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July at a Glance

- **Bond Yields and Banks**
- **Adding to Quality – Reckitt Benckiser**
- **Special Situation – Utilico Investments**

Manager's Commentary

The Newscap Diversified Growth Fund (DGF) fell by 0.5% in July, in sterling terms. The biggest risers included Markel, Google and EDF. Detractors included Micro Focus, NCR and Goldcorp. Commodities continued to show weakness, which may be warning us of falling demand in China. Given the fall in the renminbi and property stocks, this seems increasingly likely.

DGF started the month with a defensive stance, but that has eased over the month. As we go into August, equity exposure has been increased to over 50%, there is a short position on the renminbi and the 10-year bund, and exposure to banks has been increased from zero to 10% of the fund.

Bond Yields and Banks

The US 10-year bond yield is once again challenging the 3% level, last attempted in mid-May. With reported inflation at 2.9% and GDP growth at 4.1%, nominal GDP is running at 7%. The implication here is that bond yields are either far too low, or nominal GDP is far too high. Something has to give.

The correlation between bonds and banks is generally negative, and especially so in a post-crisis world. When bond prices fall (yields rise), the banks start to perform. In the US, the banks have performed well this cycle, as yields have risen, but elsewhere they have lagged. In our view, higher yields in the UK, Europe and Japan will be a catalyst for their banks to rally. And that's all the more interesting because they trade at low valuations.

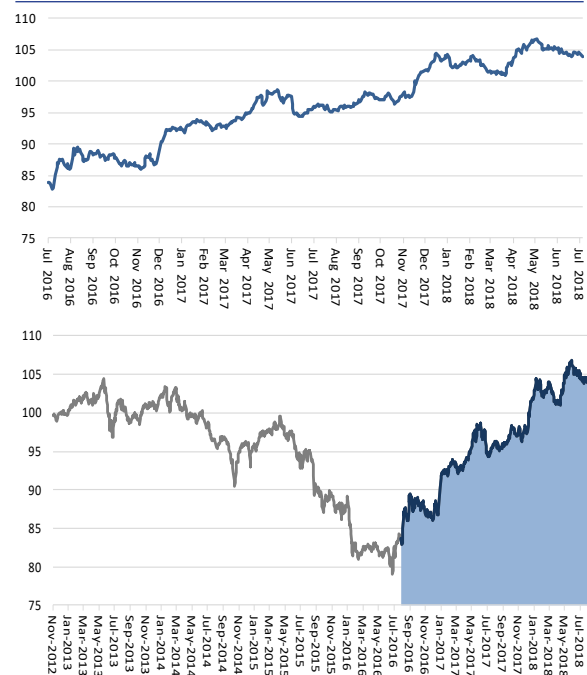
Cheap banks can get cheaper, but our search didn't merely focus on low price to book ratios, but also loan growth (to determine they had been fixed), creditworthiness (to ensure a strong balance sheet), and the intent to pay dividends in the future (a sign that improvement is imminent). We identified a basket of ten banks: five in Continental Europe, three in the UK and two in Japan that met our criteria. Having had minimal banking exposure for much of the year, this is a material change.

In addition to a position in banks, we have also purchased the short Bunds ETF that would benefit from a rise in Bund yields. With the yield a mere 0.5%, we see little downside if we are wrong, and considerable upside if we are right.

Adding to Quality - Reckitt Benckiser (RB)

Our long-term quality strategy is to buy high quality companies (high gross margins, ROIC, free cash flow) when they trade at their long-term fair value, as the best companies are rarely cheap. We have recently identified Reckitt Benckiser (RB) and PZ Cussons (PZC), which following price weakness, now

Performance



Share Class A Acc GBP from 19/10/2012 to 31/07/2018
 Charlie Morris taking over fund management - 29/07/2016
 Fund data as at 31 July 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	-0.5%	-0.6%	-0.5%	-0.4%	-0.5%	-0.6%	-0.5%
6 M	1.4%	1.0%	1.8%	2.1%	1.4%	-	-
YTD	2.2%	1.8%	2.7%	3.2%	2.2%	-	-
S/I	4.0%	26.0%	20.5%	8.4%	6.5%	2.6%	2.6%
1 Y	8.2%	7.3%	9.0%	10.0%	-	-	-
3 Y	9.5%	-	-	-	-	-	-
5 Y	3.2%	-	-	-	-	-	-

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

Rolling Annual Returns - year end 31/07

	2018	2017	2016	2015	2014
Class A	8.2%	14.9%	-11.9%	-1.6%	-4.3%

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

Portfolio Characteristics

	DGF	FTSE 100	Gilts*
Volatility	4.9%	13.0%	4.3%
Yield**	1.4%	4.1%	1.3%

Data as at 31 July 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.

meet our criteria. We will highlight RB.

RB is a leading manufacturer and distributor of a range of household, personal care and consumer health products. The company's core brands (Dettol, Air Wick, Clearasil, Finish and Calgon) are category leaders and account for 80 percent of the company's revenues. RB made the largest acquisition in its history in 2017 when it bought infant nutritionals maker Mead Johnson for \$17.8 Billion. The transaction coincided with a slowdown in some categories, particularly in Europe. This led to a derating of RB relative to its peers as investors questioned the CEO's long-term vision. The subsequent slump in the share price presented an opportunity. Since the acquisition, the company has been able to boost organic growth and improve margins. Mead Johnson is off to a good start, with record growth in China, where trust in baby milk is a legitimate concern for mothers. Foreign companies have the upper hand.

Special Situation – Utilico Investments (UTL)

UTL is a closed end investment company invested in a range of infrastructure, utility, financials services and technology companies. The management team has a strong track record, generating total returns of 11.9% since 2003 versus 8.6% returns for the FTSE All Share Index. A change of the mandate in 2007 has enabled the establishment of investment platforms focused on specific niches. The company's largest single investment (19% of the total portfolio) Somers is one such investment. Somers, is a financial services holding company, with interest in Bermuda Commercial Bank, Homeloans and UK based wealth manager Waverton. In addition to its investment platforms UTL has established a strong track record of investing in the FinTech sector. While concentration risks are significantly reduced by platform investments, this does create the problem of large discounts on underlying holdings. UTL offers exposure to a range of global businesses at a 40% discount to net asset value. It is backed by a strong long-term track record and pays a 4% percent dividend.

Assets Under Management

Last month I reported that assets under management were £9.3m at the end of June. I am pleased to say this has risen to £10.6m at the end of July. This continues to reduce the fixed costs within the fund.

Outlook

Breadth statistics remain healthy in Europe and the US, with the UK riding high. This gives us comfort that to raise equity exposure makes sense on a tactical basis. Although rising rates, with modest inflation keeps us in a growth environment, we find it hard to identify goods/opportunities. Furthermore, the recent hit to Facebook (FB), following a slowdown in growth, is a stark reminder how quickly growth premiums can evaporate. We have therefore reduced some exposure to growth.

In contrast, the market isn't rewarding quality at this time, but we are discovering good ideas. By increasing exposure, DGF will have a more balanced portfolio should the economy start to slow. That's not our central scenario, but nevertheless, the purpose of efficient diversification; to expect the unexpected.

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

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

Allocation by Style

Style	Allocation
Value	21.7%
Global Government	20.5%
Spec Sits	16.1%
Growth	12.7%
Quality	12.4%
Real Assets	12.4%
Cash	4.2%
Total	100.0%

Investment Themes

Equity Sector	Allocation
Developed	
Financials	27.2%
Information Technology	14.3%
Consumer Discretionary	12.9%
Consumer Staples	12.5%
Total	66.9%
Emerging Markets	
South Africa	0.8%
Total	0.8%

Top 10 Stocks

Holding	Size
PETROFAC	1.1%
AMAZON	1.1%
MICROSOFT	1.1%
VISA	1.1%
ROCHE	1.1%
APPLE	1.0%
ELI LILLY	1.0%
OAKLEY CAPITAL	1.0%
GLAXOSMITHKLINE	1.0%
STERICYCLE	1.0%

Data as at 31 July 2018
Source: Newscap Capital Group

Currency Exposure

Currency	Allocation
GBP	57.3%
USD	39.7%
EUR	18.0%
CHF	2.0%
SEK	1.2%
CAD	1.1%
ZAR	0.7%
CNH	-20.0%
Total	100.0%

Data as at 31 July 2018
Source: Newscap Capital Group

Share Class Information

Share Class	Bloomberg Ticker	NAV	Inception Date
A Acc GBP	NDVGRAS ID Equity	103.96	19/10/2012
B Acc GBP	NEWDBAS ID Equity	126.03	21/01/2016
S Acc GBP	NEWDSAG ID Equity	120.50	16/09/2016
S Acc USD	NEWDSAU ID Equity	108.41	01/06/2017
I Acc GBP	NEWDIAG ID Equity	106.53	02/11/2017
F Acc GBP	NEWDFAG ID Equity	102.56	13/04/2018
F Acc SGD	NEWDFAS ID Equity	102.63	16/04/2018

Asset Allocation

Asset Class	Allocation
Equity	50.5%
Government	20.3%
Precious	10.0%
Short bond	8.8%
Private Equity	2.8%
Short equity	2.4%
Digital	1.0%
Cash	4.2%
Total	100.0%

Fund Details

AUM	£10.6 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	PETROFAC	GOLD	PALLADIUM SHORT ETF
GLAXOSMITHKLINE	AMAZON	SSE	PLATINUM	BUNDS SHORT ETF
MERLIN	MICROSOFT	SEVERN TRENT	HARMONY GOLD	LUCECO
IMPERIAL BRANDS	APPLE	MARKS & SPENCER	GOLDCORP	OAKLEY CAPITAL
MORRISONS	VISA	NATIONAL GRID	POLYMETAL	BETTER CAPITAL
TESCO	ALPHABET	DRAX	RANGE RESOURCES	UTILICO INVESTMENTS
BRITVIC	DAILY MAIL	SOUTHERN		MICRO FOCUS
RECKITT BENCKISER	ALEXION	EDF		
ELI LILLY	STERICYCLE	ITV		
MOLSON COORS	STHREE	DE LA RUE		
FAIRFAX	ROCKET INTERNET	NCR		
ROCHE	OSI SYSTEMS	BARCLAYS		
PZ CUSSONS	OVERSTOCK	RBS		
		LLOYDS		
		MITSUBISHI UFJ		
		SUMITOMO MITSUI		
		DEUTSCHE BANK		
		COMMERZBANK		
		SOCIETE GENERALE		
		CREDIT SUISSE		
		ERSTE BANK		
		ING		
		POSTNL		

Data as at 31 July 2018
Source: Newscap Capital Group

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