NewScape
CAPITAL GROUP

Diversified Growth Fund

September 2017

September at a Glance

- **The Dollar Finds a Base**
- **Sberbank**
- **Struggling with Quality**

Manager's Commentary

The Newscape Diversified Growth Fund (DGF) rose by 1.3% in September which compared favourably to market prices. The biggest risers included oil exploration and services stocks, Uniper and the banks. Detractors included industrial metals, gold and Pandora.

Another reason for the market-beating returns was our hedge against a rise in sterling. The pound is important because excessive strength harms returns for UK investors. DGF has a tactical strategy to offset that while still participating in overseas markets. That hedge was significantly reduced in late September.

The dollar finds a base

The US dollar is roughly at the same level today as it was two decades ago; at least against developed currencies. Over that timeframe, the pound has been the weakest of the majors, with the Swiss Franc being the strongest. The euro has been the second worst, which says much about this continent. The Australian and Canadian dollars have just about kept up with China's Renminbi; the second best of them all.

The recent dollar revival began in 2014, when it became clear that quantitative easing would cease in the USA. That saw US treasuries soar while the emerging markets and commodities came under pressure. A weak dollar is like a tax cut for the world. It takes the pressure off emerging markets, allowing their currencies to appreciate which in turn, lowers inflation. Stability attracts capital and boosts growth, which increases demand for commodities.

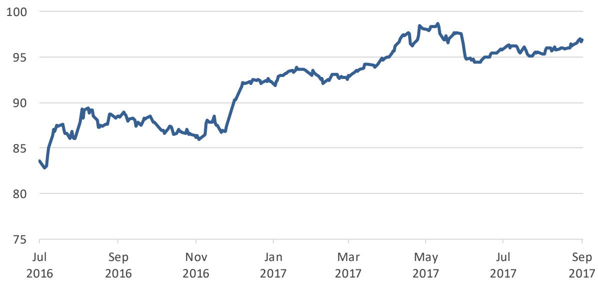
From the 1950s until the credit crisis, US treasuries were generally negatively correlated to the dollar. In other words, a weak dollar was compensated for with higher yields. However, during times of stress, that has sometimes reversed as the dollar became the safe haven; yields collapsed as the dollar surged. This has been the post-crisis norm until recently.

A weak dollar can now coexist with a weak bond market. That ought to mean that higher inflation and bond yields will be a boon for the value investor, and in particular, emerging markets. Naturally, any dollar strength and will bring an abrupt halt to this trade, and that night be something to be constantly aware of. Our conclusion is that value (including commodities and emerging markets) can be held in conjunction with US treasuries, which will deliver diversification. With prices falling (yields rising), we are looking for a suitable time to buy treasuries, but at lower prices.

Sberbank

With a more stable outlook for the Ruble, Russian assets stand to benefit. Sberbank is Russia's pre-eminent banking institution with a dominant market

Performance



Share Class A Acc GBP from 29/07/2016 to 30/09/2017
Charlie Morris taking over fund management - 29/07/2016
Fund data as at 30 September 2017
Source: Bloomberg

Share Class A Acc GBP from 19/10/2012 to 30/09/2017
Charlie Morris taking over fund management - 29/07/2016
Fund data as at 30 September 2017
Source: Bloomberg

Returns (%)

	Class A GPB	Class B GBP	Class S GBP	Class S USD
1 Month	1.3%	1.2%	1.3%	1.4%
6 Month	4.2%	3.7%	4.5%	-
YTD	6.0%	5.3%	6.5%	-
Since Inception	-3.1%	18.3%	11.7%	-0.3%
1 Year	9.7%	8.7%	10.5%	-
3 Year	2.7%	-	-	-

Share Class A Acc GBP ; Fund data as at 30 September 2017; since 19/10/2012.
Data prior to 19/10/2012 unavailable;
Source: Bloomberg

Discrete Annual Returns - year end 30/09

	2017	2016	2015	2014	2013
Class A	9.7%	1.3%	-6.0%	-4.8%	-

Share Class A Acc GBP; Fund data as at 30 September 2017;
Data for the year of 2013 (year end 31/08) is unavailable.
Daily data used for calculations; Figures are net of fees;
Source: Bloomberg

Calendar Year Performance

	2016	2015	2014	2013
Class A	1.4%	-7.0%	-6.5%	2.6%

Share Class A Acc GBP; Fund data as at 30 September 2017;
Daily data used for calculations; Figures are net of fees;
Source: Bloomberg

Portfolio Characteristics

	DGF	FTSE 100	Gilts*
Volatility	6.7%	9.6%	6.7%
Yield**	1.3%	4.2%	1.4%

Data as at 30 September 2017;
Source: Newscape Capital Group, FTSE 100 and Gilts - Bloomberg;
*UK 10 -year benchmark gilt;
**Generated income will be reinvested within the fund.

share. Although it is majority owned by the Russian state, it is managed independently. Sberbank has a good reputation for being innovative and has an impressive technology platform. Through its vast branch-network, the company provides a full range of retail and corporate banking services. Sberbank generates the highest returns of any global bank and is well capitalised. Earnings growth has been lacklustre over the last two years due to a recession in Russian which ended in early 2016.

We anticipate an improvement in loan growth which will likely drive earnings higher. We also expect an increase in the pay-out ratio which should drive higher dividend growth. The stock trades at an undemanding price to earnings of 6.4 years and offers a 3 percent dividend yield. Furthermore, it trades at 1.3 times book value, a number that was materially higher a decade ago.

Struggling with quality

It's hardly news that the best stocks are richly priced. Taking the constituents of the Dow Jones Industrial average, over half of the constituents trade at, or close to, their highest price to sales ratios recorded over the past three decades. Yet at the same time, cashflow multiples are generally less stretched. The answer is that profit margins are at elevated levels; something attributable to factors such as lower wages, lower capital expenditure, lower cost of credit and lower taxes. Many believe this to be a new paradigm, but the lesson from history is that profit margins often revert back to their mean.

The Dow is only a proxy for quality, but it has a history of out-performing bear markets due to the dominant market position of its members. But if they are so highly rated, will this hold true next time? We have our doubts, and in search of quality, we are looking for companies that will withstand the next economic downturn. Reinsurance is a candidate, as are utilities and telecoms, with the caveat being creditworthiness.

While we aren't forecasting a downturn, it is an ongoing discussion at Newscape as to what might go wrong. Most sectors that have been bashed down have done so for a reason. For example, the retailers have been scoffed by the internet, but they haven't died. And what doesn't kill you, makes you stronger.

Outlook

On balance, we remain optimistic. There are no shortage of things to worry about, but that is normally the case. With a little over 50% invested in equities, positioning is unaggressive yet enough to keep up with rising markets. That exposure could be increased, yet capital preservation is an important consideration. Holding other assets helps to achieve this, which is borne out by the low volatility.

There are plenty of opportunities on the horizon. We are looking into the Chinese A share market, Argentina, European life insurance and global retail. We are also puzzled by a spike in electricity prices in parts of Europe. Could this be linked to the electric car? For that we have a modest investment in nickel.

Charlie Morris
Lead Manager

If you would like to subscribe to the Diversified Growth Fund monthly update, please email Ieva: i.katiliute@newscapegroup.com.

Fund Managers

Charlie Morris
Lead Manager
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Charlie Morris spent 17 years at HSBC Global Asset Management as the Head of Absolute Return. There he managed a $3 billion multi-asset fund range as well as contributing to the overall strategy of the business. Charlie is now CIO at Newscape Capital Group, having joined in May 2016 to take over and restructure the Newscape funds business.

Fahad Hassan
Co-Manager
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Fahad worked at Legal and General for 11 years, where he ran over a $1 billion in institutional and retail mandates. Fahad is the lead portfolio manager of the Emerging Market Equity Fund and is a co-manager on the Newscape Diversified Growth Fund. He is a CFA Institute charter-holder and has a deep understanding of industry structure, style factor investing and monetary economics.

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CAPITAL GROUP

Diversified Growth Fund

Share Class Information

Share Class	Bloomberg Ticker	NAV	Inception Date
A Acc GBP	NDVGRAS ID Equity	96.93	19/10/2012
B Acc GBP	NEWDBAS ID Equity	118.33	21/01/2016
S Acc GBP	NEWDSAG ID Equity	111.66	16/09/2016
S Acc USD	NEWDSAU ID Equity	99.67	01/06/2017

Investment Themes

Equity Sector	Allocation
Developed	
Financials	29.2%
Energy	21.2%
Information Technology	13.9%
Industrials	11.3%
Total	75.6%
Emerging markets	
Russia	2.9%
Hong Kong	2.9%
India	1.2%
Colombia	1.2%
Total	10.0%

Top 10 Holdings

Holding	Size
BERKSHIRE HATHAWAY	2.3%
MARKEL	1.9%
FACEBOOK	1.4%
FDM GROUP	1.3%
CITIGROUP	1.2%
DEVON ENERGY	1.2%
PNC FINANCIAL SERVICES	1.2%
PAYPAL	1.2%
GILEAD SCIENCES	1.2%
BANK OF AMERICA	1.2%
Total	14.0%

Data as at 30 September 2017
Source: Newscape Capital Group

Currency Exposure

Currency	Allocation
GBP	61.9%
USD	37.0%
HKD	1.9%
CAD	1.8%
TRY	0.9%
DKK	0.8%
EUR	-4.4%
Total	100.0%

Allocation by Style

Style	Allocation
Global Government	23.8%
Real Assets	18.8%
Quality	15.0%
Growth	14.8%
Value	14.1%
Cash	13.5%
Total	100.0%

Asset Allocation

Asset Class	Allocation
Equity	53.1%
Government	16.1%
Cash	13.5%
Short bond	7.7%
Precious metals	7.0%
Commodity	1.7%
Property	0.9%
Total	100.0%

Fund Details

Domicile		Dublin, Ireland
Legal Structure		ICVC
Investment Manager		Newscape Capital Group Ltd
Fund Launch Date (Share Class A Acc)		19-Oct-12
Currency		GBP
Liquidity		Daily
Administrator		CACEIS Ireland Limited
Depository		CACEIS Bank Luxembourg Dublin Branch
Auditor		PricewaterhouseCoopers (Ireland)
Legal Counsel		A&L Goodbody Solicitors
Codes	Bloomberg ticker	ISIN
Class A Acc GBP	NDVGRASID	IE00B8J3XG20
Class B Acc GBP	NEWDBASID	IE00B8HF7910
Class S Acc GBP	NEWDSAG ID	IE00BH7Y4H86
Class S Acc USD	NEWDSAU ID	IE00BH7Y4G79
Charges	Annual Management Charge	OCF**
Class A	0.75%	4.68%
Class B	0.75%*	5.68%
Class S	0.00%	3.94%

**The manager has rebated 1.00%*
***Ongoing Charges Figure*
(OCF is the basis upon which all share class figures have been calculated)
For full details on the charges and fees please refer to the fund supplement and KIID.

AI 2016 INTERNATIONAL FINANCE awards WINNER
Newscape Capital Group Ltd
Best Specialist Investment Manager UK

Current Holdings

Quality	Growth	Value	Real Assets
BERKSHIRE HATHAWAY	WNS	BANK OF AMERICA	DEVON ENERGY
MARKEL	FACEBOOK	CITIGROUP	ROYAL DUTCH SHELL
BRISTOL-MYERS	PAYPAL	PNC FINANCIAL SERVICES	NATIONAL OILWELL VARCO
DAEJAN	CELGENE	SUNTRUST BANKS	SCHLUMBERGER
MERLIN ENTERTAINMENT	FDM GROUP	CYBG	PREMIER OIL
WALGREENS BOOTS ALLIANCE	PANDORA	LLOYDS BANKING GROUP	LUKOIL
MTR	RPS GROUP	ROYAL BANK OF SCOTLAND GROUP	TULLOW OIL
CK HUTCHISON	GUIDEWIRE SOFTWARE	STANDARD CHARTERED	ARCH COAL
GILEAD SCIENCES	VMWARE	ROTORK	TATNEFT
AFLAC	MAIL.RU	US SILICA HOLDINGS	CAMECO
UNIPER SE	MAGNIT	PETROFAC	POLYMETAL INTERNATIONAL
ENEL SPA	IWG	WW GRAINGER	BARRICK GOLD
ENGIE	BANCOLOMBI	C.H. ROBINSON WORLDWIDE	HOCHSCHILD MINING
SWISSCOM	SBERBANK	HANSARD GLOBAL	CENTAMIN
			KOZA ALTIN ISLETMELERI
			ETFS PHYSICAL SILVER
			ETFS PHYSICAL PLATINUM
			ETFS NICKEL

Data as at 30 September 2017
Source: Newscape Capital Group