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January at a Glance

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Manager's Commentary

The Newscap Diversified Growth Fund (DGF) rose by 0.8% in January. The biggest risers included Zijin Mining, Tatneft, and Gilead. Detractors included Harmony Gold and Kozal Altin.

There has been a significant shift in the asset allocation in January whereby equity exposure has been reduced. We remain cautious on bonds and recognise that commodities offer some upside over the medium term. All in all, we feel this is a good time to move into a lower gear and remain cautious.

Reducing Equities

Evidence continues to mount that the great bull market from 2009 to 2018 is coming to an end. We've seen lofty valuations that have only been matched in 1929 and 1999; from which things turned nasty. There have been numerous other stockmarket records such as the uninterrupted rally without a 5% correction. More recently we have seen exuberant sentiment readings, which according to Ned Davis research, are the highest on record.

How we got here is often attributed to easy money and stimulus. Moreover, rates and inflation have not only been low, but also stable; which has led to complacency. Now that rates are on the rise, and stimulus is coming to an end, the easy money is behind us. Stability will likely morph into instability, and as rates and inflation rise, levels of price volatility will finally normalise. Prices can either go sideways for several years while the real economy catches up, or they can crash back down to earth. In our opinion, further upside now seems unlikely and so we have reduced equity exposure from around 50% to 26% of the fund.

The Alternatives

If times were normal, we'd just buy bonds and sit it out. But currently, the value on offer is paltry when compared to history. One argument sees inflation ballooning as Trumps overspends, the dollar collapses and oil surges. The other suggests that the credit crisis never ended and the forces of deflation have only been held back by the tsunami of stimulus from the central banks. Either which way, bond yields are extremely low by historic standards. While the idea of a safe haven is most welcome, the benefits may not be as good as we have become used to.

That said, US treasuries are three steps ahead of European bonds as they offer 0.7% real yields, which compares favourably to gilts (-1.6%) and bunds (-0.5%). At least treasuries offer something, which implies they have less room to fall than their European counterparts.

Performance



Share Class A Acc GBP from 19/10/2012 to 31/01/2018
 Charlie Morris taking over fund management - 29/07/2016
 Fund data as at 31 January 2018
 Source: Bloomberg

Returns (%)

	Class A GBP	Class B GBP	Class S GBP	Class S USD	Class I GBP
1 Month	0.8%	0.7%	0.9%	1.0%	0.8%
6 Month	6.6%	6.2%	7.1%	7.7%	
YTD	0.8%	0.7%	0.9%	1.0%	0.8%
Since Inception	2.5%	24.7%	18.4%	6.1%	5.0%
1 Year	11.0%	10.0%	11.8%	-	-
3 Year	5.5%	-	-	-	-
5 Year	1.4%				

Share Class A Acc GBP ; Fund data as at 31 January 2018; since 19/10/2012.
 Data prior to 19/10/2012 unavailable;
 Source: Bloomberg

Rolling Annual Returns - year end 31/01

	2018	2017	2016	2015	2014
Class A	11.0%	11.2%	-14.5%	-3.9%	0.1%

Share Class A Acc GBP; Fund data as at 31 January 2018;
 Data for the year of 2013 (year end 31/01) is unavailable.
 Daily data used for calculations; Figures are net of fees;
 Source: Bloomberg

Calendar Year Performance

	2017	2016	2015	2014	2013
Class A	12.6%	1.4%	-7.0%	-6.5%	2.6%

Share Class A Acc GBP; Fund data as at 31 January 2018;
 Daily data used for calculations; Figures are net of fees;
 Source: Bloomberg

Portfolio Characteristics

	DGF	FTSE 100	Gilts*
Volatility	6.2%	9.0%	6.3%
Yield**	1.3%	4.1%	1.2%

Data as at 31 January 2018
 Source: Newscap Capital Group, FTSE 100 and Gilts - Bloomberg;
 *UK 10 - year benchmark gilt;
 **Generated income will be reinvested within the fund.

When inflation stabilises, real yields may move higher, but not until oil China-induced inflation has peaked. Oil has been well flagged as a source of rising prices, but the Chinese currency appreciation, less so. The Renminbi has risen 13% versus the US dollar over the past year, which has pushed up consumer prices around the world through expensive imports. According to purchasing power parity, the Renminbi is now 10% overvalued and so when this turns down, the reflation trade may come to an abrupt halt.

While commodities are enjoying the buoyant economy and the reflation trade, this is surely temporary. That means the alternative to equities is commodities now and bonds later. Given how perfect timing is impossible, a blend of the two is our preferred course of action.

Telepizza Group

Despite our caution on equities, there's always room for a new idea that offers value. Telepizza Group is the leading non-US based pizza delivery company by number of stores. It is also the fifth largest pizza company in the world by turnover. Founded in 1987 in Spain, the business has expanded from a single store in Madrid to over 1,300 stores across more than 20 countries. In 2016, they were the market leader in Spain, Portugal, Chile and Columbia. In 2017, they opened their first stores in the UK, France, Czech Republic, Switzerland, Paraguay and Iran with plans to extend their reach to Mexico in 2018. Recently they became the first restaurant company to install Amazon Lockers; a service that allows users to collect deliveries from a designated kiosk of their choosing.

What surprised us was the valuation. Telepizza trades at 1.3 times sales compared to 4.1 times for the UK's Dominos. While the growth rate is lower today, the long-term benefits of exposure to Latin America could turn that situation around.

Outlook

The monthly relative strength indicator (RSI) for the S&P 500 reads at an impressive 87. We've seen this before in 1929, 1955 and 1996. The latter was the only occasion that led to continued gains. 1929 saw a wipe out, while 1955 saw a five year pause in the advance. The exception in 1996 was associated with declining bonds yields and falling inflation. Given the opposite is true today, and that valuations are heady, we should take caution.

Slashing equity exposure in DGF isn't an easy decision to take, but the evidence suggests that it is the right thing to do.

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:leva.i.katiliute@newscapgroup.com).

Fund Managers



Charlie Morris
Lead Manager
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

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	102.49	19/10/2012
B Acc GBP	NEWDBAS ID Equity	124.73	21/01/2016
S Acc GBP	NEWDSAG ID Equity	118.35	16/09/2016
S Acc USD	NEWDSAU ID Equity	106.14	01/06/2017
I Acc GBP	NEWDIAG ID Equity	105.03	02/11/2017

Investment Themes

Equity Sector	Allocation
Developed	
Financials	33.1%
Materials	20.0%
Energy	14.4%
Industrials	11.1%
Total	78.6%
Emerging markets	
China	5.3%
Russia	4.6%
Turkey	0.9%
South Africa	0.8%
Total	11.7%

Top 10 Stocks

Holding	Size
TATNEFT	1.3%
ZIJIN MINING	1.3%
SBERBANK	1.1%
RHI MAGNESITA	1.1%
CITIGROUP	1.0%
ANGLO AMERICAN	1.0%
INTERMEDIATE CAPITAL GROUP	1.0%
GLOBALTRA	1.0%
BERKSHIRE HATHAWAY	1.0%
ALPHABET	1.0%

Data as at 31 January 2018
Source: Newscap Capital Group

Currency Exposure

Currency	Allocation
GBP	70.3%
USD	39.5%
HKD	4.3%
EUR	-17.0%
TRY	2.8%
CHF	-19.9%
JPY	30.0%
AUD	-10.0%
Total	100.0%

Data as at 31 January 2018
Source: Newscap Capital Group

Allocation by Style

Style	Allocation
Global Government	29.8%
Real Assets	24.9%
Cash	21.2%
Value	10.0%
Growth	8.2%
Quality	5.9%
Total	100.0%

Asset Allocation

Asset Class	Allocation
Government	29.8%
Equity	27.7%
Cash	21.2%
Precious	15.5%
Commodity	5.8%
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	
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
Class I Acc GBP	NEWDIAG ID	IE00BD5G3046
Charges	Annual Management Charge	OCF**
Class A	0.75%	1.21%
Class B	0.75%*	2.65%
Class S	0.00%	0.37%
Class I	0.75%	1.12%

*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	Global Government
BERKSHIRE HATHAWAY	MAIL.RU	CITIGROUP	ROYAL DUTCH SHELL	Gilt 5% 2018
MARKEL	INTERMEDIATE CAPITAL GROUP	LLOYDS BANKING GROUP	TATNEFT PAO	UST 1.25% 2023
BIOGEN	ALPHABET	STANDARD CHARTERED	CHINA PETROLEUM & CHEMICAL	Gilt 1.25% 2018
GILEAD SCIENCES	GENESEEE & WYOMING	CREDIT SUISSE	ANGLO AMERICAN	Gilt 4.5% 2019
KERING	TELEPIZZA	SBERBANK	CENTAMIN	IBRD* TRY 8.25% 2022
KONE		BANK OF COMMUNICATIONS	KOZA ALTIN ISLETMELERI	
		PICC PROPERTY & CASUALTY	HARMONY GOLD	
		ROTORK	ZIJIN MINING	
		PETROFAC	ISHARES PHYSICAL GOLD	
		BYD CO	SOURCE PHYSICAL GOLD	
		RHI MAGNESITA	ETFS PHYSICAL SILVER	
		GLOBALTRA	ETFS NICKEL	
			ETFS SOYBEANS	
			ETFS GRAINS	

Data as at 31 January 2018
Source: Newscap Capital Group
*International Bank of Reconciliation and Development

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