MODEL PORTFOLIO SERVICE

30th September 2018

HAWKSMOOR
FUND MANAGERS

COMMENTARY

The past quarter has been a challenging one for our Model Portfolio Service. Only one of our Models delivered a positive absolute return in the period whilst all of our Models lagged the returns generated by their comparative IA sectors. The quarter was characterised by further strengthening of the US dollar relative to both developed market currencies and emerging market currencies. Stronger economic performance and the tightening of monetary conditions in the US, particularly when viewed against the more accommodative monetary policies in much of the rest of the developed world, has seen the US dollar gradually strengthen over the past six months. This strengthening in the US dollar had a negative impact on the performance of emerging market debt and equities, and gold equities. Sentiment towards emerging markets weakened towards the end of the previous quarter as the strengthening in the US dollar was exacerbated by negative news flow from Argentina and Turkey. Despite these negative headlines being idiosyncratic in nature, it led to rising investor concerns about the potential for contagion. These fears continued into the quarter under review and resulted in a generally difficult period for emerging market performance.

We have exposure to gold equities via the Merian Gold & Silver fund, which is held in increasing weight as we move up through our Model Portfolio risk range. Over the quarter, this fund fell by -14.0%. Whilst disappointing, we remain confident in the funds prospects. Not only does exposure to gold equities and precious metals provides diversification to our Model Portfolios, but gold mining companies have significantly improved their balance sheets in recent years and will remain profitable even if the gold price falls materially from here. Should the gold price rise, this will feed through to the bottom line of these companies' performance. Consolidation is occurring in the gold mining sector, with the announcement that Barrack Gold would be acquiring Randgold Resources in a $6bn deal. As the price of exploration has now moved above the cost of acquisition, it would not be a surprise to see further M&A activity in the sector, which should provide support to the current low valuation levels, and potentially offer a catalyst for a re-rating of gold mining company share prices.

Defensive returned -0.3% versus +0.2% for the IA Mixed Investment 0-35% Shares Sector over the quarter. It was a difficult period for the Model's absolute return funds, as three of the four absolute return funds held generated negative returns. The Model has low exposure to those areas of markets that performed best, most notably to US equities, and this detracted from returns.

Our **Cautious** Model (-0.5%) lagged the +0.7% return generated by the IA Mixed Investment 20-60% Shares Sector. Like Defensive, the relatively high exposure to absolute return funds detracted from the returns generated by Cautious. In addition, dedicated exposure to emerging market equities through a position in Janus Henderson Emerging Market Opportunities (-2.0%), and a difficult quarter for Japanese equities with Jupiter Japan Income returning -2.2%, also weighed on returns.

Balanced (-0.1%) lagged the IA Mixed Investment 40-85% Shares Sector return of +1.4%. Exposure to Asian equities through the position in Schroder Asian Alpha Plus (-3.2%) detracted. In addition, a weak period for UK equities, as ongoing political developments concerning the eventual Brexit deal that would be negotiated impacted investor sentiment towards UK stock markets, saw negative performance generated by JO Hambro UK Dynamic (-1.8%) and Man GLG Undervalued Assets (-1.9%).

Growth (+0.0%) and **Aggressive** (-0.3%) both underperformed their benchmark, the IA Flexible Investment Sector (+1.4%). Both Models benefited from their positions in Baillie Gifford Global Discovery (+9.6%), as well as from their dedicated exposure to US equities through Artemis US Extended Alpha (+8.5%) and to smaller companies through Standard Life Global Smaller Companies (+5.3%) and Merian UK Smaller Companies (+0.4%). However, exposure to emerging market and frontier market equities, gold equities and UK equities offset these positive returns.

Our best performing Model in absolute terms over the quarter was **Distribution** (+0.4%), although the Model trailed the +1.4% return from the IA Mixed Investment 40-85% Shares Sector. Despite the general weakness in emerging market debt (EMD), the fund we use to gain exposure to EMD in the Model, M&G Emerging Markets Bond, generated a positive return of +0.8% during the quarter. Generally, the Model has greater exposure to global developed market equities relative to emerging market equities which was beneficial during the period under review.

Source: FE Analytics. All information is at 30/09/2018 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:

CONTACT DETAILS

Business Development Team:
Phone: 01392 410180
Please note, all telephone calls will be recorded.

Email: bdteam@hawksmoorim.co.uk

Address: 17 Dix's Field, Exeter, EX1 1QA

Website: www.hawksmoorfm.co.uk

RISK WARNINGS AND OTHER INFORMATION