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August at a Glance

- **Problems Brewing**
- **Commodities**
- **Tokyo Electric Power (TEPCO)**

Manager's Commentary

The Newscap Diversified Growth Fund (DGF) fell by 0.8% in August. This compares to a broader market that was slightly positive in sterling terms over the period. Following a strong start to the year, DGF has given up some of its lead against peers, principally due to its defensive stance. That has caused the fund to miss some of the opportunity, which has been most pronounced in US growth stocks.

We are not tempted to change our stance for two reasons. The first is that since 1970, US equities have never been this extended versus the rest of the world. The second reason is that there is no evidence that they out-perform the world over long cycles. And according to academic research, nor should they. Indeed, US equities lagged the world from 1970 to 1988, and have only very recently caught up with their 1970 level. Their outperformance, in the 1990's and since the 2008 crisis, have both coincided with technology revolutions and dollar strength. The evidence from history, is that this latest burst will likely come to an end.

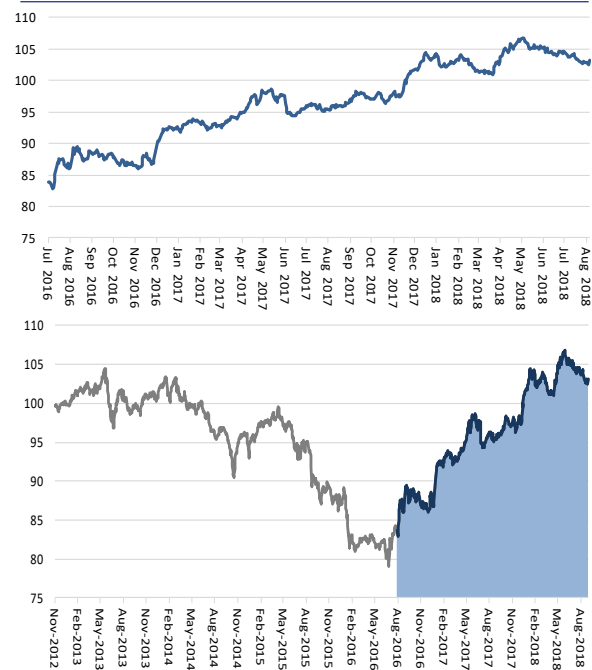
Problems Brewing

We believe the cause for concern is growing. The problems in emerging markets (EM), which first hit the headlines with Turkey, now appear to be spreading. EM currencies are weak across the board, and in countries such as India and Indonesia, they are making new lows. This is following through to the likes of New Zealand, and closer to home, even Sweden is in the firing line. The US dollar strength is becoming problematic.

Bonds, in places such as Greece and Italy, are also coming under pressure. With no solution to these structural debt problems, there is no reason for them to recover. And unusually under such circumstances, higher quality bonds are failing to rally, which is supportive for growth stocks. With such an extreme divergence in both currencies and bonds, US growth stocks appear to be the safe haven. And why not? After all, the successful monetisation of the internet has changed everything.

But in China, those same stocks such as Alibaba and Tencent have already turned down as government legislation has pricked the bubble. The level of complacency in US growth stocks is high, yet they have slower growth rates than their Chinese counterparts. We remain the proud owners of these trillion-dollar companies, and so far, our crime has been not to have held enough. But perhaps the Chinese are showing us that even the greatest stories come to an end. We maintain a modest position for that very reason.

Performance



Share Class A Acc GBP from 19/10/2012 to 31/08/2018
 Charlie Morris taking over fund management - 29/07/2016
 Fund data as at 31 August 2018
 Source: Bloomberg

Returns (%)

Class	1M	6M	YTD	1Y	3Y	5Y	S/I
A GBP	-0.8%	-0.7%	1.4%	7.7%	13.5%	4.5%	3.1%
B GBP	-0.8%	-1.1%	0.9%	6.9%	-	-	25.0%
S GBP	-0.7%	-0.4%	1.9%	8.5%	-	-	19.6%
I GBP	-0.8%	-0.7%	1.4%	-	-	-	5.7%
F GBP	-0.8%	-	-	-	-	-	1.7%
F SGD	-0.8%	-	-	-	-	-	1.8%
N GBP	-0.7%	-	-	-	-	-	-0.7%
N USD	-0.6%	-	-	-	-	-	-0.6%

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

Rolling Annual Returns - year end 31/08

	2018	2017	2016	2015	2014
Class A	7.7%	7.2%	-1.7%	-6.0%	-2.1%

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

Portfolio Characteristics

	DGF	FTSE 100	Gilts*
Volatility	4.6%	11.5%	4.5%
Yield**	1.4%	4.3%	1.4%

Data as at 31 August 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.

Commodities

DGF has remained diversified across different assets in the face of mounting troubles. That has included gold, which has performed poorly over the summer. Gold's fall is unjustified and overdone, but understandable given the strength of the US dollar, and the narrative that surrounds it. Exposure to gold has been reduced to what we would consider to be modest levels, but even that hasn't been enough to stem the drift.

In addition to a structural and long-term position in gold, there have been short positions in copper, cotton, palladium and oil; all commodities that are richly valued and generally owned by speculators. Copper is under pressure as the Chinese property boom shows signs of stress. Infrastructure spending has accelerated to stimulate demand, but you have to wonder whether this is an act of desperation rather than a boost to growth. With the price making two-year lows, this is surely the former. And if the Chinese economy really does grind to a halt, the copper price has a long way to fall, along with the rest of the sector. We believe these commodity shorts will be effective portfolio hedges during troubled times.

We continue to identify new opportunities in quality and value. In August we added new stocks such as Roche, PZ Cussons and Tokyo Electric Power (TEPCO); all companies with improved outlook for free cashflow. TEPCO is a situation we would like to highlight.

Tokyo Electric Power (TEPCO)

TEPCO is a Japanese electric utility providing a third of the nation's electricity. Founded in 1951, the firm provided reliable power infrastructure as Japan rebuilt itself after World War II. In 2011, a tsunami led to a meltdown at the Fukushima nuclear power plant, creating devastation that saw the firm's market value crumble. Crippled by liabilities relating to Fukushima, the company has since implemented reforms involving decommissioning, expense reduction and joint ventures. The Tokyo market is highly competitive, and trends have worsened since a liberalisation of the power market. TEPCO announced an alliance with Chubu Electric which aims to reduce fossil fuel procurement and generation costs. The company should see a major reduction in its production costs from the restarting of the Kashiwazaki-Kariwa (KK) nuclear plant. While we anticipate volatile earnings trends for the company, we believe the stock price compensates investors for these uncertainties. The stock trades at 50% of book value and a price to earnings of 4 years. We consider that to be excellent value.

Outlook

DGF continues to own US equities such as Amazon and Microsoft, which have performed well, but not in sufficient size to have turned the monthly return into a positive. In addition, the hedges, designed to protect the portfolio against market falls, have proved to be a modest drag on performance. The result has been unwelcome, but the reasons for our defensive stance remains clear.

The divergence between the US and the rest of the world is unprecedented. It may well go on for a while longer, but with history on our side, we are comfortable to avoid the hype.

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
Spec Sits	20.8%
Global Government	20.2%
Value	17.4%
Growth	14.5%
Quality	13.5%
Real Assets	11.9%
Cash	1.7%
Total	100.0%

Investment Themes

Equity Sector	Allocation
Developed	
Financials	10.0%
Information Technology	9.0%
Consumer Discretionary	7.5%
Utilities	7.3%
Total	33.8%
Emerging Markets	
South Africa	0.9%
Total	0.9%

Top 10 Stocks

Holding	Size
AMAZON	1.4%
APPLE	1.3%
PETROFAC	1.3%
VISA	1.3%
MICROSOFT	1.2%
DRAX	1.2%
EDF	1.2%
GLAXOSMITHKLINE	1.1%
ALPHABET	1.1%
DAILY MAIL	1.1%

Data as at 31 August 2018
Source: Newscap Capital Group

Currency Exposure

Currency	Allocation
GBP	67.1%
USD	43.0%
EUR	4.2%
CAD	2.0%
CHF	1.0%
JPY	0.9%
AUD	0.9%
ZAR	0.9%
CNH	-20.0%
Total	100.0%

Data as at 31 August 2018
Source: Newscap Capital Group

Share Class Information

Share Class	Bloomberg Ticker	NAV	Inception Date
A Acc GBP	NDVGRAS ID Equity	103.14	19/10/2012
B Acc GBP	NEWDBAS ID Equity	124.96	21/01/2016
S Acc USD	NEWDSAU ID Equity	119.63	01/06/2017
I Acc GBP	NEWDIAG ID Equity	105.70	02/11/2017
F Acc GBP	NEWDFAG ID Equity	101.69	13/04/2018
F Acc SGD	NEWDFAS ID Equity	101.79	16/04/2018
N Acc GBP		99.28	01/08/2018
N Acc USD		99.36	01/08/2018

Asset Allocation

Asset Class	Allocation
Equity	50.8%
Government	20.2%
Short equity	15.9%
Precious	8.2%
Private Equity	3.1%
Cash	1.8%
Total	100.0%

Fund Details

AUM	£11.5 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 I Acc GBP	NEWDIAG ID	IE00BD5G3046
Class F Acc GBP	NEWDFAG ID	IE00BD5G2Q33
Class F Acc SGD	NEWDFAS ID	IE00BYW7R167
Class N Acc GBP		IE00BYW7R837
Class N Acc USD		IE00BYW7R613

Charges	Annual Management Charge	Ongoing Charges Fees
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%***
Class N	0.00%	1.94%

*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	S&P 500 SHORT ETF
GLAXOSMITHKLINE	AMAZON	SSE	PLATINUM	FTSE 100 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	OCEANAGOLD	UIL
BRITVIC	DAILY MAIL	SOUTHERN	ST BARBARA	MICRO FOCUS
RECKITT BENCKISER	ALEXION	EDF		PALLADIUM SHORT ETF
ELI LILLY	STERICYCLE	ITV		OIL SHORT ETF
MOLSON COORS	STHREE	DE LA RUE		COPPER SHORT ETF
FAIRFAX	ROCKET INTERNET	NCR		COTTON SHORT ETF
ROCHE	OSI SYSTEMS	RBS		
PZ CUSSONS	OVERSTOCK	LLOYDS		
		MITSUBISHI UFJ		
		SUMITOMO MITSUI		
		ERSTE BANK		
		TOKYO ELECTRIC POWER		

Data as at 31 August 2018
Source: Newscap Capital Group

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