Fidelity Capital Management

September 2020 Investment Letter

30/09/2020

Sparrowhawk Fund (EUR)	**+14,59%**
Royal Albatross Portfolio (USD)	**+1,70%**
Kingfisher Portfolio (USD)	**+12,32%**

DJ Industrial Index	-2,65%
S/P 500 Index	4,09%
MSCI World Index	0,37%
Berkshire Hathaway	-5,77%
Gold	+24,29%
EUR/USD	+4,53%
Oil WTI	-32,1%

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.

Hello Helicopter Money.

“Once we get into 2021, and we get a vaccine,

and the economy starts to pick up,

the stock market will be higher than it is today.”

Covid is not getting better. It’s getting worse. Worldwide, the number of cases is more than 36 million and over 1,000,000 have died.

Many of us had hoped it would have diminished by now, but it’s increasingly obvious that it’s going to be around for a good while and instead, we’ve had to learn to live with it.

The Spanish flu lasted two years. That was 100 years ago and experts believe today will be similar. If so, then we could see a another wave as we move into 2021, perhaps lasting until 2022.
Should this happen, it will continue to hurt the global economy, and those effects will be widespread. It would add more uncertainty to the pot and it would strongly affect the markets.

The upcoming election is another wild card in a year of wild cards. It’s fueling uncertainty even more so now that Trump has covid. Plus, it seems likely that the election results will be challenged.

Then what happens? At this point, no one knows but the instability that follows will almost certainly affect the stock market.

We wouldn’t be surprised to see a longer lasting period of economic weakness. We hope not, but as each month passes, it just doesn’t look like the economy will bounce back soon. That’s especially true considering the massive hit the economy is taking due to the growing coronavirus.

Many of the jobs that were lost, for example, are not coming back. Businesses have closed, unemployment is sky high and millions of people are suffering from severe financial distress.

To put this into perspective... During the 2008 financial crisis, 8 million people lost their jobs. Currently, about 50 million have lost their jobs.

We know this sounds depressing and we aren’t gloom and doomers, but this is our current reality. And it’s not only in the U.S., this same trend is happening worldwide.

This means there’s going to be massive ongoing expenses that’ll result in the biggest debt ever known to mankind. It’s already happening and it’s totally unprecedented.

For now, the Fed will keep producing money printed out of thin air to pay for all of these expenses for as long as it has to. In fact, it's planning to create about $1.5 trillion over the next three years.

Again, to put this into perspective... It took 100 years for the Fed to reach its first $3 trillion in new money. But this year, it only took three months to chalk up its next $3 trillion.

As we've noted in the past, the numbers are mind boggling and it could eventually result in one of the biggest inflations we've ever seen... at least that's what this is all telling us.

Remember, easy money is the direct cause of inflation and the money now being created has never been easier.

Even though the Fed is supposed to be independent, it's not. The Fed and the U.S. Treasury are working together closely, in large part because of the crisis and the spending, piling up debt and printing whatever amount of money that's needed. And they're going to keep doing this.

How do we know?

Because they said so. Fed head Powell noted the road ahead will all depend on the virus. It has to.

The other option would be a Great Depression, which would be even worse.

This tells us gold and the metals will continue to soar and they'll be the best investments in the years ahead.

The Big Picture

Many have asked how the economies will recover following Covid. The most likely way is by intensive infrastructure building. And this would cause a commodities resource boom. This means iron ore, the base metals and resource companies would benefit. Silver would benefit as well!

It's interesting to see that China is already on this path. Its recovery is gaining steam with government stimulus helping to fuel a rebound. And the emphasis is seemingly on construction, which is why we've seen a boost in this sector already this year.

It looks like the U.S. and the world will follow this solid path because fixing bridges, roads and infrastructure in general is very much needed in many countries, and it's the best way to get jobs and people back to work.

Of course, this will be after the virus has died down or a vaccine is available.

The Fed is doing everything it can to deal with the current unprecedented economic situation. It's lending tons of money to just about everyone. It's printing money like mad. It's keeping interest rates near 0%. It's boosting inflation and most important, it's working to save the economy.

Will the Fed succeed? We think it will, but it could take quite a while, resulting in many repercussions along the way.

Keep in mind, the Fed's main goal is to avoid a Great Depression. And they've pointed out that the economy will depend significantly on the course of the virus. So if the virus keeps on as it's been doing, economic uncertainty will prevail. And the way things are going, it doesn't look good for this year.

Many people still aren't social distancing or wearing a mask. Instead large gatherings are happening all over.

What are the Markets telling us?

74% of the managers expect the Republican Party will keep the Senate, while 94% think the Democrats will keep control of the House.

Top priorities for both winner should be controlling Covid-19 and reducing unemployment. Then No 3 priority is passing an infrastructure bill.

2/3 of large investors see Trump as more market-friendly and 60% consider him better for the economy than Biden.

Short-term rates have been super low for a long time. In fact, they've been near 0% for over 10 years, ever since the 2008 financial crisis. And it's now been confirmed they're going to stay there. This month, for instance, Fed head Powell said that the Fed will keep interest rates at 0% until 2024 to help boost the economy. And they could stay low even longer if the virus and its repercussions are around.

Interest rates have never been as low as they are now. And that goes for both short and long-term interest rates.

But if we go back even further to the very beginning of recorded interest rates, which was about 4000 BC during the Sumerian civilization, then throughout Europe, and to the present, there have never been a prolonged period of negative or 0% interest rates in any country in all of human history.

Historically rates have been about 3-4% on average... sometimes more, sometimes less... but those days are clearly over.

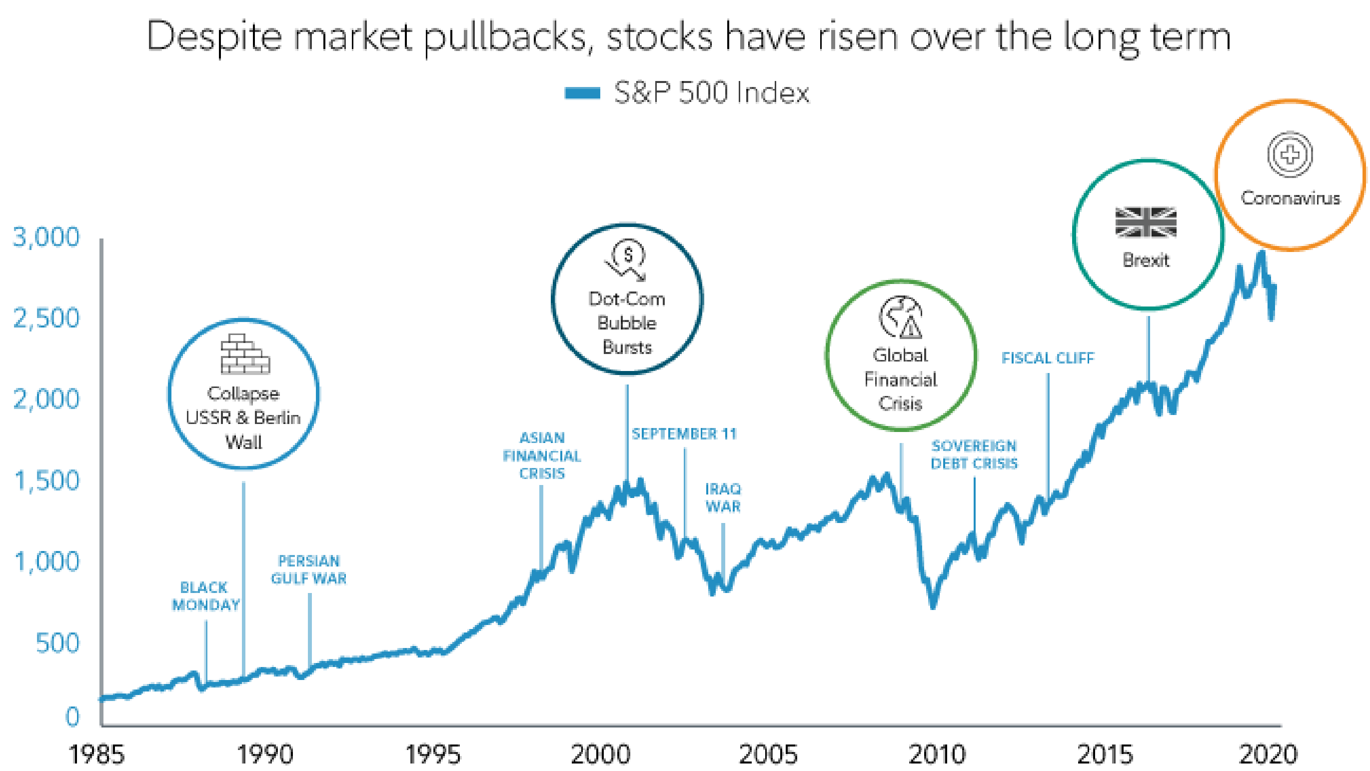
Japan has had 0% interest rates for over 20 years. And the rest of the world has followed.

And now that global economies are suffering, thanks to Covid, it only reinforces that interest rates are going to stay at or near 0% in the years ahead all over the world.

This tells us that the days of collecting interest are not coming back for a very long time. So if you're retired, or headed in that direction, you have to take this into consideration for your financial planning.

What's happened is that many people in this situation have turned to the stocks market in search of better returns and/or dividends.

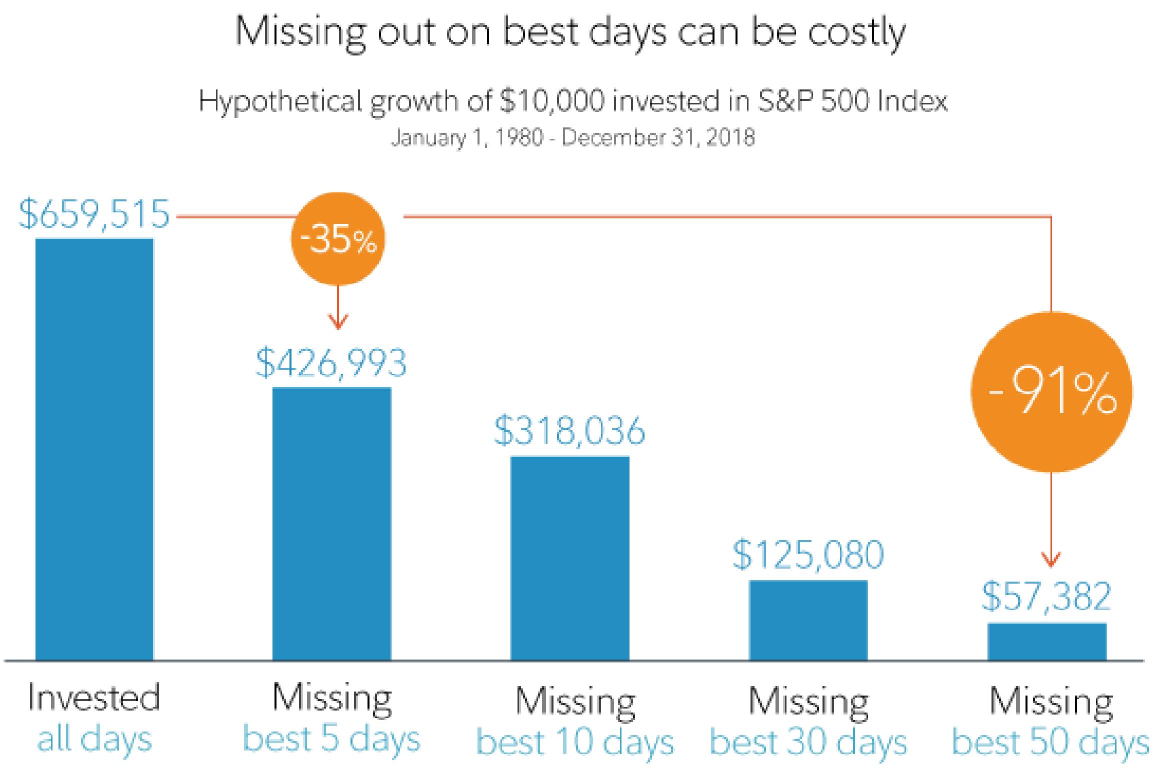
Real estate could be good and prices will likely keep rising, especially with mortgage rates so low. And since they tend to move with the 10 year yield, mortgage rates will also likely stay low in the years ahead .



- 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

Once we get into 2021 and we get a vaccine, and the economy starts to pick up, the stock market will be higher than it is today

The virus and political worries have been outweighing the upbeat news, keeping a lid on stock prices. Plus, this generally tends to be a volatile time of year for stocks. And this year it’s been more intense because of the election.
The end result... September was the worst month for stocks since March. But as you see, stocks have been bouncing back nicely, forming a sideways band, and the big question is... what’s next?

We believe a lot will depend on what happens with the election. If all goes smooth, it'll be good for the market. But if there is uncertainty and no final outcome, stocks could fall and/or remain volatile, depending on how this all plays out.

Meanwhile, the economy remains in a recession and the virus continues unchecked. Normally, this alone would be very bad for stocks.

But offsetting this is all of the easy money the Fed's been providing, along with super low interest rates. This has been driving stocks higher since 2009 and it's still working.

This week Fed head Jerome Powell warned that if the U.S. can't control the virus, it could lead to an economic tragedy. He also noted that the recovery is far from complete and the U.S. remains in danger of shifting into reverse once again, especially if infections keep rising.

Winners will keep carrying the Fund. According to Credit Suisse, 54% of the market cap of the S/P 500 is on track to grow earnings in 2020. We believe the chances are good that the tech sector and the digital media, fintech and e-commerce internet-industry groups will produce earnings growth in the 3rdQ. As long as those winners keep winning and we think they will, they provide a solid earnings foundation for the broad market.

Index	2020 Peak	YTD
Shanghai	13.15%	10.11%
S&P 500	10.84%	9.39%
Nikkei 225	1.80%	-0.41%
BSE SENSEX	1.69%	-1.60%
DAXK	3.80%	-3.78%
Hang Seng	3.07%	-12.56%
CAC 40	2.23%	-16.71%
FTSE 100	1.75%	-20.43%
As of Oct 12, 2020		

Interestingly, China appears to be the first to be pulling out of the slump. That's still to be seen but it makes sense, considering it was the first to be hit by the virus.

If it is pulling out, that's a positive sign for the rest of the world, but it's too soon to tell. For now, the road from here to there will likely be bumpy but we do hope it won't be long lasting. Time will soon tell.

The Sparrowhawk Fund has always focused on free cash flow and the financial strength of the companies in its portfolio. "One never knows when the capital markets window will close and businesses will be forced to operate without the help of the capital markets. This is where we are today… "

The Sparrowhawk Fund run a very concentrated portfolio,…...These are fine companies, with solid long- term prospects, this environment forces the Fund to only own excellent companies, with fortress balance sheets and exceptional short and long-term prospects.

The Fund remain "fully invested", but the cash balances allow the Fund to buy names they like, when the throws them away.

Portfolio News:

To prepare for a potential infrastructure package, **Caterpillar** would benefit.

The growth potential in tech companies is greater than the rest of the market's, justifying the sector's multiples relative to current earnings. **Amazon** trades for 76 times expected earnings and **Alphabet** have a P/E of 27.

They may look overvalued now but if we think about where they will be five years from now, we believe we are going to be really glad to be holding them.

US Dollar

The dollar's been rising since 2011, and it's been forming a top since 2016. This year it broke down from this top and it's now embarking on a renewed decline. This up move since 2011 was basically a pause in the dollar's mega downtrend that's been in force for the past nearly 50 years. During that time the dollar has lost about 75% on average versus the world's major currencies.

That is, this year's decline of 10% has just been a continuation of this mega down move. And with the financial situation so negative as far as the debt, money printing and future inflation are concerned, there's no reason to believe that this almost 50 year drop is going to turn around.

Aside from the ongoing unprecedented financial crisis in the U.S., the debt just keeps growing. And this isn't only because of the pandemic, it's been happening for decades. This is why the U.S. is slowly losing its prestigious global reserve status, and that's reflected in the dollar's decline.

This is something that has happened gradually throughout history. At different times over the centuries, Spain, Holland and Britain, for instance, had the best currencies in the world, but these top positions tend to last about 100 years on average and then things change.

The U.S. is nearing the 100 year mark and eventually something else will replace it. You simply can’t be the biggest debtor nation in the world and expect to maintain your #1 position. It doesn’t work that way.

That’s why so many countries have been cutting back on their dollar holdings and U.S. bonds, and replacing them with a diversified mix of other currencies and gold.

This doesn’t make sense. What currency could possibly replace the U.S. dollar?

There really isn’t one... all of the countries are reeling under the pressure of the virus. As a result, they’re nearly all med- dling with their central banks and, like the U.S., they’re taking desperate measures. These may not be good for the long-term, but most countries feel they must take whatever action they have to now, not later.

This has led to erratic monetary policy across the board. So the dollar may not be replaced real soon.

This is obviously not a top priority under current circumstances. Nevertheless, the international community may indeed decide that a basket of currencies and/or gold would probably make the most sense when the time comes.

Gold and Natural Resources

Our turbulent environment makes you wonder why the metals aren’t higher on safe haven buying. But then again, gold was being manipulated. It’s now out in the open that traders at J.P. Morgan rigged the metals and Treasury markets resulting in 5 felonies. JPM agreed to pay a record $1 billion. And this came on the heels of the Deutsche Bank rigging. Manipulation is no longer a theory. It was real.

And another wild card in a year of wild cards hit us with Trump getting the virus. The list of uncertainties gets longer .... The US - China tension, upcoming presidential election, the pandemic, an economic recession, social unrest, and currency dislocation with massive stimulus are all seeing more people buying gold on bigger dips.

What happened in 2008 to cause gold to start a strong powerful rise? Peter Schiff said it best when he said the Fed made an effort to normalize monetary policy following the QE program to prop up the economy after the 2008 crisis. BUT it had to reverse course in the fall of 2018. The Fed made three rate cuts thereafter, and returned to QE last year.

The bottom line is the debt ridden bubble economy couldn’t bear 2.50% interest rates.

The Fed essentially created a phony recovery by levering everybody up with debt. You can't prop up the economy and then remove the prop. So the pandemic started this year with an already debt troubled situation.

When the virus struck, the Fed let loose and began QE to infinity (easy money as far as the eye can see) and a zero rate policy for years to come.

It almost feels like the pandemic was the "savior" for now, by kicking the can down the road.

Demand continues to grow with more big names acknowledging gold's performance. To name a few, Goldman Sachs said it was time for gold to shine. Bank of America has also been calling for a higher gold price. In fact, their research said ETF demand is now the driver for gold prices and not the futures paper market. Plus, Warren Buffet had already given main stream investors an okay to buy gold.

Plus, the latest IMF Reserve Data shows a continued flight from the U.S. dollar into gold.

Most important are the central banks and their ongoing purchases of gold, like they've been doing for several years.

But now we see several central banks panicking. Everything seems uncertain, whether it's your personal health, the stock market or the economy. It's changing.

UBS is now buying gold because it won't be easy to manipulate going forward, thanks to J.P.Morgan.

China is very interesting when it comes to gold. They have a deep culture involving gold. It's gifted at weddings, as Brian Tycangco from Stansberry Research noted recently. Their demand was down this year due to the pandemic. Thousands of weddings were cancelled and no one was buying gold. But with China coming out of a downdraft, it's opening up and looking better.

This will push demand for gold much higher in the coming year. Plus, China is a major gold producer and hoarder of gold.

Summary

Sparrowwhawk Fund is a long-term investors, taking a long-term perspective. The Fund strive to anticipate, as opposed to react. Of course, this is easier said than done…

The market is attractive, at least a certain number of companies within our hot sectors such as education online, 5-G players and security but the Fund remain patient and disciplined. In today's market, all stocks are being treated similarly. Once we emerge from this virus, all companies will not be on equal footing. The Fund have a shopping list, and they are selectively buying.

We're bound to have lots of volatility going forward but keeping the 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 + 40.000%, 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	+3,90	+1,58	+5,58	-1,60				**19,98%**	**14,59%**	**4,09%**

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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