

## October at a Glance

- Leadership
- Strength in Oil
- Kering

## Manager's Commentary

The Newscap Diversified Growth Fund (DGF) rose by 0.2% in October. The biggest risers included the Kering, Intel, Banco Macro and Russia's Mail. Detractors included IWG, Banco Colombia, Merlin and Magnit.

Sterling hedges detracted slightly, but as we enter November, the pound has made a three-month high versus the euro and is regaining strength against the dollar. Good news on the political front relating to trade talks with the European Union is being well received.

The stockmarket has entered the exponential phase. Growth stocks are surging and investor behaviour has changed. Investors are overpaying for growth at the expense of stability, income or long-term capital preservation. Just like in the late 1990s, growth stocks are in demand while the old economy is being left behind.

## Leadership accelerates

Studying the momentum effect can give powerful insights when analysing market behaviour. By taking the winning quintile of momentum stocks as a group, and adding together their market values, current readings show the winners represent a hefty 24% of the total stockmarket capitalisation. Having followed this metric for over a decade, 23% is generally a high reading from which momentum stocks have often corrected. For reference, the historic average is around 17%.

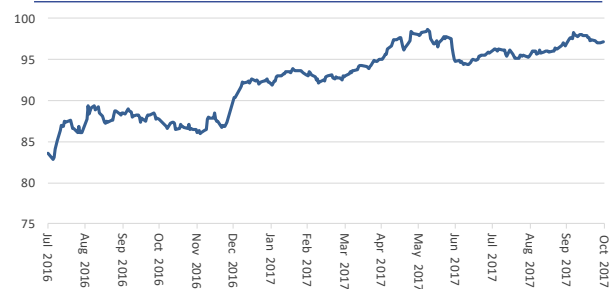
Bubbles have a habit of breaking the rules. Under these conditions, the winners just keep on winning. In the late 1990s, the weight of winners' market cap touched 45%. That meant the largest companies by value were also the best performers. That works well for the index funds, but tends to be less fun for the value-conscious stock-picker. That it will one day end in tears, is inevitable. But that is of little comfort when obsessing about relative performance. Of the top eleven global stocks, seven are part of dotcom 2.0; namely Apple, Alphabet, Microsoft, Amazon, Facebook, Tencent and Samsung. DGF holds three of these companies, and struggles to justify adding more.

In the interests of balance and diversification, DGF also has a focus at the opposite end of the spectrum, and the sector that stands out as an opportunity, is oil.

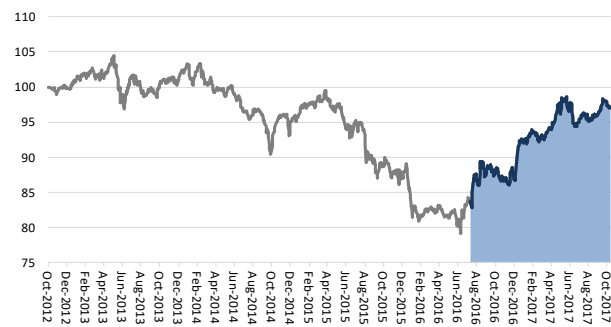
## Strength in oil

Brent Crude recently made a two-year high at \$61, while West-Texas Intermediate Crude (WTI) rallied to \$55. In a perfect world, these two prices would remain close together; which has been the case most of the time.

## Performance



Share Class A Acc GBP from 29/07/2016 to 31/10/2017  
 Charlie Morris taking over fund management - 29/07/2016  
 Fund data as at 31 October 2017  
 Source: Bloomberg



Share Class A Acc GBP from 19/10/2012 to 31/10/2017  
 Charlie Morris taking over fund management - 29/07/2016  
 Fund data as at 31 October 2017  
 Source: Bloomberg

## Returns (%)

	Class A GBP	Class B GBP	Class S GBP	Class S USD
1 Month	0.2%	0.1%	0.3%	0.3%
6 Month	2.2%	1.7%	2.6%	-
YTD	7.5%	6.7%	8.2%	0.0%
Since Inception	-2.9%	18.5%	12.0%	0.0%
1 Year	10.7%	9.7%	11.6%	-
3 Year	2.6%	-	-	-

Share Class A Acc GBP; Fund data as at 31 October 2017; since 19/10/2012. Data prior to 19/10/2012 unavailable; Source: Bloomberg

## Discrete Annual Returns - year end 31/10

	2017	2016	2015	2014	2013
Class A	10.7%	-1.6%	-5.8%	-6.3%	-

Share Class A Acc GBP; Fund data as at 31 October 2017; Data for the year of 2013 (year end 31/10) 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 31 October 2017; Daily data used for calculations; Figures are net of fees; Source: Bloomberg

## Portfolio Characteristics

	DGF	FTSE 100	Gilts*
Volatility	4.1%	6.3%	5.4%
Yield**	1.2%	4.2%	1.2%

Data as at 31 October 2017; Source: Newscap Capital Group, FTSE 100 and Gilts - Bloomberg; \*UK 10-year benchmark gilt; \*\*Generated income will be reinvested within the fund.

The last divergence came about in 2011 when Brent traded at a \$25 premium, which coincided with the US shale boom. The hurricanes have certainly caused disruption, but the US efforts to get production back up to speed have been impressive. The Brent premium might instead relate to lacklustre Non-OECD producers such as Iran, Iraq and Russia, which have fallen short of their production goals. Or it might just be telling us that global growth remains buoyant; which is our view.

The oil market has not only firmed, but returned to backwardation for the first time since 2014. That means oil costs more for delivery today than in the spring. These movements in the oil futures curve mark the balance between the physical and financial markets. Contangos have normally coincided with oil price lows, as the short-term oil price collapses amidst capital flight. Backwardations tend to be less extreme, yet last for longer. They tend to coexist with over-capitalised oil markets which is classically, late cycle behaviour. With a surge in technology and backwardation in oil, the current cycle's life expectancy is more likely to be measured in months rather than years. What's more, the oil producers trade cheaply compared to past cycles and if a spike in the oil price should occur, DGF will likely be richly rewarded.

### Kering

Kering was added to DGF in October. The company is a leading manufacturer of luxury, sports and lifestyle goods. Their stable of brands includes Gucci, Alexander McQueen, YSL, PUMA and others. Management have transformed the company from a sleepy conglomerate of underperforming retail assets to a best in class luxury and lifestyle company. The company's largest brand, Gucci, delivered 40% plus sales growth in its most recent quarter. The brand's successful reinvention has been powered by new creative talent and an extremely well executed sales and marketing campaign.

Group margins have inflected higher, which should drive an improvement in group wide profits. The company's other brands have posted better results in recent quarters as well. PUMA delivered 17% sales growth in the third quarter after a lacklustre year in 2016. While the brand is not viewed as a central part of the group's strategy, management have yet to decide on its future. We believe Kering trades roughly in line with other luxury goods companies, yet has superior revenue and earnings growth. It's getting harder to find these sorts of opportunities.

### Outlook

With the stockmarket enjoying the second longest bull run on record, it is right to be cautious. But if this turns out to be a bubble of historic proportions, it's not over yet. We question whether this cycle ends with a bang or a whimper? There are many companies trading at elevated price to sales ratios, yet fewer trade at elevated cash flow yields. The former is cause for alarm while the latter makes things look normal. It all comes back to abnormally low interest rates. So long as the macro backdrop remains stable, this bull market will likely carry on.

Charlie Morris  
Lead Manager

*If you would like to subscribe to the Diversified Growth Fund monthly update, please email [leva: i.katiliute@newscapgroup.com](mailto:i.katiliute@newscapgroup.com).*

### Fund Managers



**Charlie Morris**  
Lead Manager  
[c.morris@newscapgroup.com](mailto:c.morris@newscapgroup.com)

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 Newscap Capital Group, having joined in May 2016 to take over and restructure the Newscap funds business.



**Fahad Hassan**  
Co-Manager  
[f.hassan@newscapgroup.com](mailto:f.hassan@newscapgroup.com)

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 Newscap Diversified Growth Fund. He is a CFA Institute charter-holder and has a deep understanding of industry structure, style factor investing and monetary economics.

### Share Class Information

Share Class	Bloomberg Ticker	NAV	Inception Date
A Acc GBP	NDVGRAS ID Equity	97.13	19/10/2012
B Acc GBP	NEWDBAS ID Equity	118.47	21/01/2016
S Acc GBP	NEWDSAG ID Equity	111.95	16/09/2016
S Acc USD	NEWDSAU ID Equity	99.99	01/06/2017

### Investment Themes

Equity Sector	Allocation
Developed	
Financials	30.5%
Information Technology	18.2%
Energy	16.4%
Industrials	11.5%
Total	76.6%
Emerging markets	
Russia	4.1%
Hong Kong	1.9%
Turkey	1.9%
India	1.2%
Total	9.1%

### Top 10 Holdings

Holding	Size
BERKSHIRE HATHAWAY	2.3%
MARKEL	1.9%
FACEBOOK	1.5%
FDM GROUP	1.3%
PAYPAL	1.3%
BANK OF AMERICA	1.2%
VMWARE	1.2%
CITIGROUP	1.2%
WW GRAINGER	1.2%
DEVON ENERGY	1.2%
Total	14.3%

Data as at 31 October 2017  
Source: Newscap Capital Group

### Currency Exposure

Currency	Allocation
GBP	45.8%
USD	35.0%
EUR	10.6%
JPY	2.0%
HKD	1.9%
TRY	1.9%
CAD	1.0%
CHF	1.0%
DKK	0.8%
Total	100.0%

### Allocation by Style

Style	Allocation
Global Government	23.2%
Growth	19.6%
Quality	18.4%
Real Assets	17.3%
Value	16.1%
Cash	5.4%
Total	100.0%

### Asset Allocation

Asset Class	Allocation
Equity	61.8%
Government	16.3%
Short bond	8.0%
Cash	5.4%
Precious	4.6%
Commodity	3.0%
Property	0.9%
Total	100.0%

### Fund Details

Domicile	Dublin, Ireland	
Legal Structure	ICVC	
Investment Manager	Newscap 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	
<b>Codes</b>	<b>Bloomberg ticker</b>	<b>ISIN</b>
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
<b>Charges</b>	<b>Annual Management Charge</b>	<b>OCF**</b>
Class A	0.75%	3.31%
Class B	0.75%*	4.26%
Class S	0.00%	2.45%

\*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.



Current Holdings

Quality	Growth	Value	Real Assets
BERKSHIRE HATHAWAY	WNS HOLDINGS	BANK OF AMERICA	DEVON ENERGY
MARKEL	FACEBOOK	CITIGROUP	ROYAL DUTCH SHELL
BRISTOL-MYERS SQUIBB	PAYPAL	PNC FINANCIAL SERVICES	NATIONAL OILWELL
DAEJAN HOLDINGS	FDM GROUP	SUNTRUST BANKS	PREMIER OIL
MERLIN ENTERTAINMENT	PANDORA	CYBG	TULLOW OIL
MTR	RPS	LLOYDS BANKING GROUP	TATNEFT PAO-SPONSORED
CK HUTCHISON HOLDINGS	GUIDEWIRE SOFTWARE	ROYAL BANK OF SCOTLAND	ENCANA
GILEAD SCIENCES	VMWARE	STANDARD CHARTERED	WHITING PETROLEUM
AFLAC	MAIL.RU	CREDIT SUISSE GROUP	QEP RESOURCES
UNIPER	IWG	JPMORGAN	POLYMETAL INTERNATIONAL
ENGIE	SBERBANK	ROTORK	HOCHSCHILD MINING
INTEL	BANCO MACRO	PETROFAC	CENTAMIN
BIOGEN	TURKIYE GARANTI BANKASI	WW GRAINGER	KOZA ALTIN ISLETMELERI
JARDINE LLOYD THOMPSON	CANON	C.H. ROBINSON WORLDWIDE	ETFS PHYSICAL PLATINUM
BURBERRY GROUP	BAIDU	HANSARD GLOBAL	ETFS NICKEL
KERING	INTERMEDIATE	TOSHIBA	ETFS SOYBEANS
	ILLUMINA		
	BTG		

Data as at 31 October 2017  
Source: Newscap Capital Group

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