



## OUR INVESTMENT PROCESS

RESPONSIBLE  
MANAGEMENT  
OF THE WEALTH  
ENTRUSTED TO  
OUR CARE

## **Our role is to look after our clients' wealth with diligence and care.**

Two mistakes are commonly made by wealth managers. The first is forgetting that there is a living breathing client behind each investment portfolio, a client whose needs often differ considerably from a majority of others. The second mistake many wealth managers make is forgetting that their over-riding objective should be to increase the value of clients' assets over time after the impact of inflation and taxes rather than worrying about performance compared to an obscure benchmark index.

At Hawksmoor we keep at the forefront of our minds the particular requirements of each client, remembering that everyone has entrusted us with the responsible management of their wealth.

## **We start with a strategic view of the global economy**

Our starting point in managing our clients' portfolios is an assessment of where we expect money to be made and lost in the world's financial markets. Of course it is impossible to predict the future with certainty and confidence. After all, major changes in the global economic environment usually take most experts by surprise, including the central bankers and politicians who control economic policy. However, it **is** possible to assess what view of the future is being currently factored into asset prices (the consensus view) and then to determine where this view is most likely to be proved wrong. The most suitable investments can then be chosen for the prevailing economic environment alongside others that will fare well should unexpected developments occur.

Successful investing needs patience and fortitude. It requires tolerance to ride out periods when there are sharp and unhelpful movements in financial markets that move against the investment strategy you are following. Movements in financial markets frequently take prices to extremes, whereby investments become significantly mispriced. Some of these episodes may seem obvious with hindsight, such as the over valuation of technology companies' shares in 2000. However, the mispricing of assets is usually supported by very plausible arguments. It is thus the job of the investment manager to challenge the assumptions built into market prices, to determine which make sense, and which do not. Doing this successfully often means going against conventional wisdom, buying into unpopular areas and not favouring the most



fashionable investments of the day. Our ability to do this has been instrumental in achieving good results for our clients.

At Hawksmoor the whole investment team is involved in forming our view of the future course of the global economy and financial markets. Each member contributes to forming our investment strategy, drawing on their area of expertise which across the team includes experience of quantitative analysis, investment strategy, investment in direct equities and technical analysis. A central case is formed about the general outlook for the global economy and financial markets, with attention paid to identifying the key risks that could cause that view to be proved wrong. The core of our clients' portfolios is then invested in assets that will prosper if our central case proves to be correct. However, investments are also made that will do well if our assumptions prove incorrect and the risks we identified come into play.

## **Identifying key themes**

An important feature of Hawksmoor's investment strategy is the identification of themes dictating the course of economies and financial markets. Having identified themes, we look for investments that will benefit from them. Examples of this strategy include picking funds exposed to particular industries that are set to do better than others in the economic environment we see ahead, or favouring investments in certain countries whose fortunes are improving. Themes we have identified in the past include "A recovery in the agricultural sector", "Infrastructure investment in emerging markets" and "Strong companies getting stronger".

Timing is as crucial in wealth management as it is in comedy. The pain of a joke falling flat is as nothing to the pain of a badly mistimed investment. However, recognising this creates opportunities, as one of the ways in which financial markets are inefficient is in the imperfect time horizon that most investors adopt. Some of the time investors are too long term, giving too much weight to long term opportunities at the expense of short term issues. At other times the reverse is true. For example, it is one thing recognising the long term growth potential of the Chinese economy, but it is also important to consider whether investors' recognition of that potential has obscured short term challenges that could lead to a sharp fall in the value of Chinese investments. Hawksmoor's thematic approach to investment is thus combined with a disciplined approach to identifying value, seeking to invest in long term themes when the timing is right. While we are long term investors, prepared to hold investments over extended periods, we are acutely aware of the fickleness and cyclicity of financial markets and seek to take advantage of this.

## **We choose the best investments to reflect our strategic view**

A careful top down asset allocation of clients' portfolios follows on from our top down view of global financial markets and our investment themes. While we have a single model portfolio which is the purest distillation of our thinking, each client's portfolio is constructed to meet their individual requirements and incorporate a level of risk appropriate to their circumstances. As a result portfolios will vary considerably to suit clients' particular needs and preferences.

Hawksmoor is a strong advocate of a funds-based approach to investment. The majority of our clients' portfolios are comprised entirely of a carefully selected range of funds. There are now more funds than there are direct equities listed on the London Stock Exchange, and the opportunities available to the specialist fund investor are both varied and enormous. Funds include closed ended funds (such as investment trusts), open ended funds (like unit trusts and OEICs), structured products and hedge funds. While we have particular expertise in closed ended funds, we have no bias towards any fund structure, but seek to invest with talented fund managers in a fund structure that is suited best to that manager and the relevant asset class.

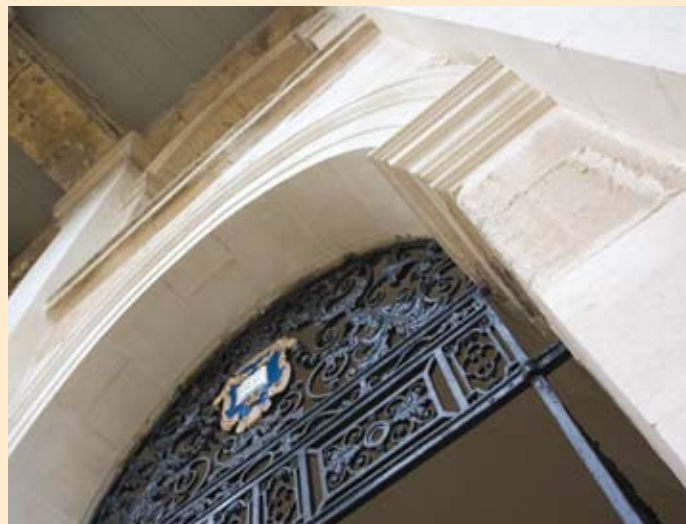
Typically our clients' portfolios will have highly diversified portfolios. The portfolios will include a range of different types of funds invested in a variety of assets and managed with contrasting styles. This strategy is designed partly to reduce risk, but it also reflects our belief that different types of fund structure and investment manager are suited best to exploit different types of opportunity and market. We do not want all the investments we make to be closely correlated with one another. Wealth management is an imprecise science as no one can successfully gauge the future course of markets with total consistency and success. It is essential to recognise this by having diversified portfolios capable of weathering unexpected turns of events and continually assessing the risks of what can go wrong. This is true even if risks can never be avoided entirely in investment, as seeking good returns inevitably involves taking risks. It is thus important to be conscious of risks being taken, and to ensure that they are appropriate for the client.

## What we look for in our investments

In identifying the best funds to invest in there are various things we look for:

- For the Fund to provide the exposure to the assets we want based on our top down research and asset allocation.
- For the Fund to pass through various quantitative screening tests – assessing the statistics concerning the Fund's performance, size, risk, fees, turnover, portfolio concentration, inflows & outflows etc. There are various facets to each of these tests. For example in terms of size, a Fund must be large enough to be viable but not so large relative to its investment specialisation that it is inflexible and difficult to manage.
- For the Fund to be managed by a talented individual (with back up) whose interests are aligned with those of investors, and who cares passionately about the Fund's performance.
- For the management company whose Fund it is to provide a stable background so that investors can reasonably expect continuity in its management over a sustained period.

We are pragmatic investors. Sometimes funds we invest in will not appear attractive judged by all the criteria listed above. For example, this could be when a quantitative assessment of a fund is meaningless because we are investing in a new fund based on our belief in the mandate of the fund and the positive record of the investment manager with past funds. Alternatively, it could be because we are investing in a closed ended fund whose share price stands at a significant discount to its net asset value, thereby offering a more attractive opportunity than an open ended



fund that appears more attractive in other respects. We believe pragmatism is required because successful investment needs to be forward looking rather than looking solely at current and past information. It is frequently the case that the best performing investments would have looked unattractive based on a strict quantitative and qualitative assessment a year before. It is thus important to be flexible, looking at all investments through the lens of what you expect to happen rather than simply based on what has happened.

## A flexible approach - direct equities

We believe that managing a portfolio of funds is the optimum solution for most clients. However, we recognise that our dedication to meeting clients' individual requirements requires us to have the ability to manage professionally investments in direct equities. The Hawksmoor team has the experience and expertise to do this.

Frequently investments in direct equities are held in clients' portfolios due to potential tax liabilities were they to be sold. In other cases it will be because the client has expressed a preference to blend an approach using funds with some exposure to direct equities, or a request to hold certain shares.

We adopt a conservative approach towards investing in direct equities. We research our clients' existing direct equity holdings, while restricting new investments to a short list of carefully selected companies' shares. We avoid direct investment in small companies' shares, gaining exposure to this sector through funds when we believe the time is right. Therefore, other than in a few cases, we only make direct investments in large "blue-chip" UK equities. The key attributes we look for in direct equities are shares in companies with sound finances, proven management whose interests are aligned with those of shareholders, and with a business that has a defensible and competitive edge.

We believe Hawksmoor's direct equities expertise has benefits in helping to formulate our investment strategy and deepen our understanding of themes and funds. This is an advantage over wealth managers using a solely fund of funds approach who are thus one step further removed from what is happening in the real economy. Researching direct equities provides a continual insight into conditions in the economy through the analysis of companies' businesses.

## The tools we use

The most important tool in managing clients' money is common sense. Complacency and pride, leading to an abandonment of common sense, are the main enemies of successful investment. The wealth manager's job is never done as it is a continual process. Thus in seeking good long term results it is vital not to get complacent when performance is good nor to be discouraged in periods when things are difficult. Common sense and a keen interest in staying up to date with developments in the world economy and financial markets are thus far more important than any magic tool or resource available to the wealth manager.

The most important discipline that informs our investment strategy is continual engagement with investment managers, brokers and strategists. As specialist investors in funds over many years, we have excellent contacts throughout the fund management industry, commerce and with the Bank of England. This enables the team to have hundreds of conversations with other investment professionals with personal meetings, conference calls, presentations and conferences. These contacts not only form the most important input in deciding what funds to buy, sell and hold, but also provide invaluable information in helping to determine our asset allocation. By comparing and contrasting views from a variety of fund managers we are able to test continually our own assumptions about financial markets.

Hawksmoor has its own asset allocation model to inform the discussion of our investment strategy. This Asset Allocation and Risk Matrix is designed to highlight the absolute and comparative attractiveness of the key investment areas, and to provide an objective check on the positioning of portfolios at our formal monthly Investment Committee Meetings. Hawksmoor's investment team adopts a collegiate approach and discussions

about investment ideas, themes and funds occur on a daily basis in between the formal monthly meetings.

While the interpretation of information is far more important than the source from which it comes, it is crucial to be able to call on good systems to stay abreast of all of the mass of data required to manage clients' assets in a professional manner. Hawksmoor has access to information in global financial markets through a number of sources including Financial Express, ShareScope and Udata Technical Analysis. In addition it is important to listen to views from a variety of contrasting sources. To assist in this and so that Hawksmoor incorporates a proper global perspective in its investment process, we subscribe to research from a US research boutique that specialises in identifying important trends in the world economy and financial markets.

## Our common sense approach

A wealth management service that aims to exceed its clients' expectations is not about having an investment process that is more complicated or cleverer than others. While an investment process has to be disciplined and professional it is more important than anything else to apply common sense when managing money. At Hawksmoor we aim to do this and combine it with a personal service to make our clients feel that we are looking out for them as well as their money.

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