MODEL PORTFOLIO SERVICE

30th June 2018

HAWKSMOOR
FUND MANAGERS

COMMENTARY

June was a testing month for our Model Portfolio Service, with all of our Model's lagging on both an absolute and relative basis amid the higher levels of volatility experienced in most financial markets, albeit the margins are small given the low absolute returns. There is a growing confluence of conflicting forces which is pushing and pulling asset prices in opposing directions. On the positive side, generally robust corporate earnings and reassuring inflation data cheered investors. Opposing this, however, were some powerful negative issues, not least of which was a further deterioration in international trade relations, and a rise in the value of the US dollar which drained liquidity from some areas of markets. The short-term relative performance of different markets can be explained mainly by how these factors affected some areas more than others. For example, areas of the US equity market have done well on the back of strong corporate earnings and buoyant conditions for merger and acquisition activity. By contrast, the recent comparatively poor performance of emerging market assets can be attributed largely to the sharp rise in the value of the US dollar in recent months, particularly as it has coincided with well-publicised difficulties in a few emerging markets including Argentina and Turkey. Against this backdrop, each Model fell in value during the course of the month, for reasons explained below, although one reason common to all the Models was the performance of Old Mutual Gold & Silver (-4.9%). The fund is held in each Model in increasing weight as we move up through the risk range, had a weak month as the price of gold fell over 3%.

Defensive returned -0.6% versus -0.2% for the IA Mixed Investment 0-35% Shares Sector during June. It was a difficult month for two of our absolute return holdings, Jupiter Absolute Return (-1.4%) and Old Mutual Global Equity Absolute Return (GEAR, -2.2%). Only two funds held delivered positive returns in June; M&G Global Macro Bond (+0.4%) benefitted from the appreciation of the dollar relative to sterling, whilst F&C Property Growth & Income (+0.4%) also generated a small positive return.

Like Defensive, Jupiter Absolute Return and Old Mutual GEAR detracted from the returns achieved by our **Cautious** Model (-0.7% versus -0.3% for the IA Mixed Investment 20-60% Shares Sector) during the month. In addition, though just a small position at 2.5% of the Model, Cautious does have dedicated exposure to emerging market equities through the holding in Janus Henderson Emerging Market Opportunities (-2.0%). Though pleasingly, despite the weak performance of emerging market equities in June, the Janus Henderson fund help up relatively well, performing in the top decile of the IA Global Emerging Markets sector.

Our **Balanced** Model (-0.7%) lagged its sector (IA Mixed Investment 40-85% Shares Sector, -0.2%) return over the month. Despite this, fund selection within the Model was good, with only one fund performing in the bottom quartile of its respective sector and ten funds performing in the top half of their respective sectors. However, asset allocation detracted from performance with exposure to emerging market equities through Janus Henderson Emerging Market Opportunities (-2.0%), emerging market debt through M&G Emerging Markets Bond (-1.1%), and Asian equities through Schroder Asian Alpha Plus (-2.6%).

Perhaps surprisingly for a month that saw negative returns across our Model range, **Growth** (-0.7%) performed in line with our lower risk Balanced and Cautious Models, though still lagged its sector return (IA Flexible Investment, -0.3%). Exposure to smaller companies through positions in Old Mutual UK Smaller Companies (+1.1%) and Standard Life Global Smaller Companies (+1.4%), combined with a 6% position in Baillie Gifford Global Discovery (+1.1%) accounts for much of this relative outperformance. However, higher exposure to emerging and frontier markets, as well as to emerging market debt and gold equities detracted from returns during the month.

Aggressive (-0.8%) also lagged the IA Flexible Investment Sector return of -0.3%. Fund selection was good, as four of the funds held within the Aggressive Model performed in the top quartile of their respective sectors, with only one performing in the bottom quartile (Artemis US Extended Alpha).

Distribution was our best performing Model over the month, returning -0.5% versus -0.2% for the IA Mixed Investment 40-85% Shares Sector. Fund selection was good, with five funds performing in the top quartile of their respective sectors, notably Jupiter Strategic Bond, which was the third best performing fund in the IA Sterling Strategic Bond sector in June. This good fund selection was offset by exposure to emerging market debt through M&G Emerging Markets Bond (-1.1%), and exposure to Asian equities through Schroder Asian Income Maximiser (-2.0%).

The negative market moves seen earlier in the year seem to have unnerved many investors, with sentiment turning increasingly skittish and the level of volatility rising. This underlying sense of unease among investors has previously been manifested by the sharply negative performance of the share prices of companies that have delivered weak news to the market, but is now being seen on a broader scale given increasing trade tensions, the strengthening dollar and poor news from some emerging markets. We continue to seek to ensure that each Model remains well diversified and appropriately positioned relative to their risk profile to continue to generate attractive long term returns for our investors.

Source: FE Analytics. All information is at 30/06/2018 unless otherwise stated. Data sourced from Financial Express (total return, bid to bid, excluding fund rebates and excluding fees applied by the platform and adviser, but including Hawksmoor's fees without the VAT).

RATINGS/AWARDS

PLATFORM AVAILABILITY

The Model Portfolios are available on the following platforms:

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RISK WARNINGS AND OTHER INFORMATION

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