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May at a Glance

- **Portfolio Protection**
- **ON Semiconductor**
- **Gold**

Manager's Commentary

The Newscap Diversified Growth Fund (DGF) fell by 1.7% in June, which was behind broad market measures, which were essentially flat in sterling terms. The biggest risers included Seeing Machines, SThree and Daily Mail. Detractors included Luceco, Wood Group and Micro Focus. The pound eased by 0.7% against the dollar, which showed resilience compared to most other currencies. Commodities, which are often a powerful source of diversification, were hit hard and also had a negative impact on DGF in June. The worst performer was platinum, which is back to 2008 levels.

With US rates a step ahead of the developed world, the dollar rally has been powering ahead. As US dollars become scarcer under quantitative tightening, Emerging Market (EM) currencies have been early casualties. The fear is that this malaise may spread to the major stockmarkets. While entirely possible, our strategy for the rest of this year is to be prepared for the worst. Of greatest concern is the impact on liquidity which could have a severe impact on the corporate bond market. For that, and other risks, we hold various hedges to protect the portfolio under adverse economic conditions.

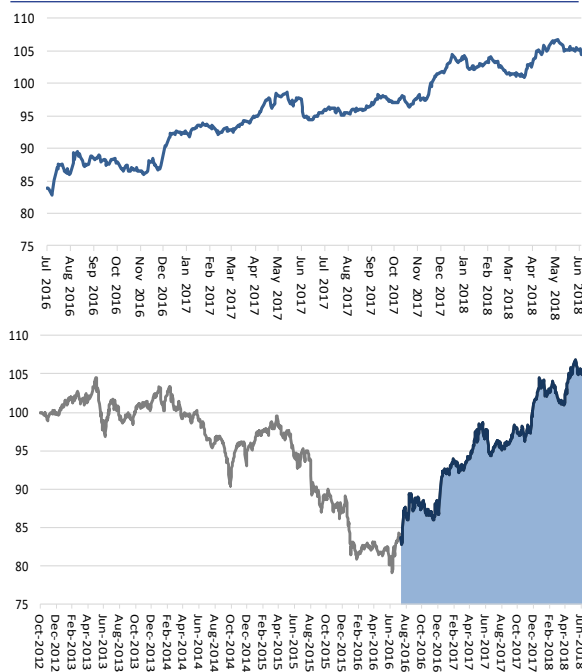
Portfolio Protection

In August 2015, there was a rude interruption to the summer holidays as the renminbi slipped by 3.5% in two days, causing a near 10% fall in the S&P 500. A cheaper renminbi has a deflationary impact as Chinese export prices fall and put downward pressure on global prices. In June, the renminbi had its worst fall (-3.3%) since 1994 (-50%). It doesn't sound much, but it is a managed currency with historic average volatility of around 2%. That it fell by more than it was expected to over an entire year, tells us that things are changing. DGF had a short position on the renminbi against the US dollar, which added 0.75% to the fund over the month.

FX hedging trades provide portfolio protection. They are non-speculative as they are most likely to perform when asset prices fall. For that reason, they tend to dampen overall portfolio volatility. Here we have a long position in the Japanese yen. We deem the yen to be undervalued and it tends to rally during market shocks. With this scenario seemingly more likely by the day, we have a 40% long yen position which is held against a basket of GBP, SEK, EUR and NZD.

The other reason to carry out a hedging transaction is to protect DGF from a rising pound. Over the past two months, that hasn't been necessary, but sterling rallies can be powerful when they come.

Performance



Share Class A Acc GBP from 19/10/2012 to 30/06/2018
 Charlie Morris taking over fund management - 29/07/2016
 Fund data as at 30 June 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	-1.7%	-1.8%	-1.7%	-1.6%	-1.7%	-1.8%	-1.7%
6 M	2.8%	2.4%	3.2%	3.6%	2.8%	-	-
YTD	2.8%	2.4%	3.2%	3.6%	2.8%	-	-
S/I	4.5%	26.8%	21.1%	8.8%	7.1%	3.2%	3.2%
1 Y	10.3%	9.4%	11.1%	12.3%	-	-	-
3 Y	12.6%	-	-	-	-	-	-
5 Y	5.7%	-	-	-	-	-	-

Share Class A Acc GBP; Fund data as at 30 June 2018; since 19/10/2012.
 Data prior to 19/10/2012 unavailable;
 Source: Newscap Capital Group

Rolling Annual Returns - year end 30/06

	2018	2017	2016	2015	2014
Class A	10.3%	16.3%	-12.2%	-5.5%	-0.7%

Share Class A Acc GBP; Fund data as at 30 June 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 30 June 2018;
 Daily data used for calculations; Figures are net of fees;
 Source: Newscap Capital Group

Portfolio Characteristics

	DGF	FTSE 100	Gilts*
Volatility	6.0%	13.6%	6.5%
Yield**	1.5%	4.1%	1.3%

Data as at 30 June 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.

DGF currently has a 9% position in a FTSE 100 short ETF, a 4% short position in copper and near 20% exposure to US dollar assets, including treasuries. Putting these together, along with the FX overlay, there are a series of shock absorbers that are intended to ensure DGF is more resilient during harsh market conditions.

ON Semiconductor

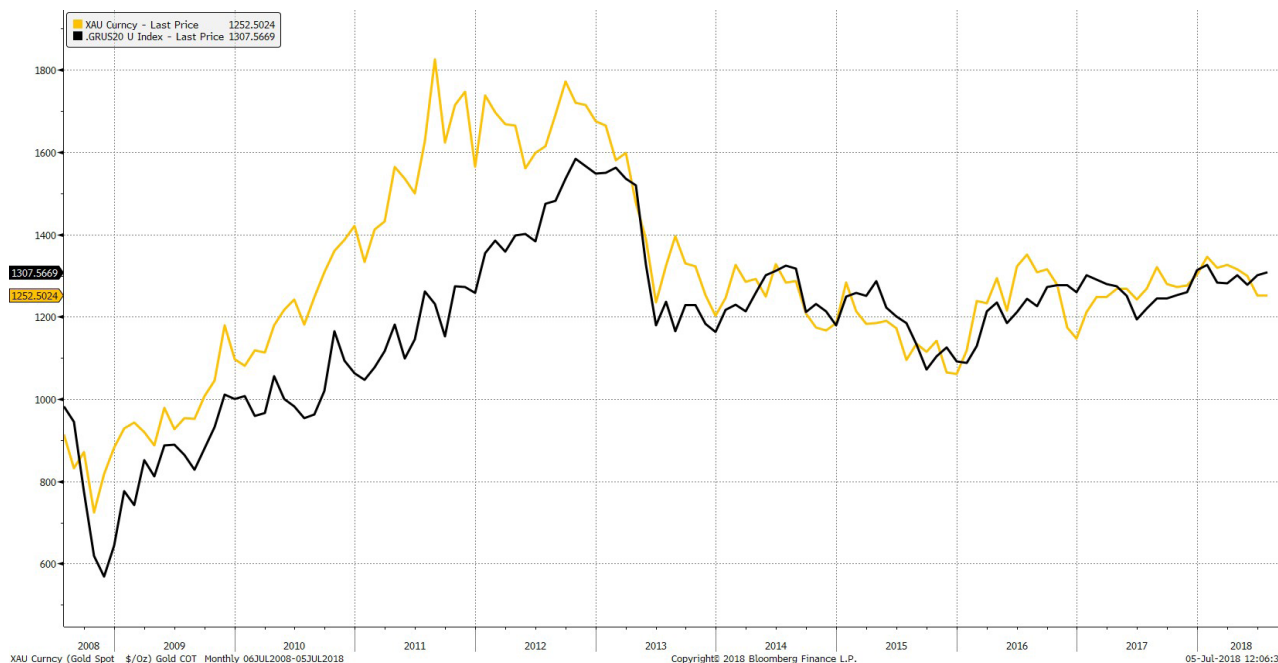
We added ON Semiconductor (ON) in June following a meeting with an expert from Silicon Valley. It is a leading provider of image sensors and power management chips. The company’s broad product portfolio is exposed to favourable secular trends, such as advanced driver assistance, industrial imaging systems and USB Type C, which should help it to outgrow semiconductor peers. The recent acquisitions of Fairchild and IBM’s mmWave should help sustain growth in these areas.

Acquisitions remain a key part of ON’s strategy in-keeping with a multiyear theme in the semiconductor industry. Debt reduction is the near-term priority for free cash flow, but the company can still do strategic deals that have synergies to the business. ON can deliver strong free cash flow (FCF) even if it falls short of its sales-growth target through 2020. The company envisages \$900 million in FCF by 2020 on 3% higher revenue, driven largely by Fairchild expense synergies and manufacturing improvements. The streamlined operations and cost savings should drive a better margin profile and operating leverage. The stock trades on 12.7 x current year earning and offers a 9% forward free cash flow yield.

Gold

The gold price has been easing back in June. This has caused some confusion and is damaging its 5,000-year-old reputation for being a safe haven. Gold has eased back in US dollar terms, but been much more resilient in most other currencies. That aside, we believe the dollar gold fall is unjustified, and offers an opportunity. Inflation expectations are buoyed by a firm oil price, that trades at a three-year high. That has caused real rates to fall from 0.9% to 0.7%, thus boosting the case for gold. The risk is that the oil price turns down because the world economy can’t afford \$100 oil. That would reduce inflation expectations and cool the gold price. However, if oil remains firm, then this is a good opportunity to top up.

Gold trades below fair value



Source: Bloomberg; Gold in USD (gold) and the Atlas Pulse Fair Value Model (black) since 2008

Assets Under Management

Last month I reported that assets under management were £7.3m at the end of May. I am pleased to say this has risen to £9.3m at the end of June. This all helps to contain our OCF (ongoing charges fees), and get it down to 1%, which we forecast will happen with £40m of assets. The estimate for the current OCF is forecasted to be 1.9%.

Outlook

Market technicals are coming under pressure. Tightening by the Fed, combined with the shrinking of central bank balance sheets is draining the world of dollars. This is happening while economic data remains buoyant, which could turn into a perfect storm. Market breadth has begun to deteriorate, particularly in the emerging markets. The summer is rarely the best time for investors, and the rest of the year will likely see downward pressures build.

DGF has a conservative stance with a net position of approximately 35% in risk assets, and an FX hedging strategy which will likely offset much of this should conditions deteriorate. However, we continue to identify opportunities to put your capital to work.

Charlie Morris, Lead Manager

If you would like to subscribe to the Diversified Growth Fund monthly update, please email leva: 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
f.hassan@newscapegroup.com

Fahad worked at Legal and General for 11 years, where he ran over \$1 billion in institutional and retail mandates. Fahad 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.

Allocation by Style

Style	Allocation
Growth	18.1%
Global Government	17.9%
Spec Sits	16.4%
Real Assets	15.7%
Value	14.3%
Cash	9.0%
Quality	8.6%
Total	100.0%

Investment Themes

Equity Sector	Allocation
Developed	
Information Technology	26.5%
Consumer Discretionary	17.0%
Utilities	12.5%
Consumer Staples	10.2%
Total	66.2%
Emerging Markets	
Russia	1.1%
Japan	1.0%
South Africa	0.8%
Total	2.8%

Top 10 Stocks

Holding	Size
SEEING MACHINES	1.2%
AMAZON	1.2%
PETROFAC	1.2%
TELEPIZZA	1.1%
ITV	1.1%
GLAXOSMITHKLINE	1.1%
RANGE RESOURCES	1.1%
DAILY MAIL	1.1%
SOUTHERN	1.1%
VISA	1.1%

Data as at 30 June 2018
Source: Newscap Capital Group

Currency Exposure

Currency	Allocation
GBP	64.4%
JPY	40.9%
USD	18.9%
ZAR	0.8%
EUR	-7.1%
SEK	-8.0%
NZD	-10.0%
Total	100.0%

Data as at 30 June 2018
Source: Newscap Capital Group

Share Class Information

Share Class	Bloomberg Ticker	NAV	Inception Date
A Acc GBP	NDVGRAS ID Equity	104.51	19/10/2012
B Acc GBP	NEWDBAS ID Equity	126.78	21/01/2016
S Acc GBP	NEWDSAG ID Equity	121.07	16/09/2016
S Acc USD	NEWDSAU ID Equity	108.83	01/06/2017
I Acc GBP	NEWDIAG ID Equity	107.10	02/11/2017
F Acc GBP	NEWDFAG ID Equity	103.18	13/04/2018
F Acc SGD	NEWDFAS ID Equity	103.18	16/04/2018

Asset Allocation

Asset Class	Allocation
Equity	44.5%
Government	17.9%
Short Equity	12.0%
Precious	10.9%
Commodity	2.0%
Private Equity	1.8%
Digital	1.0%
Property	0.9%
Cash	9.0%
Total	100.0%

Fund Details

AUM	£9.3 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	
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
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	FTSE 100 SHORT ETF
GLAXOSMITHKLINE	AMAZON	PETROFAC	PLATINUM	COPPER SHORT ETF
MERLIN	MICROSOFT	SSE	COFFEE	LUCECO
DAEJAN	APPLE	SEVERN TRENT	SUGAR	OAKLEY CAPITAL
IMPERIAL BRANDS	VISA	MARKS & SPENCER	HARMONY GOLD	BETTER CAPITAL
MORRISONS	MASTERCARD	NATIONAL GRID	GOLDCORP	MICRO FOCUS
TESCO	ALPHABET	DRAX	POLYMETAL	
BRITVIC	DAILY MAIL	WOOD	RANGE RESOURCES	
RECKITT BENCKISER	QT	SOUTHERN		
	ALEXION	EDF		
	STERICYCLE	ITV		
	TOBII	DIXONS		
	MAIL.RU	GENERAL ELECTRIC		
	SQUARE ENIX	DE LA RUE		
	SEEING MACHINES	PETS AT HOME		
	FIDELITY NATIONAL			
	STHREE			
	ON SEMICONDUCTOR			

Data as at 30 June 2018
Source: Newscap Capital Group

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