THE MI HAWKSMOOR FUNDS

30th November 2018

HAWKSMOOR
FUND MANAGERS

FUND COMMENTARY

The total returns of Vanbrugh, Distribution and Global Opportunities for November were -0.2%, 0.5% and 1.1% respectively, thereby reversing the order in which they had performed in November, when Vanbrugh had proved to be the most resilient fund in weak markets. These results compared with those of their respective peer group averages 0.0%, 0.5% and 0.8% (IA Mixed Investment 20-60% Shares Sector, IA Mixed Investment 40-85% Shares Sector and IA Flexible Investment Sector). After the sharp falls in prices witnessed in October, November was a more stable month for financial markets. There was a recovery in some emerging markets, and this helped the performance of the Global Opportunities Fund which has the most of our three funds in this area. By contrast, conditions remained very challenging for most absolute return funds, and this held back the performance of the Vanbrugh Fund given its higher exposure to this area than the two other Hawksmoor Funds. The unusually poor performance of absolute return funds in 2018 may be linked to the almost uniformly negative returns delivered by most asset classes. Deutsche Bank published research in November, reporting that the proportion of assets falling in value in 2018 year-to-date was almost 90% (in US$). If this does not change by the end of December, it will be the greatest proportion of assets delivering a negative calendar year return since Deutsche Bank's records began in 1901, and far worse than the annual average of loss making assets since 1901 which is 29%.

November 2018 was a tumultuous month in UK politics, and whatever is agreed in the short term over Brexit it is hard to foresee a quick return to a settled political environment. The same may hold true in global financial markets, particularly as Brexit is just one of a number of important issues concerning investors. This means it is prudent to expect financial markets to remain volatile over the coming months. Investors continue to grapple with the consequences of a move by the world's central banks to quantitative tightening in aggregate, with the European Central Bank set to end its quantitative easing program in December. Another troubling issue is the potential for a worsening in the US-Sino trade war. Nevertheless, although it may seem paradoxical, a more difficult period should be welcomed by investors able to look beyond short term performance. While it is frequently stressful navigating weak and volatile markets, they are normally the times when the best investment opportunities emerge.

The delicate balance required in determining the right investment strategy requires setting a desire to buy cheapening investments against the knowledge that there is a significant risk that their prices may continue to fall in the short term. The most attractive assets to add to in weak markets are often those that prove deleterious for short term performance. Just as expensive assets often rise to absurd valuations, cheap assets have a habit of becoming cheaper before performance turns around. We found this to be true in 2011, when we added to holdings undermining our short term performance such as private equity investment trusts. In the short term this worsened Vanbrugh's performance before significantly boosting returns in 2012 when the private equity investment trusts' share prices rebounded. We are expecting this to be true of our on-going move to increase our Funds' hitherto low exposure to UK equities over recent months. We have benefited from having comparatively little exposure in UK equities over the past couple of years relative to many of our peers when the UK equity market's performance has been more muted than most others. The crucial judgement is distinguishing between those assets likely to incur permanent capital losses, and those experiencing temporary set-backs from which they will recover.

Activity in the Funds in November included taking advantage of weakness in some share prices to add to holdings such as Artemis Alpha for Vanbrugh and Global Opportunities and some of the specialist real estate investment trusts for all three funds. We also introduced holdings in BioPharma Credit into Vanbrugh and Distributions' portfolios, a fund exploiting the managers' expertise in providing high-yielding finance for cash-generative life science companies. Purchases were financed by a combination of inflows and reducing exposure to some holdings, such as LXi REIT and ICG Longbow Senior Secured UK Property Debt, whose attraction had been lessened, principally due to strong relative performance.

Our intention is for this to be the last in an unbroken series of almost 120 monthly fund commentaries. From next month we will be enhancing the commentary forming part of the Funds' quarterly reports. There are a number of reasons for this, not least of which is that since September we now have three funds traversing a broad spectrum of risk, such that it is difficult to make one commentary relevant to holders of each fund. We hope bespoke commentaries for each Fund will be an improvement, helping you keep abreast better of our opinions and how each fund is being managed. As ever we welcome your feedback.

CONTACT DETAILS

Enquiries and further information:
Sales Manager: David Chapman   Email: david.chapman@hawksmoorfm.co.uk   Tel: 07384 114953
Dealing Line: 0345 026 4283

RISK WARNINGS AND OTHER INFORMATION