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## May at a Glance

- **Inflation Risks Contained**
- **Micro Focus**
- **Tobii**

## Manager's Commentary

The Newscap Diversified Growth Fund (DGF) rose by 2.4% in May, which was slightly ahead of broad market measures. The biggest risers included ZPG (the online property group was bid for), Lundin and the position in sugar. Detractors included Harmony Gold, Luceco and Dixons. The pound fell by 3.4% against the dollar, which was also a positive contributor to performance, given the high exposure to US assets.

One detractor was our modest position in technology companies, which surged last month. DGF holds some of the tech leaders, but recognises that the sector is richly priced and a step ahead of itself. That could remain the case for several years, but in order to fall, there needs to be a catalyst. Back in the late 1990s, that was the turn in US real interest rates which peaked at 4.3%. Today, they are much lower at 0.8%, but a pickup in inflation could see that fall, and that could be the straw that breaks the camel's back.

## Inflation Risks Contained

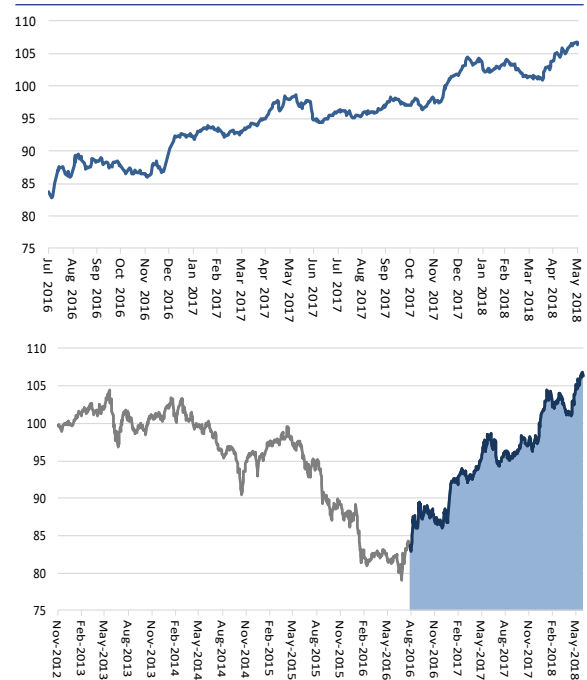
With the possibility of an escalating trade war, rising wages and a tightening oil market, higher inflation seemed to be a credible threat. In recent weeks, oil has eased back to \$65 and wage growth seems to be contained; at least for the time being. And that is despite near to full employment. Somehow, this cycle continues to defy the age-old laws of economics as an inflation burst used to mark its end. Somehow the modern industrial ecosystem keeps on delivering lower prices. The workers can't seem to make a strong enough case for a pay rise. And so long as oil keeps on flowing, monetary stability could continue. But of course, it won't, as something will be a spoiler.

Identifying the monetary regime plays an important part within our investment process. Knowing that helps us to identify the sectors and themes that are most likely to perform. If inflation was rising, that would be good for value and bad for quality. But since inflation has remained somewhat contained for over a year, while bond yields have continued to rise, the regime favours growth – as real rates have risen. That growth is expensive is neither here nor there, as it will likely remain so until real rates turn south. We keep looking for new ideas outside of the mainstream, but hope to find contrarian characteristics.

## Micro Focus

Micro Focus is a UK based software company which provides enterprise application management solutions. The company helps clients migrate old software to more modern software platforms, without the need to replace or rewrite core applications. The company's portfolio includes identity access, security, mainframes, operations, collaboration and networking solutions.

## Performance



Share Class A Acc GBP from 19/10/2012 to 31/05/2018  
 Charlie Morris taking over fund management - 29/07/2016  
 Fund data as at 31 May 2018  
 Source: Bloomberg

## Returns (%)

	Class A GBP	Class B GBP	Class S GBP	Class S USD	Class I GBP	Class F GBP	Class F SGD
1 M	2.4%	2.3%	2.5%	2.5%	2.4%	2.3%	2.3%
6 M	9.2%	8.7%	9.6%	10.1%	9.1%	-	-
YTD	4.6%	4.2%	4.9%	5.2%	4.6%	-	-
S/I	6.3%	29.1%	23.1%	10.6%	9.0%	5.0%	5.0%
1 Y	8.5%	7.6%	9.4%	-	-	-	-
3 Y	9.5%	-	-	-	-	-	-
5 Y	4.7%	-	-	-	-	-	-

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

## Rolling Annual Returns - year end 31/05

	2018	2017	2016	2015	2014
Class A	8.5%	19.0%	-15.2%	-2.8%	-1.6%

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

## 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 May 2018;  
 Daily data used for calculations; Figures are net of fees;  
 Source: Newscap Capital Group

## Portfolio Characteristics

	DGF	FTSE 100	Gilts*
Volatility	7.0%	10.3%	7.6%
Yield**	1.6%	4.0%	1.3%

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

Micro Focus has spent the last three years acquiring underperforming software assets. The largest of these was completed last September when the company merged with Hewlett Packard Enterprises' software division. While that saw the company's revenues treble, many of its products are mature and are seeing a gradual decline in revenues. However, there are some assets within Micro Focus which are growing, and SUSE (a version of Linux) is a good example. The company issued a profit warning in March which forced the CEO to resign. The new CEO, Stephen Murdoch, joined the company in 2012 as the chief operating officer having come from Dell. He plans to boost the number of sales reps and strengthen the management teams in the US.

Our attraction was a low valuation. The free cash flow is forecast to be £688m next year, putting it on a 9% free cashflow yield. Gross margins remain over 80%, and while debt has risen, it is manageable. Activist investors, such as Elliott Management, are shaking things up and want the company to go private. We feel the shares are well under-pinned, and we will patiently collect a 5.3% dividend yield while we wait for a bid.

### Tobii

Tobii is a Swedish company focused on eye tracking and eye control technology. Their sensors can not only detect where your eyes are looking, but also your presence, attention, drowsiness and consciousness. This information is useful for a wide range of industries, not least transport services whereby drivers will be nudged if they fall asleep at the wheel. Tobii's three business divisions (Dynavox, Pro and Tech) target different use cases for the technology, which includes communication, gaming, health-care, performance assessment and consumer products, in addition to transport. Their vision is to replace the computer mouse.

In 2017 the company reported sales of SEK 1 bn. Tobii Dynavox is the market leader in assistive technology for communication, and is the company's main source of revenue. Tobii Tech focusses on consumer applications in products such as computers, computer games, virtual reality and cars. Working with Microsoft and Intel, Tobii has helped introduce generic standards for eye tracking hardware which should quicken its adoption. The company is working with external partners to introduce new consumer centric devices. We anticipate an acceleration in revenue as a result.

### Assets Under Management

Last month I reported that assets under management were £6.8m at the end of April. I am pleased to say this has risen to £7.3m at the end of May and is likely to see further progress in June. This is good news for reducing the OCF (ongoing charges fees), which have come down from high levels when the new team took over. The reported number is still 3.1%, as that was calculated in January 2018 for the calendar year of 2017. In that time, DGF returned 12.6% after fees, which was 2.9% ahead of the FTSE UK Private Investor Balanced Index (formerly WMA, APCIMS). And this year (to end May), DGF is up 4.6% versus 0.7% against that same benchmark. The OCF has been falling, and we forecast it will end up being 1.8%, or lower, for the year ahead.

### Outlook

We see a market regime that favours growth investments, yet aren't so keen on the high prices you currently have to pay. For that reason, we remain somewhat cautious on our equity exposure. Having risen from below 10% in January, it is now close to 50%, which is a material change. But if we were to blindly follow breadth indicators, it would be even higher. After all, the Nasdaq is on the verge of making a new all-time high, which means another surge is entirely plausible as long as inflation remains low.

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 \$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	106.33	19/10/2012
B Acc GBP	NEWDBAS ID Equity	129.06	21/01/2016
S Acc GBP	NEWDSAG ID Equity	123.10	16/09/2016
S Acc USD	NEWDSAU ID Equity	110.57	01/06/2017
I Acc GBP	NEWDIAG ID Equity	108.97	02/11/2017
F Acc GBP	NEWDFAG ID Equity	105.04	13/04/2018
F Acc SGD	NEWDFAS ID Equity	104.97	16/04/2018

### Investment Themes

Equity Sector	Allocation
<b>Developed</b>	
Information Technology	22.7%
Consumer Discretionary	16.1%
Utilities	11.6%
Financials	11.3%
<b>Total</b>	<b>61.7%</b>
<b>Emerging Markets</b>	
Russia	3.1%
India	0.9%
South Africa	0.8%
<b>Total</b>	<b>4.8%</b>

### Top 10 Stocks

Holding	Size
LUNDIN PETROLEUM	1.1%
AMAZON	1.1%
WOOD GROUP	1.1%
PETROFAC	1.1%
SEEING MACHINES	1.1%
TELEPIZZA	1.0%
MAIL.RU	1.0%
GLAXOSMITHKLINE	1.0%
MICROSOFT	1.0%
VISA	1.0%

Data as at 31 May 2018  
Source: Newscap Capital Group

### Currency Exposure

Currency	Allocation
GBP	55.6%
USD	47.3%
SEK	2.2%
JPY	1.0%
ZAR	0.8%
EUR	-6.9%
CNY	-19.3%
<b>Total</b>	<b>100.0%</b>

Data as at 31 May 2018  
Source: Newscap Capital Group

### Allocation by Style

Style	Allocation
Global Government	29.0%
Real Assets	20.9%
Value	17.9%
Growth	16.5%
Quality	8.8%
Spec Sits	4.0%
Cash	2.9%
<b>Total</b>	<b>100.0%</b>

### Asset Allocation

Asset Class	Allocation
Equity	48.3%
Government	29.0%
Precious	12.6%
Commodity	4.2%
Cash	2.8%
Private Equity	2.0%
Property	1.1%
<b>Total</b>	<b>100.0%</b>

### Fund Details

AUM	£7.3 m	
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
Class I Acc GBP	NEWDIAG ID	IE00BD5G3046
Class F Acc GBP	NEWDFAG ID	IE00BD5G2Q33
Class F Acc SGD	NEWDFAS ID	IE00BYW7R167

Charges	Annual	Ongoing Charges Fees
	Management Charge	
Class A	0.75%	3.89%
Class B	0.75%*	4.83%
Class S	0.00%	3.14%
Class I	0.75%	3.89%
Class F	1.50%	4.64%***

\*The manager has rebated 1.00%  
(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;  
\*\*\* Estimate

### Current Holdings

Quality	Growth	Value	Real Assets	Special Situations
MARKEL	TELEPIZZA	LLOYDS	GOLD ETF	LUCECO
GLAXOSMITHKLINE	AMAZON	STANDARD CHARTERED	COFFEE ETF	OAKLEY CAPITAL
MERLIN	MICROSOFT	SBERBANK	SUGAR ETF	BETTER CAPITAL
DAEJAN	APPLE	PETROFAC	HARMONY GOLD	MICRO FOCUS
IMPERIAL BRANDS	VISA	SSE	GOLDCORP	
DIGNITY	MASTERCARD	SEVERN TRENT	POLYMETAL	
MORRISONS	ALPHABET	MARKS & SPENCER	LUNDIN PETROLEUM	
TESCO	DAILY MAIL	NATIONAL GRID	RANGE RESOURCES	
BRITVIC	QT	DRAX		
	ALEXION	WOOD		
	STERICYCLE	SOUTHERN		
	RPC	EDF		
	TOBII	ITV		
	MAIL.RU	DIXONS		
	SQUARE ENIX	VEDANTA RESOURCES		
	SEEING MACHINES	AGGREKO		
		GENERAL ELECTRIC		
		JUPITER		

Data as at 31 May 2018  
Source: Newscap Capital Group

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