

THE MI HAWKSMOOR FUNDS

30th September 2018



FUND COMMENTARY

September was an important month for the development of Hawksmoor Fund Managers' range of funds, with the launch of the Hawksmoor Global Opportunities Fund on 18th September. The Fund launched with just under £5 million, and has been created to meet demand set to come through from some of our existing investors who wanted a fund that is managed with a higher risk, more aggressive approach than Vanbrugh and Distribution. With the launch of Global Opportunities we now have a suite of three funds catering to the needs of investors across the risk spectrum while all sharing the same investment philosophy. Vanbrugh is designed to be a core holding for investors looking for a one-stop solution for long term total returns, managed with an eye on downside risks. The Distribution Fund applies the same investment methodology, but with a slightly higher level of risk taken to ensure the consistent delivery of an attractive yield. The new Global Opportunities Fund is intended for risk-tolerant investors prepared to accept a volatile ride as a trade-off to improve their chances of achieving superior levels of total returns over the long term.

Vanbrugh was launched almost 10 years ago during the Global Financial Crisis, around one month ahead of the trough of a vicious bear market. It was a tough time to launch a new fund, even if in retrospect it has clearly proved to be a very rewarding period for most investors, including those invested in Vanbrugh. Distribution was launched in April 2012, as global financial markets were recovering from the worst of the Euro Crisis which had undermined asset prices through the course of 2011. Set against this backdrop the timing of Global Opportunities feels very different, not least because the US equity market has recently broken its record longevity of a bull market (defined as an uninterrupted period without a fall in the S&P 500 Index of greater than 20%). However, it would be a mistake to think the remarkable performance of the US equity market is a good guide to the overall state of global markets. A number of areas have been very weak this year, notably emerging markets and many 'value' stocks within developed markets. This has enabled us to put together an exciting portfolio which we believe can deliver good returns over the long term notwithstanding the high valuations of many assets. We look forward to providing more information about the Global Opportunities Fund next month.

September was a month in which political events overshadowed other factors influencing investors, with continuing uncertainty about the outcome of the 'Brexit' negotiations and an escalation in President Trump's trade war with China. While there were some large moves in asset prices during the month, the overall

movements in our Fund prices were modest, with Vanbrugh and Distribution recording losses of -0.3% and -0.1% respectively in September. These results compared with those of their respective peer group averages which lost -0.3% and -0.4% (IA Mixed Investment 20-60% Shares Sector and IA Mixed Investment 40-85% Shares Sector). In a comparatively lacklustre month for most mainstream assets, the Funds benefitted from the good performance of a number of the closed-ended holdings, notably those providing access to niche areas of the UK commercial property market. The travails of many high-street retailers has unduly coloured many investors' perceptions about opportunities in UK commercial property, because retail accounts for a large segment of the market. However, there are plenty of attractive areas which can be accessed via closed-ended funds, albeit most of these tend to be in smaller sectors requiring high quality experienced managers to exploit them, such as warehouses, nursing homes and private rental sector housing. One other area that we have identified is good quality long lease properties with secure tenants and rental agreements that provide linkage to inflation. One of Vanbrugh and Distributions' best performers in September was LXi REIT, a holding purchased for both Funds at its launch in February 2017, which provides exposure to this asset class. LXi's management has done an outstanding job illustrated by the sale of one of the REIT's properties accounting for 6% of assets on 3rd September, at a profit of 31% from its cost in June last year.

Aside from the creation of the Global Opportunities Fund's portfolio, September was a busy month for dealing for both Vanbrugh and Distribution. Positions in Warehouse REIT were topped up on weakness in the share price after management failed to agree terms on a potential large acquisition, a development which we see as testimony to their discipline of not overpaying for new assets. We subscribed to the launch of Mobius Investment Trust and added to several closed ended fund holdings at attractive levels, namely Oakley Capital Investments and Henderson Alternative Strategies for Vanbrugh and Standard Life Private Equity, Urban Logistics REIT and Chelverton UK Dividend for Distribution. Vanbrugh's holding in BH Global (BHGG) was sold for a gain of 12% from its purchase last October, an excellent return given the period has been an uncommonly poor one for most absolute return funds. Part of the attraction of buying BHGG's shares had been the discount to net asset value, but this has now almost closed entirely, thus removing one of the main reasons for holding the shares. We also took advantage of the comparative weakness of UK equities, to add to both Funds' UK equity open-ended fund holdings funded primarily from open-ended funds invested in global equities.

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