people think interest rates are boring, but they're absolutely not. Interest rates are the driver of the locomotive. Everything else is secondary. Why?

Well, here's an example... Let's say the economy's been plugging along and interest rates have been creeping higher, which is what's been happening for the past couple of years. This is a form of tightening and it'll keep a brake on economic growth. At this point, it hasn't had much effect because interest rates started rising from near 0%, which was a 5000 year low! So even though interest rates have been rising, it really didn't matter... rates were still very low and all was well. But that's now starting to change and investors are starting to notice.

That is, interest rates have now reached a level where they could affect other sectors and the markets. Let's start with real estate... Mortgage rates have been rising, along with the 10 year interest rate, and both are at four year highs. This has been a key factor driving home sales to a three year low. The real estate sector is a leading economic indicator and if housing is beginning to stumble, it's a sign the economy may soon be slowing too. It doesn't help that interest rates on car loans are at an eight year high. These higher rates will put a crimp on consumer spending, and this in turn will also help slow the economy.

Meanwhile, inflation is perking up and that's going to push interest rates higher to keep it under control. The Fed has confirmed this, saying they're going to raise interest rates three times this year, and maybe even four. This is going to make borrowing more expensive, which could be a drag on corporate profits. It's a chain reaction... one thing affects the other. Weaker profits, for instance, will likely drive the stock market lower. And since bond prices move in the opposite direction of interest rates, higher interest rates are going to keep downward pressure on bond prices. At the same time, more inflation will propel the gold price higher because gold is the ultimate inflation hedge. And here too, with the U.S. dollar moving opposite to the gold price, this could drive the dollar lower.

A weaker dollar would fuel more inflation, even higher interest rates, and the chain reaction would feed on itself. We'll see how this develops.

Stock Market

These subtle changes in the underlying environment have confused some investors. They're mainly concerned about rising interest rates and the stock market. Can the stock market keep moving up in the face of higher interest rates? At some point, rising rates will affect stocks, but that hasn't happened yet.

Despite the recent volatility, the stock market remains bullish and as long as it is, it'll be poised to rise further. Granted, the stock market is more risky today and this bull market turned nine years old this month, thereby making it one of the longest on record. But if the economy stays firm and hangs in there, then companies should continue to do well and stocks will then likely head even higher.

Since its steep decline in January, the market has been volatile, fueling uncertainty and concern. The Fund is buying and adding to positions on these rather spectacular dips.

The real leaders this year so far have been two of the FAANG group, Netflix and Amazon, both major positions of the Fund. Also leading the charge have been tech stocks in general.

Rising rates haven't hurt stocks yet, but at what point will they stop the bull market? Unfortunately, we don't know. This is something that increases risk and we'll be watching it closely. To offset the interest rate risk, however, we do know that valuations, which had been very high came down during the downward correction.

Thanks to Trump's tax bill, corporate taxes are lower and, therefore, corporate earnings are now expected to rise 26% over the next year. In other words, stock valuations are currently near 2016 levels and this could become a more dominant positive factor than interest rates. This alone also allows for a good sized upmove during what will probably end up being the final phase of this bull market. Remember, final phases tend to be the most exciting in bull market upmoves, and that may be what's in store. We'll soon see.

US Dollar

The prospect of higher interest rates has made the dollar a bit more attractive, at least temporarily. This makes sense because U.S. rates continue to be higher than interest rates in most other countries, making the dollar more desirable in this low interest rate world. But despite this positive, the dollar fell on the tariff news. The possibility of a trade war or retaliation by the U.S.'s trading partners was bad news for the dollar, and it generally overpowered other good dollar news.

Trade wars are not good for anyone. Basically, you end up fighting with many of your closest friends, which is obviously not good for relations. The situation in 2002 was very similar to what's happening today. At that time, Bush was a fairly new president, the economy was muddling through, tax cuts were implemented, the national debt was rising and stiff tariffs were put on Japanese steel. This resulted in a hit to the economy and the tariffs were lifted the following year. The situation was also similar in 1930 when the Smoot-Hawley Tariff Act was introduced, triggering a global trade war. This happened prior to the Great Depression. So the precedents are not good. And for now, the European Union and others are unhappy, planning to tax U.S. imports, or seeing what they're going to do.

Basically, the U.S. is in a jam... Its trade deficit keeps growing and it recently hit a nine year high. This means the U.S. is importing much more than it's exporting. So by putting tariffs on some imports, it'll make them more expensive. The idea being that consumers won't buy the imported goods and opt for the local version instead. This would help reduce the trade deficit. Another option is to let the U.S. dollar weaken and the U.S. has been going for that option too. A weaker dollar makes U.S. exports less expensive, which would help the trade imbalance, business and the economy.

Gold and Natural Resources

The gold price has been holding up well considering the volatile stock market. Some of the resources got hit with the correction, like steel and some materials.

Gold has been under pressure this past month. After rising 10% from its December lows to its peak in late January, gold's been correcting in a mild decline. But now is the time to buy more and the Fund will probably add to existing positions, during this temporary weakness because bullish signs continue to grow in the bigger picture.

Silver is cheap, and it's a buy and hold. Better be onboard before it takes off. Because silver tends to soar and not look back once a strong rise gets underway.
Silver looks set to outperform gold this year. It's quiet, and it could stay that way a while longer. But rising global growth will have a bigger influence on silver in the years ahead, and it wouldn't take much new investor demand to see it take off.

The resource sector has come alive after having a stellar year in 2017. Tariffs or not, the prices are going up, and they're set to rise further. Palladium has had a strong rise due to the robust car industry, while lumber has enjoyed the rise in construction and housing. Copper, being called the barometer for world growth, is moving closely with the emerging markets.

With President Trump's infrastructure plan, raw materials have a great future ahead. The world is growing too, adding to the demand for resources. Cobalt and lithium have a bright future in batteries, from Apple to electric cars.

Apple is concerned about a possible shortage for cobalt and it's considering buying cobalt directly from miners, according to Bloomberg. Apple is holding talks with the miners just as carmakers are also racing to lock up cobalt contracts as they prepare to make more electric vehicles.

Cobalt is mostly produced as a byproduct of nickel and copper mining. Freeport-McMoRan (FCX) has been the second largest company to produce it, but it's a smaller play on cobalt than is was just a few years ago.

FCX is interesting for its copper production for the long-term. Interesting as well is the Rare Earth ETF because its variety of raw materials. BHP is the world leading resource company. These companies are giving us a good buying time this month and possibly next.

The International Energy Agency (IEA) sees U.S. oil output surging and stealing OPEC's share in the next five years, moving the U.S. closer to self sufficiency. Not that long ago the U.S. was the world's top oil importer. OPEC will see demand for its crude fall below current production, suggesting a return to having an oversupply, in spite of its production cuts. But the IEA also emphasized the need for more investment in the market to avoid a supply shortage after 2020.

The CEO of Saudi Aramco says the oil and gas industry needs to invest more than $20 trillion over the next 25 years to meet expected growth in demand and compensate for the natural decline in developed fields.

Summary

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

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

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

The Sparrowhawk Fund has a significant allocation to quality US focused companies priced at attractive levels in industries like media, payment industry, pharma, infrastructure, consumption, etc. Precious metals are also an important long-term position allocated to the Fund.

The Sparrowhawk Fund, a Long Global Conviction Equity Fund that is actively managed based on views with a time horizon measured in years, emphasizing fundamental, economical and geopolitical analysis and select those sectors that should benefit from these movements. The Fund has a selection of a limited number of leading stocks in each chosen sector.

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

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Sparrowhawk Fund

Monthly Performance Figures

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD (USD)	YTD (EUR)	S/P 500
1980							7,04	3,45	3,77	5,46	16,3	0,54	**41,70%**	**57,35%**	18,83%
1981	-3,78	-2,08	1,23	-5,70	0,53	-2,60	-4,00	-5,64	-3,98	3,55	-2,1	0,15	**-22,23%**	**-6,54%**	-9,73%
1982	2,70	-5,83	-0,88	3,63	-0,42	3,93	2,92	9,78	8,83	12,96	9,02	9,05	**69,77%**	**92,22%**	14,76%
1983	3,26	4,96	5,07	9,53	5,68	7,51	0,05	-1,77	-0,45	-2,86	0,18	-1,28	**33,20%**	**57,97%**	17,26%
1984	-2,67	-2,98	-0,35	-1,91	-3,04	0,82	0,33	10,61	-3,33	4,6	-0,12	7,42	**8,63%**	**25,61%**	1,38%
1985	6,11	0,16	-1,19	-0,4	7,38	2,93	1,15	1,31	-1,95	4,42	5,04	3,57	**31,95%**	**5,45%**	26,36%
1986	1,71	4,30	1,59	-0,54	4,23	1,47	-2,39	1,65	-4,40	2,42	0,41	-1,53	**8,89%**	**-9,69%**	14,62%
1987	6,80	2,35	1,09	-3,85	-0,23	-2,31	7,59	-1,12	-2,11	-20,52	-4,48	5,03	**-14,00%**	**-29,60%**	2,03%
1988	4,17	2,54	1,08	2,65	-3,62	3,53	0,10	0,18	1,82	0,76	0,82	1,75	**16,71%**	**30,43%**	12,39%
1989	1,99	1,44	-0,09	1,46	2,05	0,99	3,99	0,67	-0,52	-0,71	1,69	-2,08	**11,29%**	**9,62%**	27,25%
1990	-2,2	1,23	3,18	0,09	6,79	3,21	2,10	-5,39	-6,21	0,58	3,24	2,44	**8,64%**	**-5,29%**	-6,56%
1991	5,73	6,16	3,8	0,45	-1,06	4,12	3,45	0,62	-0,32	0,67	-2,53	8,10	**32,69%**	**35,65%**	26,30%
1992	2,88	4,53	-3,22	-1,73	-0,33	-2,42	0,52	-0,33	2,50	3,85	8,52	-2,77	**11,93%**	**24,27%**	4,47%
1993	1,31	3,11	3,08	2,39	8,59	0,57	1,89	1,91	0,33	3,48	1,61	3,52	**36,93%**	**48,19%**	7,06%
1994	5,00	1,94	-0,14	2,36	2,4	0,07	5,65	5,25	1,25	-1,21	-6,24	-0,86	**15,91%**	**5,15%**	-1,55%
1995	3,43	3,26	5,03	-0,22	1,55	2,76	11,64	1,77	0,80	-0,73	7,45	-1,47	**40,58%**	**35,01%**	34,12%
1996	5,67	6,01	-5,00	5,88	-0,38	-3,34	-6,79	5,56	5,67	-0,34	8,17	-1,27	**20,07%**	**22,34%**	20,26%
1997	7,63	-0,27	-2,94	4,23	9,81	1,87	11,37	1,75	0,95	-2,25	3,28	1,17	**41,93%**	**61,92%**	31,01%
1998	-2,25	16,05	5,26	0,82	-4,70	6,31	-1,19	-12,08	0,00	11,64	10,66	14,16	**49,43%**	**43,31%**	26,67%
1999	6,37	-5,14	8,10	1,87	0,24	7,37	-3,04	2,64	-2,51	7,09	3,53	10,54	**42,20%**	**61,76%**	19,53%
2000	-1,56	5,36	9,32	-8,22	-5,69	5,95	-1,98	17,36	-8,48	-9,31	-12,12	1,49	**-11,46%**	**-5,37%**	-10,14%
2001	3,32	-14,68	-2,93	12,31	-11,19	-3,55	1,56	-1,09	-4,28	2,4	3,72	-1,88	**-17,52%**	**-12,72%**	-13,04%
2002	-0,64	-5,42	2,56	1,33	1,15	2,13	6,73	-0,78	2,8	0,33	-6,24	2,93	**6,34%**	**-9,79%**	-23,37%
2003	-0,18	-2,24	2,61	0,00	2,40	-4,62	0,88	4,33	-4,38	5,5	3,16	4,44	**11,85%**	**-6,72%**	26,38%
2004	2,01	3,32	1,12	-4,67	2,07	2,02	-1,67	-1,75	0,95	2,53	4,35	1,2	**11,71%**	**3,70%**	8,99%
2005	4,71	10,78	-2,84	-4,9	3,00	2,41	6,54	3,85	3,78	-4,17	6,2	3,87	**37,24%**	**57,15%**	3,00%
2006	21,12	-4,49	9,06	8,97	-5,29	-5,14	-4,86	2,62	-4,86	-0,47	5,10	-1,61	**18,09%**	**5,95%**	13,62%
2007	5,72	-3,93	3,2	7,28	6,50	2,25	-1,57	-2,05	15,1	9,58	-2,69	3,46	**49,90%**	**35,58%**	3,53%
2008	3,31	9,14	-6,09	8,25	0,62	6,98	-8,8	-8,56	-11,02	-4,71	0,81	4,39	**-8,92%**	**-4,93%**	-38,48%
2009	-0,08	2,82	1,29	7,80	7,74	9,18	-9,41	9,63	3,71	3,34	-0,08	2,98	**48,08%**	**44.51%**	23,45%
2010	-9,79	3,43	7,78	-5,85	-6,39	-4,61	9,02	3,11	8,70	3,77	1,11	9,89	**7,71%**	**15,27%**	12,78%
2011	3,02	0,40	-7,01	0,94	-2,98	-2,73	5,63	-8,41	4,32	-7,97	2,70	-3,27	**-17.60%**	**-15,46%**	0,00%
2012	4,49	0,03	-1,33	-1,03	-2,91	-1,10	3,18	0,53	0,73	-0,96	-2,14	-1,86	**-0,73%**	**-2,60%**	13,41%
2013	2,81	2,24	0,99	-3,69	-0,88	-5,21	-2,3	0,25	-1,70	1,55	1,45	-0,25	**-1,36%**	**-5,31%**	29,60%
2014	-0,02	2,94	2,75	-0,86	1,22	-0,49	-0,53	3,01	-0,51	-0,32	-0,01	-0,02	**-5,71%**	**7,16%**	11,39%
2015	1.59	3,94	1,79	-2,84	1,21	-1,90	0,55	-5,42	-2,47	6,06	2,15	-3,39	**-9,62%**	**0,64%**	-0,73%
2016	-2,71	1,16	-0,99	-0,04	1,17	-0,10	2,72	-1,08	0,37	1,84	1,78	2,48	**3,28%**	**6,69%**	9,54%
2017	2,17	4,16	0,39	0,47	-1,09	-1,46	0,49	-2,76	0,25	4,39	0,53	0,64	**23,52%**	**8,33%**	**19,42%**
2018	5,79	-1,20											**6,20%**	**4,52%**	**1,50%**

Performance prior to January 2009 is based on the FCM Opportunity Fund (USD) which has been managed by the Investment Manager since 1980 using the same investment strategy and approach as the Sparrowhawk Fund.
Past performance is not an indicator of future results.

Audited YTD performance.
1980-2008 in USD
2009-Today in EUR

Robin Curry-Lindahl

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

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

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