NewScape CAPITAL GROUP

Diversified Growth Fund

February 2018

THIS FACT SHEET IS INTENDED FOR PROFESSIONAL INTERMEDIARIES ONLY

February at a Glance

- **Market Storm**
- **Beware of Safe Stocks**
- **Technology and Gold**

Manager's Commentary

The Newscape Diversified Growth Fund (DGF) rose by 1.4% in February, in contrast to global equities that fell by 1.5% and the WMA Balanced index that fell by 1.7%.

The biggest risers included the yen, grains and gold. Detractors included Petrofac, Intermediate Capital and Kone. The high weight in short-dated US and UK government bonds, along with selective commodities and low exposure to equities kept volatility low and capital preserved. DGF will remain defensively positioned until it becomes clear that this storm in markets has passed.

Market storm

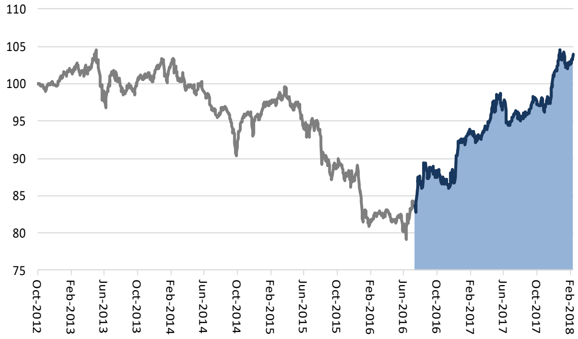
The macro danger signals have reawakened in a world of high asset prices. The yen is rising and stockmarkets are falling at a time when the bond market walks along a tightrope. The strong economy, exacerbated by tax cuts in the US, has enjoyed a bullish narrative and we are likely about to find out how exaggerated it might be. US short-dated bonds have priced in 3 (or 4) hikes for 2018, brought about high levels of economic confidence. Thus far, rising yields have coincided with rising stock prices, but there are two problems here. Either the economy is too strong and a bold FED will choke off the stockmarket rally with even more tightening to choke off expected inflation. Or, in my opinion and more likely, the economic boom may turn out to be an exaggeration. In which case, the rate hikes will stall and the economy will slow. In which case, the stockmarket has no place trading at lofty levels.

In Europe, the narrative has not been so strong, and stocks are underperforming the rest of the world. This has been most pronounced in the UK, in part due to the weak pound, but also due to fears over political fragility. Brexit maybe precarious, but the threat of Corbyn is even worse. Other weak European markets include Germany, Switzerland and Sweden. That would surprise many, but not if you consider that their growth has come about through exporting precision engineering goods to China. If Chinese demand cools, it's easy to see how these markets would suffer. Add to that trade tariffs and political uncertainty in Italy, and you can start to see why Ray Dalio, the hedge fund manager, has an $18 billion short position in the expectation of a fall in European share prices.

Beware of safe stocks

At the sector level, the consumer stocks are in trouble along with utilities, telecoms and property. Traditionally, these are the less cyclical "safe" stocks that give investors a place to hide during a storm. Yet this time, they have been hit the hardest. You can read much into this, such as their link to bonds,

Performance



Share Class A Acc GBP from 19/10/2012 to 28/02/2018
Charlie Morris taking over fund management - 29/07/2016
Fund data as at 28 February 2018
Source: Bloomberg

Returns (%)

	Class A GPB	Class B GBP	Class S GBP	Class S USD	Class I GBP
1 Month	1.4%	1.3%	1.5%	1.6%	1.4%
6 Month	8.5%	8.1%	9.0%	9.7%	
YTD	2.2%	2.1%	2.3%	2.6%	2.2%
Since Inception	3.9%	26.4%	20.1%	7.8%	6.5%
1 Year	11.7%	10.7%	12.6%	-	-
3 Year	6.3%	-	-	-	-
5 Year	2.0%				

Share Class A Acc GBP ; Fund data as at 28 February 2018; since 19/10/2012.
Data prior to 19/10/2012 unavailable;
Source: Bloomberg

Rolling Annual Returns - year end 28/02

	2018	2017	2016	2015	2014
Class A	11.7%	13.5%	-16.2%	-5.4%	1.4%

Share Class A Acc GBP; Fund data as at 28 February 2018;
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 28 February 2018;
Daily data used for calculations; Figures are net of fees;
Source: Bloomberg

Portfolio Characteristics

	DGF	FTSE 100	Gilts*
Volatility	5.9%	9.8%	6.3%
Yield**	1.1%	4.4%	1.5%

Data as at 28 February 2018
Figures annualised;
Source: Newscape Capital Group, FTSE 100 and Gilts - Bloomberg;
*UK 10 -year benchmark gilt;
**Generated income will be reinvested within the fund.

but the biggest culprit is surely high valuations. Stocks like Reckitt Benckiser have traded between 1 and 3 times sales for many years. Then for some reason it touched 6 times sales in 2016 – more the rating of a high-growth software company than a company that sells loo cleaning products. I'm not picking on Reckitt, merely highlighting a wider theme. MacDonald's, Johnson and Johnson, Boeing, L'Oréal and Nestle and many others are similarly highly priced.

Technology and gold

Technology stocks appear to be shrugging it off, even though they trade at even higher multiples. Take Microsoft, that happily ranged between 5 and 10 times sales until the late 1990s. Back then it grew at an impressive rate over 30% per annum. Over the next few years, growth will be lucky to surpass 10%, yet it is priced like a young company about to change the world. It's the same story across the tech giants where valuations will need to see exemplary results in order for investors to be rewarded.

But just like in the late 1990s, when there was a bubble in tech, the macroeconomic backdrop saw real interest rates rising. That is, rates rise faster than inflation. And in a such an environment, low growth businesses become unattractive, and there is a stampede to chase high growth companies seemingly at any price. And that explains, from a macroeconomic standpoint, why tech stocks are one of the few areas that have shown a positive return this year. This situation is becoming increasingly dangerous because the risk to the momentum trade is at its highest when it is both long in the tooth and singled out as a sure thing.

The opposite of technology stocks, is gold. This performs best when real rates fall and is an effective diversifier for technology stocks. Consider that over the past two decades, gold has risen 4.5x while the Nasdaq has risen 5.5x; both with significant volatility including the dotcom bear market and the gold crash of 2013. Yet an annually rebalanced 50/50 portfolio holding the two, rose by 6.5x. It just demonstrates how complimentary these two assets can be. One creates wealth while the other protects it.

By our calculations, gold trades at fair value, which is a rarity in a world of high asset prices. That makes it an effective store of value, that could move to a premium should investors take flight. As we see it, gold has low downside risk and if real rates start to fall, may even rise. We don't see this as our central case, but it remains a possibility.

Outlook

State Street looked at the number of consecutive days that the SPX 50 day moving average has remained above its 150-day moving average prior to past bear markets. In 1987 it was 235, in 2000 it was 232, in 2007 it was 264. Today it's an almighty 486. Exuberance sitting on top of high valuations, is traditionally a recipe for disaster. Recall the journey of Wile E Coyote.

Short-term volatility will inevitably rise as the excesses of this bull market come back down to earth. Our strategy is to preserve capital until a buying opportunity presents itself; something that can only come from lower asset prices.

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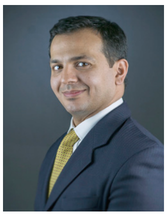
Charlie Morris spent 17 years at HSBC Global Asset Management as the Head of Absolute Return. There he managed a $3 billion multi-asset fund range as well as contributing to the overall strategy of the business. Charlie is now CIO at Newscape Capital Group, having joined in May 2016 to take over and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

NewScape
CAPITAL GROUP

Diversified Growth Fund

Share Class Information

Share Class	Bloomberg Ticker	NAV	Inception Date
A Acc GBP	NDVGRAS ID Equity	103.92	19/10/2012
B Acc GBP	NEWDBAS ID Equity	126.39	21/01/2016
S Acc GBP	NEWDSAG ID Equity	120.07	16/09/2016
S Acc USD	NEWDSAU ID Equity	107.83	01/06/2017
I Acc GBP	NEWDIAG ID Equity	106.49	02/11/2017

Investment Themes

Equity Sector	Allocation
Developed	
Financials	33.1%
Consumer Discretionary	20.0%
Utilities	14.4%
Energy	11.1%
Total	93.9%
Emerging markets	
China	1.9%
Total	1.9%

Top 10 Stocks

Holding	Size
TELEPIZZA GROUP	1.1%
BERKSHIRE HATHAWAY	1.0%
CITIGROUP	1.0%
SOUTHERN COMPANY	1.0%
AMAZON	1.0%
INTERMEDIATE CAPITAL GROUP	1.0%
CREDIT SUISSE	1.0%
JPMORGAN	1.0%
STANDARD CHARTERED	1.0%
LLOYDS	1.0%

Data as at 28 February 2018
Source: Newscape Capital Group

Currency Exposure

Currency	Allocation
GBP	47.3%
USD	45.9%
EUR	2.0%
TRY	1.9%
HKD	1.9%
CHF	1.0%
Total	100.0%

Data as at 28 February 2018
Source: Newscape Capital Group

Allocation by Style

Style	Allocation
Global Government	41.8%
Real Assets	19.6%
Cash	17.8%
Spec Sits	6.1%
Value	5.8%
Growth	5.0%
Quality	3.9%
Total	100.0%

Asset Allocation

Asset Class	Allocation
Government	41.8%
Cash	17.8%
Precious	15.4%
Equity	14.6%
Short equity	6.1%
Commodity	4.3%
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
Class I Acc GBP	NEWDIAG ID	IE00BD5G3046
Charges	Annual Management Charge	OCF**
Class A	0.75%	3.89%
Class B	0.75%*	4.83%
Class S	0.00%	3.14%
Class I	0.75%	3.89%

**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	Special Sitations
BERKSHIRE HATHAWAY	INTERMEDIATE CAPITAL	CITIGROUP	ISHARES PHYSICAL GOLD ETC	UK Gilt 0% May 2018	BOOST FTSE 250 1X SHORT ETP
MARKEL	TELEPIZZA	JPMORGAN	SOURCE PHYSICAL GOLD P-ETC	Gilt 1.25% 2018	X S&P500 INVERSE DAILY SWAP
KONE	AMAZON.COM	LLOYDS	ETFS PHYSICAL GOLD	Gilt 5% 2018	
SOUTHERN COMPANY		STANDARD CHARTERED	ETFS PHYSICAL SILVER	Gilt 4.5% 2019	
KERING		CREDIT SUISSE	ETFS SOYBEANS	Gilt 1.75% 2022	
KONE		BANK OF COMMUNICATIONS	ETFS GRAINS	UST 1.25% 2023	
		PICC PROPERTY & CASUALTY		UST 2.125% 2024	
		PETROFAC		IBRD TRY 8.25 2022	

Data as at 28 February 2018
Source: Newscape Capital Group
*International Bank of Reconsiliation and Development

Disclaimer