QUARTERLY REPORT
Q3 2018

HAWKSMOOR
FUND MANAGERS

THE MI HAWKSMOOR VANBRUGH FUND

The one-stop investment solution for long-term real returns.

INVESTMENT OUTCOME

The Vanbrugh Fund's primary aim is to deliver returns, after charges, in excess of the Consumer Price Index (CPI) over the medium term (defined as rolling periods of 3-5 years). In striving to achieve this target, the managers seek to strike the right balance between the need to generate positive real returns and preserve capital by investing in a variety of financial assets which can be volatile. The managers will seek to mitigate against this volatility by ensuring a diversified portfolio of assets, each of which share the common characteristics of a margin of safety and low intra-asset correlations. However, investors may see fluctuation in the value of their investment over the short term, so they need to share the managers' long term perspective in order to increase the likelihood of superior long term total returns. Whilst there is no yield target, the Fund will always contain an allocation to bonds and other income producing assets, so some income generation is likely.

1 The Defaqto 5 Diamond Multi-Manager Return Focused Rating reflects the C Share Class. Defaqto Risk Ratings apply to all available share classes.

INTRODUCTION

"Don't judge each day by the harvest you reap, but by the seeds that you plant."
Robert Louis Stevenson

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Our Team

Daniel Lockyer *Senior Fund Manager*
Financial Express aggregated track record of 13+ years running retail funds – outperformed peer group by 44%, returning 127% versus 83% (13/01/2005 to 30/09/2018)

Richard Scott *Senior Fund Manager*
Financial Express aggregated track record of 18+ years running retail funds – outperformed peer group by 211%, returning 485% versus 274% (31/12/1999 to 30/09/2018)

Ben Conway *Senior Fund Manager*
Financial Express aggregated track record of 4+ years running retail funds – outperformed peer group by 8%, returning 39% versus 31% (01/01/2014 to 30/09/2018)

Hannah Isaac *Head of Fund Operations*

Dan Cartridge *Fund Management Assistant*

Matilda Cretney *Team Assistant*

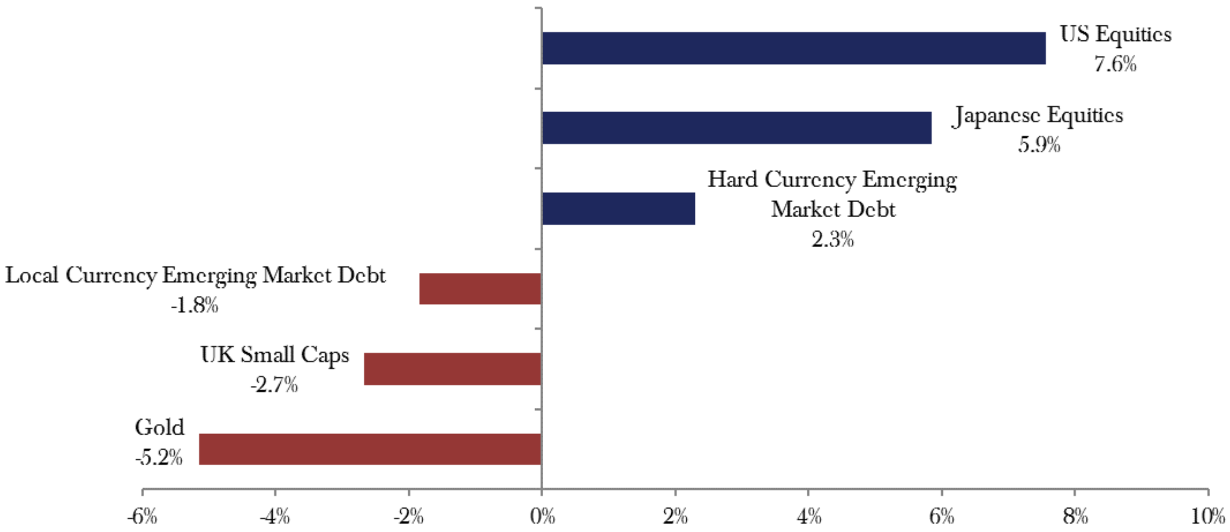
Left to right: Richard Scott, Hannah Isaac, Daniel Lockyer, Dan Cartridge, Ben Conway

 Source: Financial Express Analytics GBP total return

MARKET PERFORMANCE

HAWKSMOOR FUND MANAGERS

Top and bottom three performing asset classes



Commentary

The third quarter of the year saw the continuation of a testing period for the performance of emerging market equities that had transpired towards the end of the previous quarter. Investor sentiment towards emerging markets continued to be weak, as strength in the US dollar led many in the investment industry to question the ability of countries with high levels of dollar denominated debt to repay that debt. This is a particularly prescient issue for those countries that have a severe mismatch between the currency their debt is denominated in and the currency they earn the majority of their revenues in, particularly Argentina and Turkey. Despite relatively idiosyncratic negative news flow from some emerging market economies, concerns about the risk of contagion grew which negatively impacted the performance of broader emerging markets.

Continued strength in the US dollar also impacted the price of gold, which fell over 5% during the quarter. In addition, news of the winding up of one of the largest gold mining stock ETFs and very large short interest across gold mining company shares weighed heavily on the share price performance of these companies. Political risk continued to weigh on the UK market as we move ever closer to Brexit. This led to poor performance from UK smaller companies, which tend to have high exposure to the UK domestic economy.

Other asset classes fared better, notably US equities, which continued to perform well, setting a new record in August by recording its longest period in history without a fall in excess of 20%. Strong performance during the quarter was aided by the performance of a number of the leading technology companies shares. Although the US equity market has continued to perform well, it was a more challenging quarter for bond holders. The Federal Reserve continued to raise interest rates amid growing signs of rising inflationary pressures in the US, with one of the results being the 10 year US Treasury yield rising to over 3%, a perceived psychologically important level.

Indices: US Equities - S&P 500, Japanese Equities - TSE TOPIX, Hard Currency Emerging Market Debt - ICE BofAML US Emerging Markets External Sovereign, Local Currency Emerging Market Debt - JPM GBI-EM Global Div Composite, UK Small Caps - MSCI United Kingdom Small Cap, Gold - ETFS Physical Gold

 Source: Financial Express Analytics local currency total return 30/06/2018 - 30/09/2018

VANBRUGH FUND PERFORMANCE

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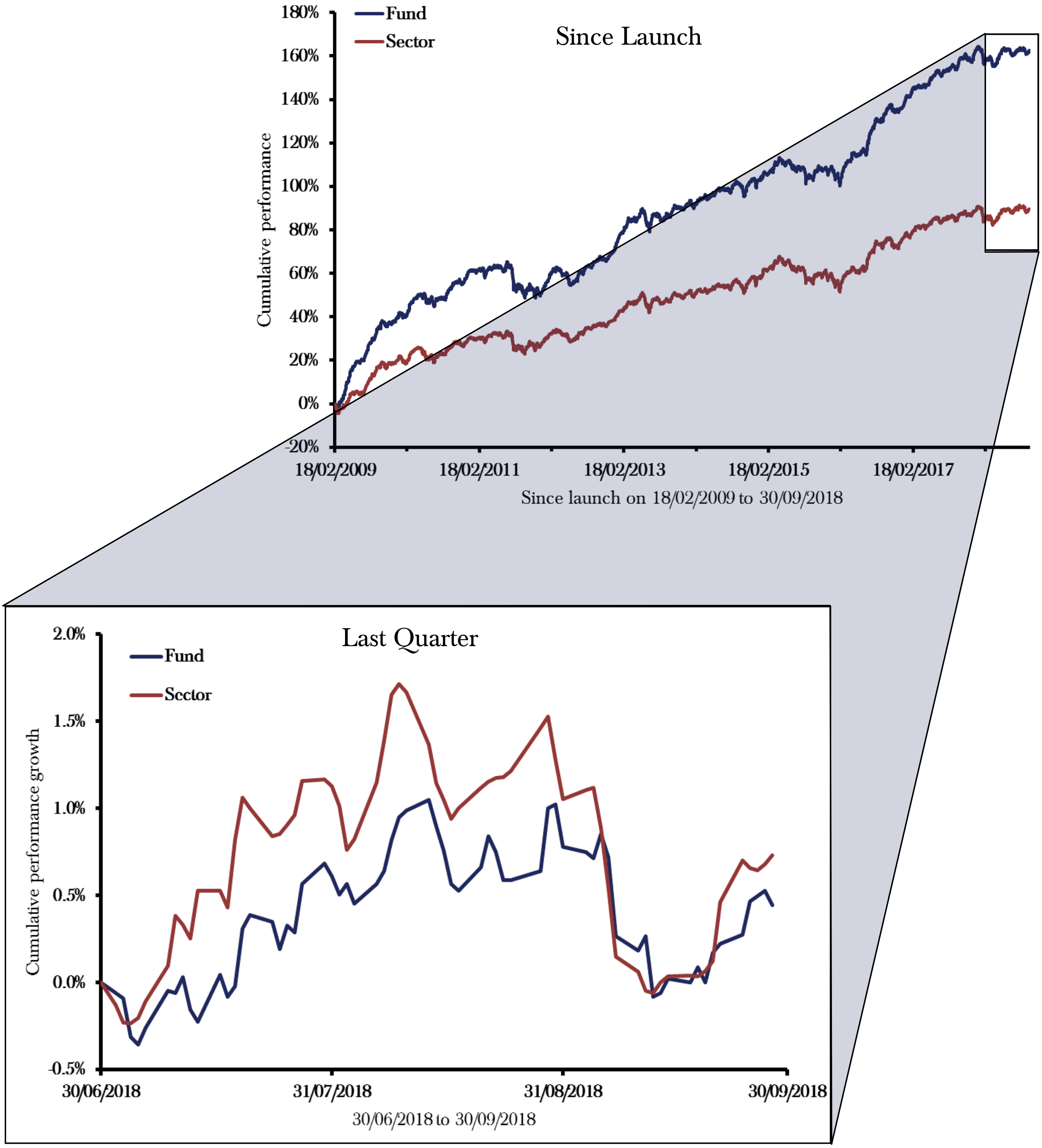
FUND MANAGERS

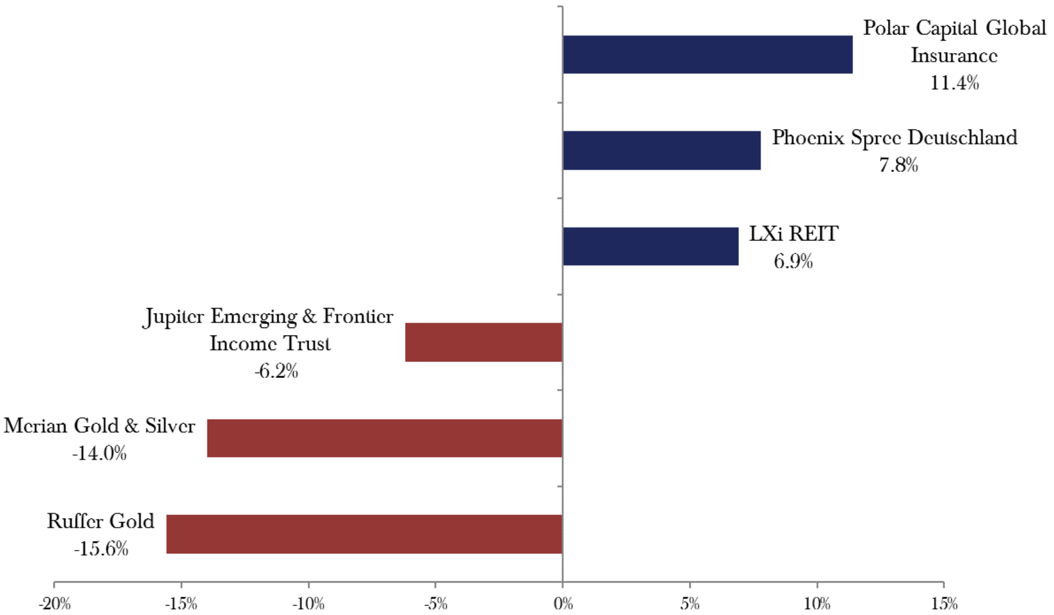


Source: Financial Express Analytics GBP total return 30/09/2018. C Acc units. Sector: IA Mixed Investment 20-60% Shares

VANBRUGH FUND PERFORMANCE

HAWKSMOOR FUND MANAGERS

Performance by holding (top three and bottom three)



Best performers:

- **Polar Capital Global Insurance** (thematic equity) - M&A in the insurance industry drove a re-rating of many company's stocks. Pricing improvements in the industry boosted sentiment, resulting in a strong quarter for the fund.
- **Phoenix Spree Deutschland** (Berlin residential property) - the release of a good set of results during the period saw an increase in the net asset value (NAV) and share price of this trust.
- **LXi REIT** (commercial property) - good news flow during the quarter with disposals at material uplifts to carrying value saw the NAV rise and the premium on the trust widen.

Worst performers:

- **Jupiter Emerging & Frontier Income Trust** (emerging market equity) - weakness in emerging and frontier markets following continued dollar strength and idiosyncratic negative news from some regions saw the NAV and share price of the trust fall.
- **Merian Gold & Silver** (gold equity) - a triumvirate of factors combined for a difficult period for gold equities. Weakness in the gold price, a high degree of short interest on gold mining stocks, and the liquidation of one of the worlds largest gold mining passive funds hampered returns.
- **Ruffer Gold** (gold equity) - a triumvirate of factors combined for a difficult period for gold equities. Weakness in the gold price, a high degree of short interest on gold mining stocks, and the liquidation of one of the worlds largest gold mining passive funds hampered returns.

 Source: Financial Express Analytics GBP total return 30/06/2018 - 30/09/2018

VANBRUGH FUND PORTFOLIO ACTIVITY

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By holding

Purchases/Increases:

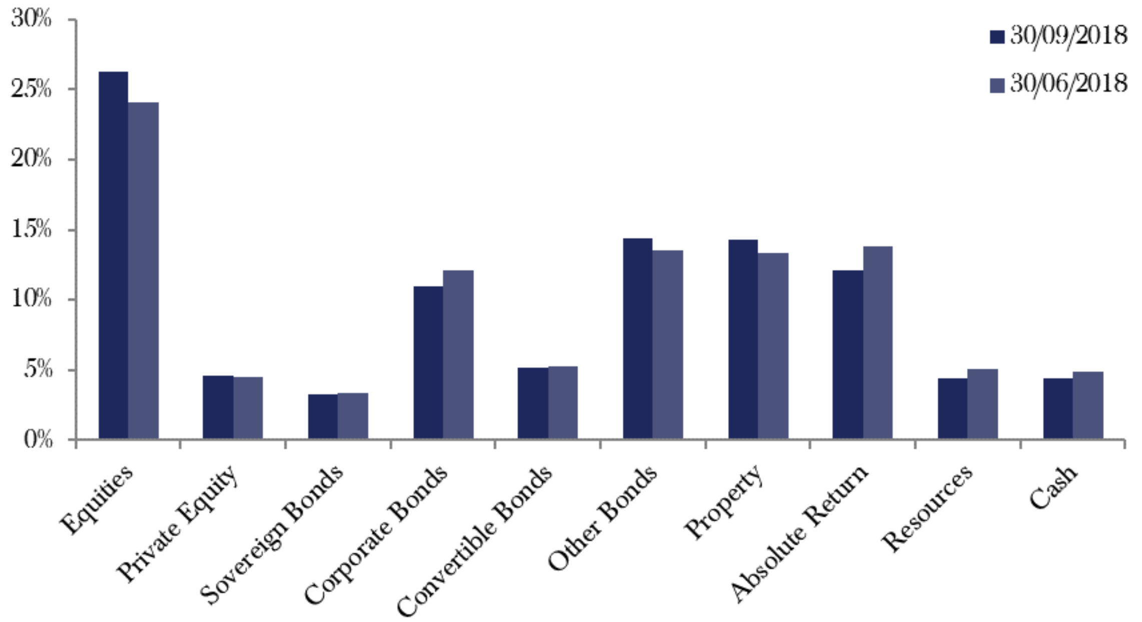
- Ashoka India Equity Investment Trust
- Downing UK Micro-Cap Growth
- GCP Asset Backed Income C Share
- Man GLG Undervalued Assets
- Mobius Investment Trust
- Polar Capital UK Value Opportunities

Disposals/Reductions:

- Artemis Global Select
- BH Global
- Downing Strategic Micro-Cap Trust
- Janus Henderson UK Absolute Return
- Polar Capital Global Insurance
- Royal London Short Duration Global High Yield Bond

We exited Downing Strategic Micro-Cap Trust at an attractive premium to net asset value (NAV), topping up the similarly managed open ended Downing UK Micro-Cap Growth. BH Global was sold from Vanbrugh after a strong period that saw the discount to NAV on the trust materially narrow. We became increasingly positive on the relative and absolute attractions of the UK equity market compared with global equity markets. This led us to reduce our holdings in Artemis Global Select, Polar Capital Global Insurance and Janus Henderson UK Absolute Return and increase our positions in Man GLG Undervalued Assets and Polar Capital UK Value Opportunities. We reduced our holding in Royal London Short Duration Global High Yield Bond in order to finance taking part in the C Share issue of GCP Asset Backed Income, a trust we have supported since its inception. We introduced two new investment trusts to Vanbrugh during the quarter. Ashoka India Equity Investment Trust and Mobius Investment Trust are both highly active, selecting companies from very broad universes and distilling their best ideas into concentrated portfolios. The managers for both trusts have exceptional track records at larger investment houses, but have endeavoured to create their own businesses and eventually leave their legacies behind. We are confident both trusts will prove to be successful.

By asset class



This chart calculates the asset breakdown on a look through basis of the underlying holdings, therefore there may be differences in the breakdown shown here and on the pie chart on page 7.

 Source: Internal

VANBRUGH FUND PORTFOLIO HOLDINGS

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Each fund has been allocated to an asset class for this pie chart, therefore there may be differences in the breakdown shown here and on the asset allocation chart on page 6.

THE ROMAN GOD JANUS'S LESSONS FOR INVESTORS

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The mythical Roman god Janus was depicted with two faces, back-to-back, pointing in opposing directions; an apposite picture for the god of beginnings, transition and endings. Janus had qualities which should have made him a good investor. After all, he had an inherent advantage over us lesser mortals who struggle to keep the right balance of keeping in mind past precedent when considering the outlook for investments. All too often investors spend too much time looking behind them, failing to spot how things are changing. By contrast, other investors place undue confidence in their forecasts as they look ahead, and thereby make mistakes that could have been avoided by considering the past. So, it is worth keeping Janus in mind, particularly when conditions for investors are difficult with most assets expensively valued and the outlook is cloudy. Here are three observations that we keep in mind to help us keep that Janus-like balance in managing the Hawksmoor Funds.

Don't place undue confidence in the forecasts of experts

Investors hate uncertainty. The ideal way of dealing with uncertainty is to remove it, and when this can't be done investors will frequently delude themselves by relying on the forecasts of those they think are qualified to know things about the future they don't know themselves. However, no one knows how economies and financial markets will perform. Economists are well-placed to explain why their forecasts were wrong, but their outlooks should not be relied on in making investment decisions. The record of the Governor of the Bank of England, Mark Carney, illustrates the foolhardiness of relying on experts. Carney's record of predicting the course of economic trends such as employment, inflation and growth, and their interaction and effect on interest rates has been so woeful that it has caused him to be nicknamed "the unreliable boyfriend" (in the words of the Member of Parliament, Pat McFadden). In the light of this, we treat all forecasts with scepticism, however well-qualified the forecaster. Instead we try and make investments looking back at established trends that can be projected to prevail through the ups and downs of the economic cycle. We've profited from this strategy for our Funds on numerous occasions, and continue to hold investments in areas like healthcare, insurance and specialist property markets that are supported by non-cyclical drivers for growth such as demographic trends and an increasingly populous middle class in emerging markets. These factors should enable our investments to prosper regardless of whether optimism or pessimism is justified about issues such as Brexit, trade wars or the short to medium term prospects for the world economy. Like Janus, it is worth looking back to consider the fallibility of forecasting the future when making investments, but also projecting forward secular trends that most underestimate or overlook.

Investing should make you feel uncomfortable

Solomon the king of ancient Israel, was someone who knew a thing or two about accumulating wealth. He is generally thought to be the author of Ecclesiastes, a Biblical book of timeless wisdom that includes advice all investors should heed. One of Solomon's particularly helpful insights for investors is "Those who wait for perfect weather will never plant seeds; those who look at every cloud will never harvest crops." (Chapter 11 verse 4.) We have frequently born this in mind when making investments, especially when investing requires fortitude. Don't try and pinpoint the perfect time to buy an investment if your work leads you to conclude it is attractively valued compared with its past valuation and its future prospects. Some of our best investments were made during the Eurozone Crisis of 2011 and in the aftermath of the result of the referendum in 2016 over the UK's membership of the European Union when it was possible to buy high quality assets at depressed valuations. In applying Solomon's advice more broadly, we believe investors must embrace a fair measure of risk in order to generate acceptable returns. With cash rates likely to remain below the rate of inflation for a long time it is necessary to accept either a steady erosion in the real value of your investment while avoiding the risk of losses to capital, or to take considered risks to capital to earn acceptable returns. Investors hoping to generate decent returns without taking risk are like those wanting to swim without getting wet! It can't be done. Successful investment involves accepting some degree of discomfort. When faced with a worrying outlook it's necessary to balance unavoidable risks with the encouragement that can be taken from looking back to how sensibly valued assets have performed over long periods in the past. Weighing up the attractiveness of investments relative to their history, and assessing that in the light of their outlook are at the heart of our investment process.

Investors worth backing are those doing their upmost to ensure future success rather than simply following those with the best track records

Judging investment success is childishly simple but extremely hard. Simplistically, it is easy to look at an investor's results, and to see how they have performed in the past compared to others. This can be a guide to the future, but it is not necessarily so. It is also necessary, but far harder, to assess an investor's future success. This is something we apply to the funds that populate our portfolios, but appreciate also, that is how you, the reader, should be judging us! Indeed, while we take pride in the awards our Funds have achieved, we believe a better way to assess Hawksmoor Fund Managers' credentials is considering our Funds' current portfolios. Will they deliver for you in the future? The Scottish writer, Robert Louis Stevenson, probably knowingly sought to expand on the sense of King Solomon's words in Ecclesiastes when he wrote "Don't judge each day by the harvest you reap, but by the seeds that you plant." (from Stevenson's play Admiral Guinea). This perfectly describes the mindset of the talented investors we seek to back in our Funds. Sometimes a fund's past performance looks as impressive as a bumper harvest, but we go on to discover that its current portfolio looks arid and barren. By contrast, sometimes unpromising funds judged on past performance, have portfolios we assess are set to yield a bumper harvest. So, we are constantly seeking to ensure our portfolios are like a well-tended allotment! We are doing our best to have an on-going harvest by constantly looking to ensure we have the seeds planted to yield crops in times ahead. Like Janus, we remain looking backwards and forwards, conscious of the importance of past results, but acutely aware of managing our Funds to deliver good results in the future.

Richard Scott
Senior Fund Manager

CONTACT INFORMATION

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RISK WARNINGS AND OTHER INFORMATION

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