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October at a Glance

- **Growth Shock**
- **Populist Politics – Mexico Versus Brazil**

Manager's Commentary

The Newscap Diversified Growth Fund (DGF) fell by 2.3% in October which compares to a broad market fall of 3.1% as measured by the FTSE UK Private Balanced total return Index in sterling terms. It was a weak month for equity markets in general with the Nasdaq falling by 7.2% and the FTSE 100 by 5.1%. Further afield, the Mexican market fell by over 17%, yet Brazil shrugged off the malaise with a 21% surge. We don't suspect that kind of dispersion happens very frequently, and we will look at the reasons why that happened.

The best performing stocks in DGF were our Brazilian holdings: Banco Bradesco, Petrobras, and Itau Unibanco. Polymetal also performed well. Holding the portfolio back were Petrofac, Inpex (Japan), Micro Focus and Better Capital. Earlier in the month, we sold a number of Japanese, cyclical and growth stocks. Towards the end of the month, we added several value stocks, including life insurance and banks. A higher than normal exposure to gold, precious metals and gold mining stocks, was also moderately supportive in October.

Growth Shock

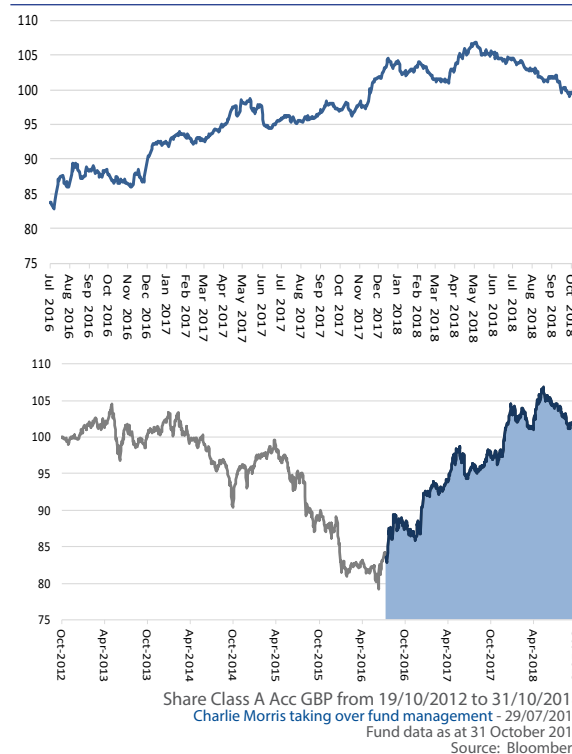
The most significant event was the fall in growth stocks, as the US earnings season got underway. Microchip stocks, which are actually cyclicals that get mistaken for growth stocks, were hit the hardest, with Advanced Micro Devices down 39%. Nvidia and Western Digital were not far behind. The important point to note is the sharp decline in breadth for tech in general. This is more than just a short-term correction, as the long-term measures are under pressure and looking weak.

In particular, we couldn't help but notice the divergence between the US Russell Value and Growth Indices. Back in July 1999, value peaked nine months ahead of growth, which finally peaked in March 2000. Value didn't make a new high again until October 2004. But that was impressive compared to growth, which didn't make a new high until 2014.

The comparison to recent events is startling. As then, there has been a surge in growth, with a poor show from value. Furthermore, value peaked in January this year while growth may well have peaked in October, which is another nine month gap. These may just be the tea leaves showing a masterpiece, or it may be that we've had a very similar era of value vs growth divergence. And if so, we may expect a peak in the dollar before too long.

The US market has been leading the world for ten years, which is a long run by any measure. Their growth story has been more impressive than elsewhere, but it doesn't justify the premium valuation over the rest of the world. We suspect that the next cycle will see new leadership. And in our opinion, that will most likely see strong performance from the emerging world.

Performance



Returns (%)

Class	1M	6M	YTD	1Y	3Y	5Y	S/I
A GBP	-2.3%	-4.2%	-2.2%	2.4%	11.5%	-1.5%	-0.5%
B GBP	-2.3%	-4.6%	-2.8%	1.6%	-	-	20.4%
S GBP	-2.2%	-3.9%	-1.6%	3.1%	-	-	15.4%
I GBP	-2.3%	-4.2%	-2.2%	-	-	-	1.9%
F GBP	-2.3%	-	-	-	-	-	-2.0%
F SGD	-2.3%	-	-	-	-	-	-1.9%
N GBP	-2.2%	-	-	-	-	-	-4.1%
N USD	-2.1%	-	-	-	-	-	-3.9%

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

Rolling Annual Returns - year end 31/10

	2018	2017	2016	2015	2014
Class A	2.4%	10.7%	-1.6%	-5.8%	-6.3%

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

Portfolio Characteristics

	DGF	FTSE 100	Gilts*
Volatility	5.5%	14.5%	6.5%
Yield**	1.8%	4.1%	1.5%

Data as at 31 October 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.

Populist Politics – Mexico Versus Brazil

Latin America's two largest economies are no strangers to economic crisis. Both countries have recently elected populist governments with unorthodox leaders. The market's short term reaction to political upheaval can be useful for policymakers to gauge their actions.

In July this year, left wing candidate, Andres Lopez beat the country's leading parties in a landslide victory. His policy proposals included financial aid for the elderly, universal access to public colleges and cancellation of the New Mexico City International Airport. This final proposal went into effect in October. The cancellation of a \$13billion infrastructure project this late into its completion raises serious questions about the government's commitment to bondholders and private contractors. It is no wonder that equity markets have reacted negatively. The Mexican economy has been a major beneficiary of US trade flows and the rewording of NAFTA should allow it to outgrow its neighbours. While recent developments are worrying, they need to be weighed against a healthy fiscal and current account and a tepid inflationary backdrop.

In October the election of Jair Bolsonaro ended two decades of leftist rule in the Brazil. The country's lurch to the left began in the late 90's. Socialist policy initiatives during the Lula years (2003-2011) were funded with exports to China. The 2015-2016 recession unearthed the frailties of the economy. The incoming President faces an uphill task as a weak currency keeps monetary policy unusually tight despite double digit unemployment and anaemic economic growth. His ability to reform the labour market is inhibited by powerful unions throughout the state and private sectors. Like other investors we hope for a positive outcome, whilst realising it may take longer than we envisage.

Outlook

October was a weak month, but we remain more upbeat for the rest of the year. The correction in US growth was long overdue, but for the rest of the world, it is less justified. With the mid-term elections, a possible Brexit deal and a trade deal between the US and China, many fears could soon be behind us. In any event, the dreaded month of October is finally behind us.

Charlie Morris, Lead Manager

If you would like to subscribe to the Diversified Growth Fund monthly update, please email i.katiliute@newscapgroup.com.

Fund Managers



Charlie Morris
Lead Manager

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

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
Real Assets	28.6%
Value	26.4%
Global Government	21.1%
Quality	10.0%
Spec Sits	8.9%
Growth	8.3%
Cash	-3.3%
Total	100.0%

Investment Themes

Equity Sector	Allocation
Developed	
Financials	35.3%
Materials	18.2%
Energy	11.3%
Consumer Staples	10.1%
Total	74.9%
Emerging Markets	
Russia	4.1%
China	3.9%
Chile	1.1%
South Africa	0.9%
Total	10.1%

Top 10 Stocks

Holding	Size
BANCO BRADESCO	1.4%
PETROBRAS	1.4%
ITAU UNIBANCO	1.3%
MICROSOFT	1.2%
PETROFAC	1.2%
ELI LILLY	1.2%
POLYMETAL	1.1%
ANTOFAGASTA	1.1%
ROSNEFT	1.1%
MARKS & SPENCER	1.1%

Data as at 31 October 2018; Source: Newscap Capital Group

Currency Exposure

Currency	Allocation
GBP	105.3%
JPY	14.1%
USD	3.0%
CAD	2.9%
ZAR	1.7%
CHF	1.0%
DKK	1.0%
EUR	-29.0%
Total	100.0%

Data as at 31 October 2018; Source: Newscap Capital Group

Share Class Information

Share Class	Bloomberg Ticker	NAV	Inception Date
A Acc GBP	NDVGRAS ID Equity	99.47	19/10/2012
B Acc GBP	NEWDBAS ID Equity	120.35	21/01/2016
S Acc GBP	NEWDSAU ID Equity	115.43	01/06/2017
I Acc GBP	NEWDIAG ID Equity	101.94	02/11/2017
F Acc GBP	NEWDFAG ID Equity	97.95	13/04/2018
F Acc SGD	NEWDFAS ID Equity	98.12	16/04/2018
N Acc GBP	NEWDNAG ID Equity	95.87	01/08/2018
N Acc USD	NEWDNAU ID Equity	96.09	01/08/2018

Asset Allocation

Asset Class	Allocation
Equity	52.5%
Precious	21.8%
Government	21.1%
Short Equity	4.9%
Private Equity	3.0%
Cash	-3.3%
Total	100.0%

Fund Details

AUM	£11.8 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	NDVGRAS ID	IE00B8J3XG20
Class B Acc GBP	NEWDBAS ID	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	NEWDNAG ID	IE00BYW7R837
Class N Acc USD	NEWDNAU ID	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	MICROSOFT	PETROFAC	GOLD	OAKLEY CAPITAL
MORRISONS	BURBERRY	SSE	SILVER	BETTER CAPITAL
BRITVIC		MARKS & SPENCER	PLATINUM	UIL
RECKITT BENCKISER		RBS	SHORT PALLADIUM ETF	MICRO FOCUS
ELI LILLY		LLOYDS	HARMONY GOLD	
FAIRFAX		MITSUBISHI UFJ	POLYMETAL	
ROCHE		SUMITOMO MITSUI	OCEANAGOLD	
PZ CUSSONS		TOKYO ELECTRIC POWER	SIBANYE GOLD	
IMPERIAL BRANDS		INPEX	BARRICK GOLD	
		HITACHI METALS	COMPANIA DE MINAS BUENAVENTURA	
		DAI-ICHI LIFE	CENTAMIN	
		ROSNEFT		
		GAZPROM		
		SBERBANK		
		BANCO BRADESCO		
		ITAU UNIBANCO		
		PETROBRAS		
		ANTOFAGASTA		
		BARCLAYS		

Data as at 31 October 2018
Source: Newscap Capital Group

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