Fidelity Capital Management

September 2020 Investment Letter

30/08/2020

Sparrowhawk Fund (EUR)	**+16,46%**
Royal Albatross Portfolio (USD)	**+3,07%**
Kingfisher Portfolio (USD)	**+15,67%**

DJ Industrial Index	-0,38%
S/P 500 Index	8,37%
MSCI World Index	4,11%
Berkshire Hathaway	-3,54%
Gold	+31,15%
EUR/USD	+6,93%
Oil WTI	-30,17%

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.

Inflate or Die.

The main reason why was because the Fed was printing excessive amounts of money to pay for the governments ever growing expenses and deficits. They simply didn’t have enough money to pay for all these expenses on their own, so the Fed had to step in to pick up the slack.

As you know, too much money creation is the direct cause of inflation. And the end result of all this money creation was going to end up in an inflationary bubble.

There was really no way out of this dilemma. Thus... inflate or die.

And that’s exactly the situation currently taking place, and it’s the most important factor that’s happening, even though everyone has been preoccupied and distracted by other things that’re also very important, like Covid, the election, the economy, protests and more.

But this fundamental financial situation is clearly eroding the overall foundation.

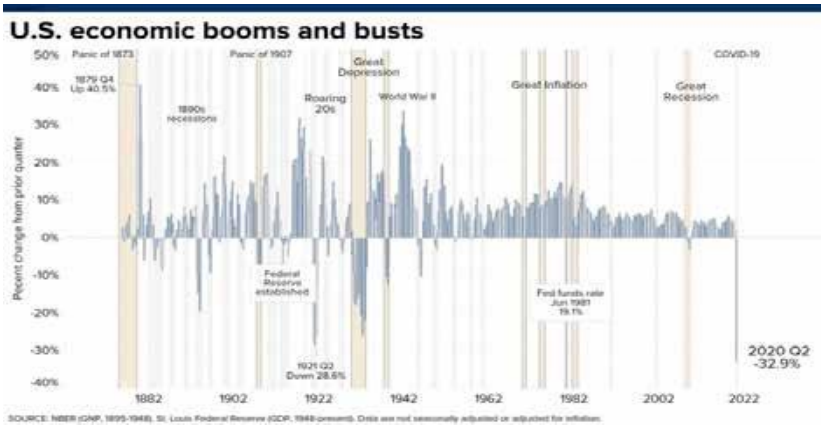
As we’ve mentioned before, but want to emphasize again, the situation today is a mind blowing, never-happened-before event. It’s totally unprecedented.

Here’s why... Following the 2008 financial crisis, the Fed created billions of dollars to bring the economy back from the brink of collapse. At that time, this was big compared to the past. But compared to what’s happening today, the 2008 experience seems small by comparison.

So far, this year the Fed has created three times more than the amount of money that was spent following the 2008 financial crisis. This is more than what was spent to pay for all of the U.S. wars going back to the American Revolution, including World War I and II.

This alone is shocking but it’s going to get worse as the Fed keeps printing money to pay for all of the Covid related expenses, and the worst recession in centuries.

The worst quarterly economic drop during the Great Depression was about 26%. In the 2008 financial crisis it was “only” minus 8.4% This time, so far it’s been much worse, with GDP plunging down to 32.9%



Already this has resulted in a huge surge in the money supply and remember this is a situation that is still in process. It's not over yet, not by a long shot. So what does this mean?
It means that expenses will keep skyrocketing and money will keep being produced for as long as it takes, and this is all going to result in a big inflation down the road..
Just last month we mentioned that no one really expects a huge inflation. But that's no longer the case. In fact, Fed chief Jerome Powell recently came out and said they now actually want inflation and they'll be working toward that goal.

This was a huge shift in policy, but we're pretty sure the main reason for this shift was to avoid another Great Depression.

Meanwhile, gold has been telling us this all along. Gold is the world's primary inflation hedge and that's one important reason why it's been holding near its all time record highs, at the $1900 - $2000 level. Gold knows and it's ready to make its move in this new environment.

Interestingly, if we compare inflation in recent years to the huge inflation in the 1970s, there are some similarities that are worth noting. Note that the movements so far have been about the same...

In the 1970s money supply surged to nearly 15% and inflation followed. When inflation reached near 15%, Fed head Volcker put an end to it, eventually driving interest rates up to nearly 20% and the money supply plunged. Today, money supply growth is near 23% and it's, therefore, logical to assume that inflation may well continue up.

In a sense, that would be the best case scenario. The worst case scenario would be another Great Depression and that's something no one wants.

So the bottom line is that the whole world is in a situation that's never happened before. This means none of us can predict how it'll all turn out. We can only make reasonable assumptions based on similar situations that have happened before.

And based on what's happening, there are two forces that are solidly on track.

First and foremost, all of these factors couldn't be more bullish for gold if we tried. Not only are we talking about what's happening on the financial front with skyrocketing expenses, government debt that's going to exceed the economy, unprecedented money creation and the inflation targeting by the Fed, but there's more...

The coronavirus itself keeps growing. Globally there are now more than 29 million cases and deaths continue to mount. Unfortunately, it's not going away any time soon.

This in turn will continue to affect the world economy. This strongly suggests that all of the major countries will keep boosting their spending and money creation in whatever way they can.

As a result, uncertainty is going to stay with us far longer than we'd like. And this uncertainty will keep upward pressure on gold because it thrives when things are uncertain.

It's also going to keep downward pressure on the U.S. dollar. And this too will be good for gold since gold and the dollar tend to move in opposite directions.

The Sparrowhawk Fund have approximately a 5% weight in gold in the portfolio.

Sparrowhawk Fund, a highly concentrated fund with strong holdings for the long term, made + 40,000% since 1980, by being invested at all times and riding through the crisis periods. The S/P 500 made + 2,500%

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

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 +16,46% YTD, beating the Dow Jones Index which is at -0,38%.

The Big Picture

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.

The numbers are rising but things have opened up. And overall, it just seems like there are many people worldwide who aren't taking the virus seriously. As long as that's the case, the world economy is going to struggle.

In the U.S. it also means the Fed will have to keep buying ever larger amounts of all kinds of bonds to finance the spending. And it'll keep printing money to buy all those bonds for as long as it takes.

This goes for government, state and municipal bonds, as well as mortgage and junk bonds, and ongoing loans to banks and businesses. And it'll also mean super low interest rates for a long time to come.

Already, the Fed now owns more U.S. Treasuries than normal investors. Foreign investors also used to be big bond buyers, but they've been cutting back. And since the TIC data is no longer being reported, which used to tell us which countries were buying bonds and how much, it's now hard to know who's doing (or not doing) what.

One bright note is the housing sector. It's been surging and it tends to lead the economy. So maybe things won't be as bad as they now appear to be.

Record low mortgage rates and lower home prices have been two reasons why and even though mortgage rates have been inching up, it looks like they're also going to stay low for quite some time.

What are the Markets telling us?

The market is nervous, filled with headlines in the press about US government stimulus (or the lack of it), Supreme Court nominations, and the election, the strong Nasdaq with companies who benefits on the "stay at home", such as Ebay, Paypal and Nvidia.

This tells us it was the fear of another Covid-19 wave that really got the market down lately.

With the UK talking about a second shutdown and Europe facing a second wave of infection as France reported its highest number of daily cases and other countries reported spikes as well. In the US, the number of daily cases is rising and the death toll passed 200,000, leading to the possibility of new shutdowns and sending investors running for safe haven stocks over recovery plays.

Amazon was up 4,8% last week, Apple finished up 5,1% and Microsoft closed up 3,7% while recovery plays Dow fell 8,6% and Chevron dropped 8,2%

"Stay at home" stocks are leading and economic recovery stocks are getting clobbered.

But no one panicked. The S/P 500 came close to a correction (down 10% from its all time high) but came back up and so did the Nasdaq. This tells us the market as a whole has shown us it can hold.

When the virus news worsens, the market generally declines. And when it looks like the global economy may pull out of its slump sooner rather than later, stocks tend to rise.

One of the main points, as far as the stock market is concerned, is the longer the virus lasts, the more it's going to hurt the economy and, therefore, business, earnings, unemployment and spending.

For now, most medical experts are in agreement. The numbers are hitting new highs almost daily. The virus is clearly gaining momentum, and this will likely continue into the Fall. So the likelihood of a second wave is quite probable.

This tells us the current recession is going to stay in force for a long while.

Already, more than 30% of mortgage borrowers are behind on their payments. The same is true of rents, student loans, personal loans, which are all going to further affect the housing sector and the economy. And if unemployment stays high, which it will as long as the virus is soaring, it's going to worsen the overall situation.

In any event, it's important to note that even though the stock market gets all the

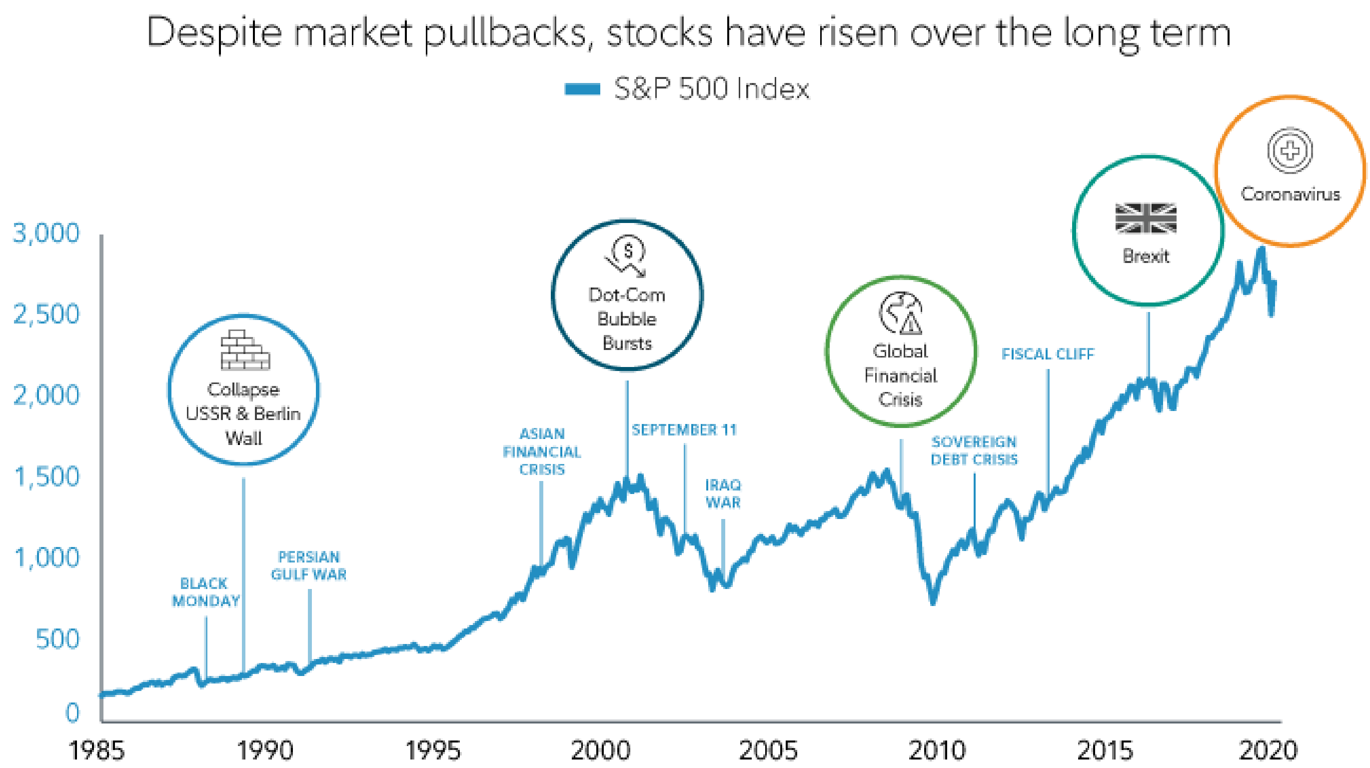
publicity, gold has been a much better investment and that's where your focus should be.

This year, for example, gold has risen 20% and 26.36% year over year. In comparison, the S&P 500 has essentially broken even this year and it's only up 7 1/2% year over year.

So, what about the global stock markets? For the most part, they've been bouncing up too. Like the U.S., they're looking forward to better times ahead.

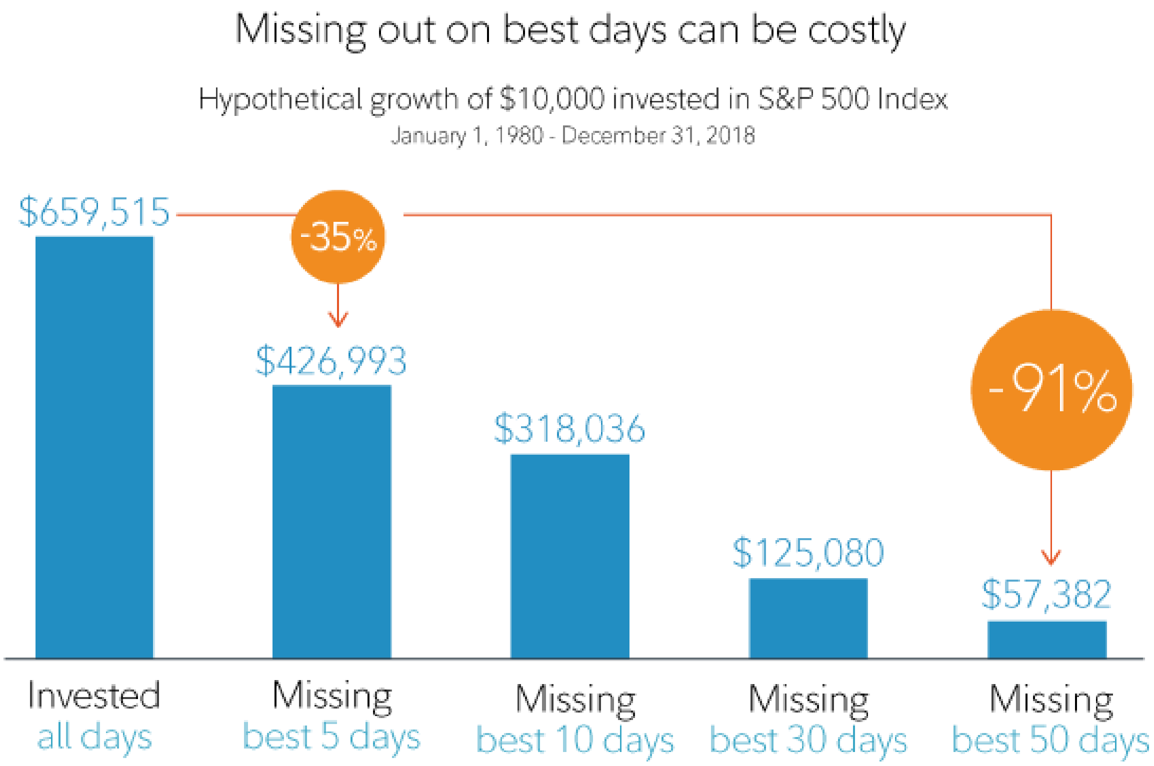
In many cases, they also feel the worst of the virus is behind them. That's especially true in Europe and Asia. It's interesting, for instance, that despite the upsets and clashes in Hong Kong, the market is still taking a positive spin on things. The Shanghai stock market, for example, has been rising.

Very often the markets don't make sense. That's just the way it is. When this happens it's important to keep in mind that the reasons why something is happening will become obvious in time. And then it will make sense. We think that's what's happening now. Just be patient and we'll soon see the outcome.



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

The stock market has been a real mystery. It's been surging, thanks to more stimulus, in the biggest disconnect we've ever seen. That is, what's happening on Wall Street and Main Street are poles apart.

Consider this... Currently, we're in the midst of the worst pandemic in 100 years, the economy is in the worst recession ever while the worst protests since the 1960s continue. Plus, corporate profits are plunging and corporate bankruptcies are up to higher levels than during the 2008 financial crisis.

Yardeni Research points out that the last 20 bear markets, going back to the 1920s, lasted about 10 months on average. This one in March only lasted one month, and will this be all we're going to get, especially under today's circumstances.?

Warren Buffett has been buying gold, and with good reason.

Gold is much stronger than stocks and it has been all year. So gold is a low risk better investment and that's where your focus should be.

Consumers are not going to jump in and start spending all of a sudden. More likely, this will happen gradually and while it does, stocks could then trade more in line with reality.

We could be wrong and hope we are. But we'll probably see the outcome sooner than we think.

For now, the world stock markets remain mixed. For example, the markets of the developed countries, such as Japan Canada, Germany and France are bouncing up. But other markets, such as South Korea, Malaysia, Mexico and England are mostly sluggish.

Overall, however, the world markets are generally moving together. And the U.S. stock market is leading the pack. If it does turn down, then the other markets will likely decline too. But if it heads higher, the global markets will likely continue to be boosted by the upward pressure.

Index	2020 Peak	YTD
Shanghai	13.15%	8.75%
S&P 500	10.84%	1.24%
Nikkei 225	1.80%	-1.25%
BSE SENSEX	1.69%	-7.80%
DAXK	3.80%	-8.06%
Hang Seng	3.07%	-15.04%
CAC 40	2.23%	-19.84%
FTSE 100	1.75%	-23.04%
As of Sep 21, 2020		

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 Mr. Market throws them away. In this environment of panic selling, think of one of Warren Buffett’s great quotes. Buffett said, "We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful."

Portfolio News:

The EU is taking a case against **Apple** to the highest court in Europe, appealing an EU general court decision from July that ruled in favor of Apple. Seeking to crack down on “sweetheart ta deals,” the EU sparked the case by ordering to pay $14,4B in back taxes (that has been held in escrow while the appeals process plays out).

Amazon introduced new devices at its online hardware event, including Alexa speakers and two new Fire TV products. They have plans to jump into the increasingly crowded game streaming space. The platform called Luna, works on Fire TV, Mac, mobile devices and PCs.

US Dollar

Currency debasement is officially underway. This is most obvious with the U.S. dollar, which has been hitting new 28 month lows.

For quite some time, the Administration has wanted a weaker dollar, primarily because it provides trade benefits. But then the virus hit hard, shutting down the economy and fueling the unprecedented monetary stimulus that’s been in force since then.

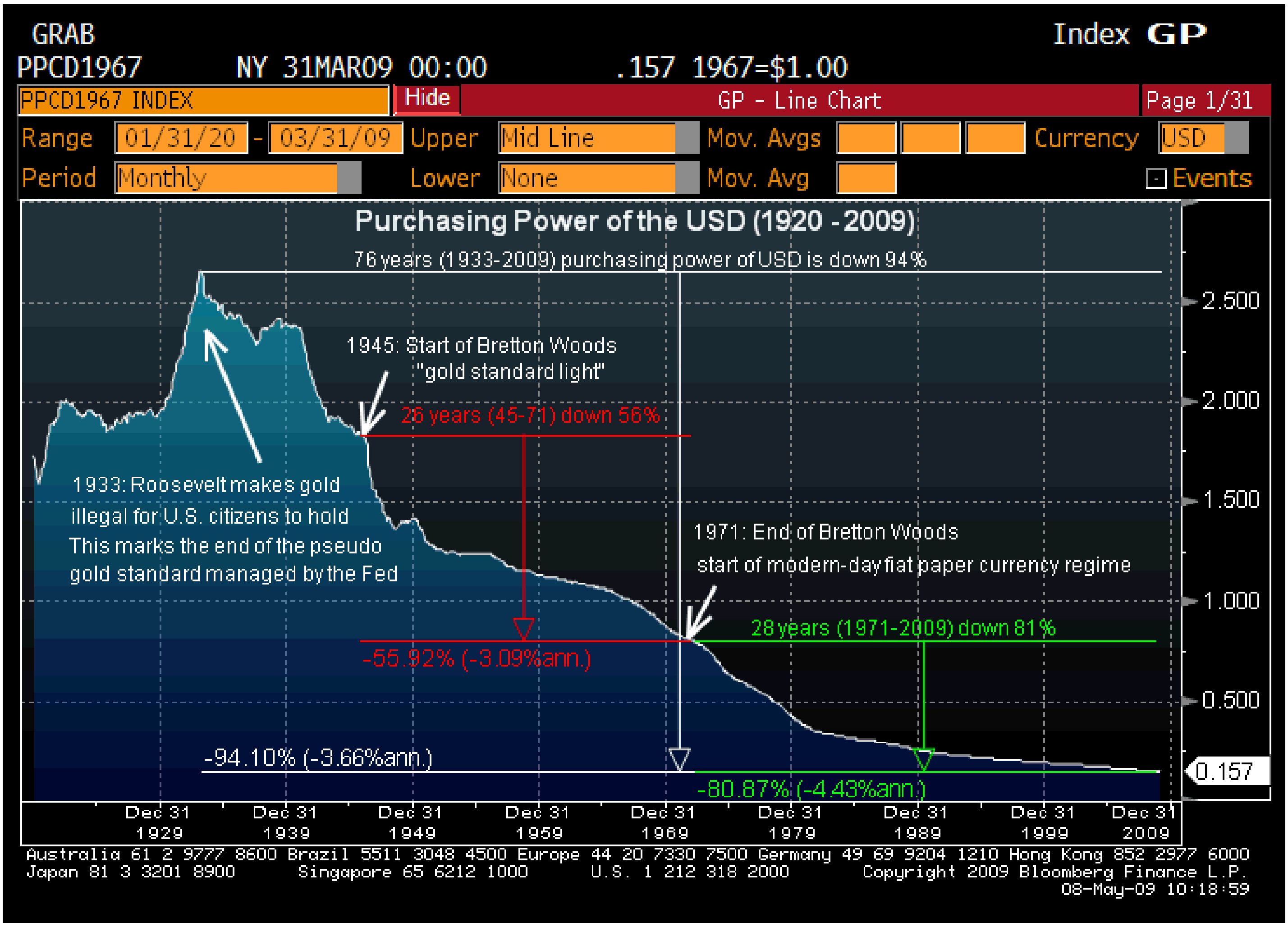
As part of the stimulus measures, low interest rates and a weak U.S. dollar were also on the agenda. And the dollar has been falling steadily as the pandemic gained momentum.

A weaker dollar supposedly makes the debt more manageable. But since the debt is now so massive and it keeps growing, the weaker dollar may not make that much of a difference. Nevertheless, it will help in the near-term, but over the long haul a weaker dollar will also fuel inflation. The dollar has been falling for nearly 50 years, ever since it went off the gold standard in 1971.

If anything, the decline may be even more severe than those in the past due to the unprecedented economic drop and resulting monetary stimulus the U.S. has embarked upon. Plus, the trade deficit is huge and this too coincides with a weak dollar.

However, that may not happen right away. The dollar has already dropped to the ‘too low’ area. This means we’ll probably see some sort of an upward rebound in the weeks ahead.

The strongest currencies. are the Canadian and Australian dollars, along with the euro and Swiss franc.



Gold and Natural Resources

The soaring rise of gold since March took a breather this past month. The strength in gold, silver and their shares is impressive. Since reaching their highs in August, they’ve been consolidating near the highs. Gold is holding firmly above $1900 and silver above $26.

Silver followed the robust rise in gold shares, and while gold in euro terms has remained near its record highs. This means even though the euro has been rising, gold is still better than all of the currencies. And silver’s rise was a wake up call that it’ll continue rising strongly.

Summary

Sparrowwhawk Fund is a fundamental investor, 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 the security industry 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					**24,45%**	**16,46%**	**8,34%**

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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