QUARTERLY REPORT
Q2 2019

HAWKSMOOR
FUND MANAGERS

THE MI HAWKSMOOR GLOBAL OPPORTUNITIES FUND

The one-stop investment solution to maximise long-term real returns.

defaqto 2019 Multi-Manager Return Focused

INVESTMENT WEEK SPECIALIST INVESTMENT AWARDS 2017 WINNER
Boutique Management Group of the Year (Multiple Strategies)

defaqto 6 RISK RATING BALANCED GROWTH

INVESTMENT OUTCOME

The Global Opportunities Fund's primary aim is to deliver returns, after charges, in excess of general markets over the long term (defined as rolling periods of 5+ years). In order to achieve this, the managers will invest in a variety of financial assets, using collectives to invest in long term structural growth themes, together with exploiting inefficiencies in the closed-ended sector - i.e. investment trusts trading at a discount. The portfolio will be fully invested and, whilst diversified, it will have a minimum exposure to equities of 60% . It is therefore likely that investors will 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.

INTRODUCTION

HAWKSMOOR
FUND MANAGERS

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Our Team

Daniel Lockyer *Senior Fund Manager*
Financial Express aggregated track record of 14+ years running retail funds – outperformed peer group by 41%, returning 128% versus 87% (13/01/2005 to 30/06/2019)

Ben Conway *Senior Fund Manager*
Financial Express aggregated track record of 5+ years running retail funds – outperformed peer group by 6%, returning 40% versus 34% (01/01/2014 to 30/06/2019)

Ben Mackie *Fund Manager*

Dan Cartridge *Assistant Fund Manager*

Richard Scott *Advisor*

Hannah Isaac *Head of Fund Operations*

David Chapman *Business Development Manager*

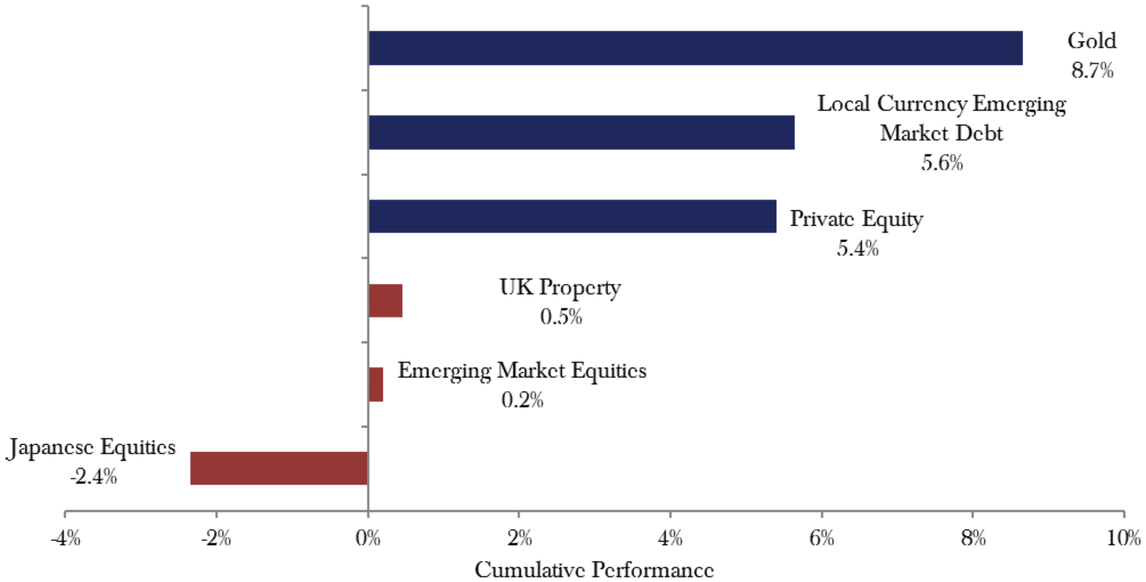
Left to right: David Chapman, Dan Cartridge, Ben Mackie, Ben Conway, Daniel Lockyer, Hannah Isaac

 Source: Financial Express Analytics GBP total return

MARKET PERFORMANCE

HAWKSMOOR FUND MANAGERS

Top and bottom three performing asset classes



Gold - ETFS Physical Property, Local Currency EMD - JPM GBI-EM Global Div Composite, Private Equity - IT Private Equity, UK Property - MSCI UK Monthly Property, Emerging Market Equities - MSCI Emerging Markets, Japanese Equities - TSE TOPIX

Commentary

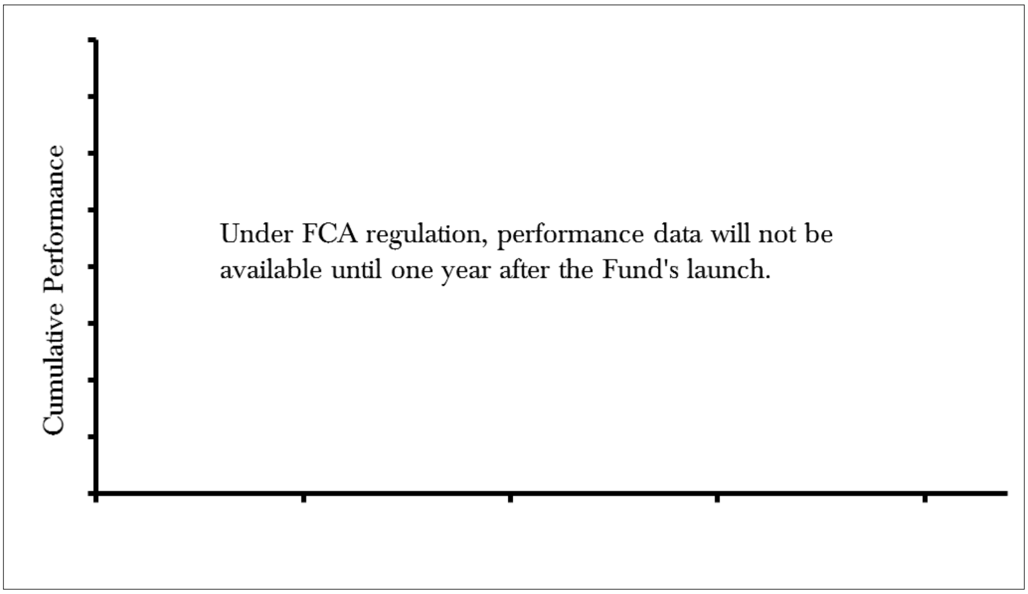
The second quarter of 2019 proved to be another strong one for global financial markets, which continued to rally after the challenging end to 2018. Concerns regarding the maturity of the business cycle and slowing global economic growth persist, whilst geopolitical tensions remain front and centre with the US-China trade conflict unresolved and the Conservative leadership contest adding further uncertainty to the Brexit melodrama. Despite those risks and in the face of elevated valuations, equity and fixed income markets continued to rise with aplomb. Heightened UK uncertainty saw the 10 year UK gilt yield fall below 1%, though perversely the UK equity market rose over 3%. The signals from bond and equity markets have become bifurcated not just in the UK but globally, as government bond yields declined sharply. One stark example being Germany, where the 10 year bund yield reached an all time low of -0.35%. Whilst bond markets signalled lower global growth, which in turn implies weaker corporate earnings, equity markets ignored those signals and continued to rise, buoyed by the prospect of the US Federal Reserve cutting short term interest rates. Lower interest rates only help justify higher equity valuations if earnings and cash flow growth is unaffected in the long term. Time invariably will prove one of the two financial markets correct, but economic data currently lends more support to the bond market's moves.

The gold price reached a six year high during the quarter as real interest rates in the US continued to decline markedly, reducing the opportunity cost of holding gold, and rising geopolitical tensions saw investors flock to the precious metal. Gold equities performed strongly on the back of this. Meanwhile, weakness in the US dollar relative to emerging market currencies improved sentiment towards emerging market debt. Whilst reliance on US dollar funding for EM countries has declined significantly in recent years, the perception of the dollar's importance remains, meaning currency swings impact shorter term performance. The rally, which saw spreads compress, came on the back of a more difficult 2018, leaving EMD valuations still broadly attractive. Japanese equities have continued to struggle, with the latest round of corporate reporting seeing further deterioration in earnings, although valuations remain undemanding. Retail property in the UK continues to be hit hard by the structural decline in high street shopping, with property funds marking down retail property values. The strong performance of logistics property resulted in a small positive return overall.

Chart Source: Financial Express Analytics local currency total return 31/03/2019 - 30/06/2019. UK equities - MSCI United Kingdom. German bund yield - Reuters, 01/07/2019

GLOBAL OPPORTUNITIES FUND PERFORMANCE

HAWKSMOOR
FUND MANAGERS



GLOBAL OPPORTUNITIES FUND PERFORMANCE

HAWKSMOOR
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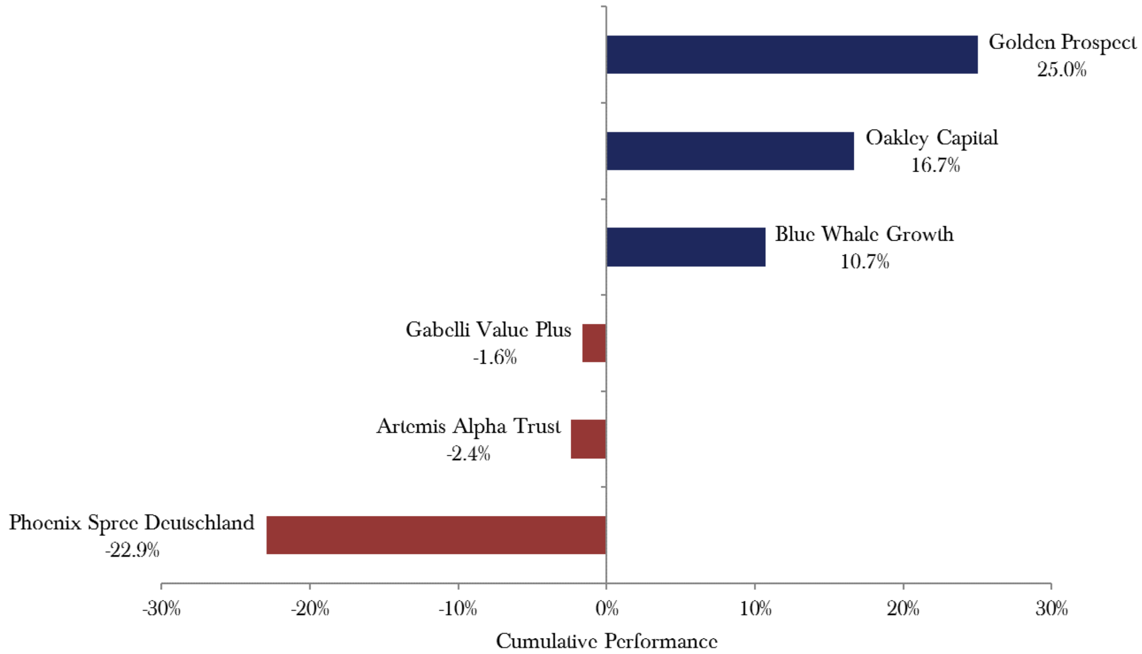
Top and bottom three performing holdings



Best performers:

- **Golden Prospect** (gold equities) - the sharp rally in the gold price as US real yields declined and geopolitical tensions increased was beneficial to gold equities which rallied strongly, particularly the smaller capitalisation companies that the trust owns

- **Oakley Capital** (private equity) - the trust continued to perform well during the quarter following the release of a strong set of results in March. Continued strength in the performance of the underlying companies after the results period has seen the discount to reported net asset value (NAV) continue to narrow

- **Blue Whale Growth** (global equities) - a strong quarter for global equity markets, particularly for companies with high growth characteristics, resulted in a good period of performance for the fund

Worst performers:

- **Gabelli Value Plus** (US equities) - whilst US equities in aggregate did well, performance was driven by large cap growth companies to which the trust has minimal exposure. This positioning combined with a widening discount to NAV resulted in a small negative total return

- **Artemis Alpha Plus** (UK equities) - whilst the NAV fared reasonably well, the discount widened resulting in a small negative total return

- **Phoenix Spree Deutschland** (Berlin residential property) - a proposed 5 year rent freeze in Berlin severely impacted sentiment towards the shares and the discount widened. The favourable supply/ demand dynamics in the city should serve to underpin the NAV, and we are confident the managers can pivot the portfolio towards condominiums for sale to mitigate some of the

Source: Financial Express Analytics GBP total return 31/03/2019 - 30/06/2019. Fund must be held for entire period to qualify for best/worth performance chart.

GLOBAL OPPORTUNITIES FUND ACTIVITY

HAWKSMOOR FUND MANAGERS

By holding

Purchases/Increases:

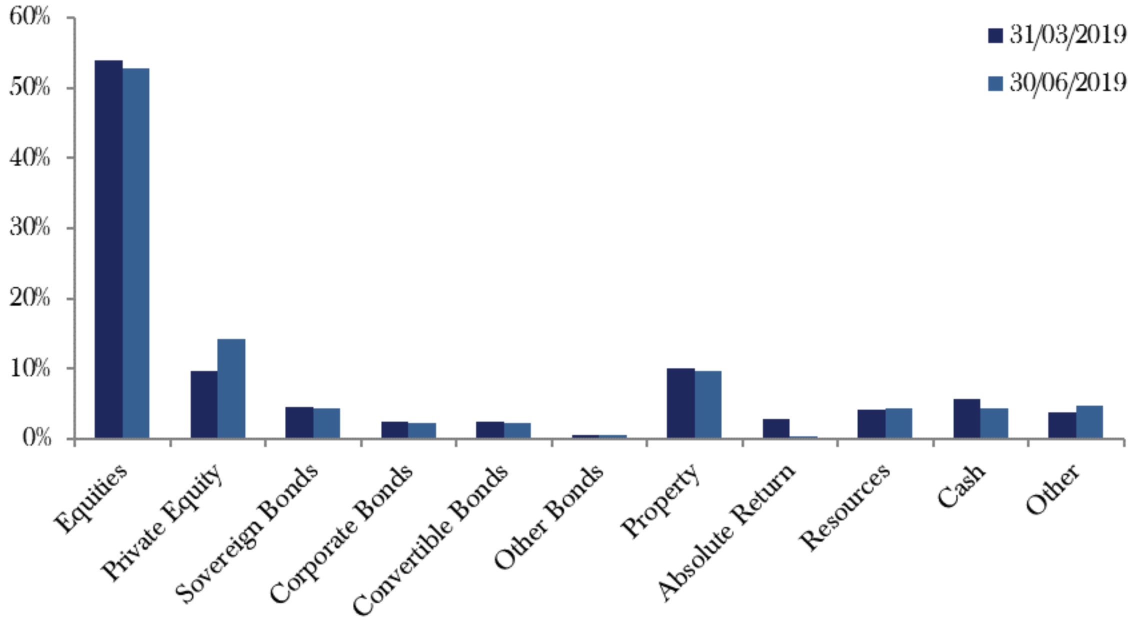
- AEW UK Long Lease REIT
- BlackRock Frontiers
- Civitas Social Housing REIT
- Downing Strategic Micro Cap Trust
- India Capital Growth
- Merian Chrysalis
- Polar Capital Japan Value
- Strategic Equity Capital

Disposals/Reductions:

- Downing UK Micro Cap Growth
- Genesis Emerging Markets
- Jupiter Absolute Return
- Jupiter Global Emerging Markets
- Jupiter Emerging & Frontier Income
- Warehouse REIT
- Woodford Patient Capital

We adjusted our emerging market equity exposure with the sales of Genesis Emerging Markets, Jupiter Global Emerging Markets and Jupiter Emerging & Frontier Income Trust, introducing more targeted exposure through BlackRock Frontiers and India Capital Growth. We switched out of Downing UK Micro Cap Growth into Downing Strategic Micro Cap Trust after the trust's discount opened up to an all time wide of c.9%. We sold out of Warehouse REIT and introduced AEW UK Long Lease REIT and Civitas Social Housing REIT, both on wide discounts and very attractive dividend yields growing with inflation, after both had been hit in recent months by poor sentiment. Shortly after the news broke over the suspension of Woodford Equity Income, we sold our position in Woodford Patient Capital over concerns regarding possible negative implications for the net asset value (NAV) and worsening sentiment which would likely see the discount widen. The latter occurred and the share price has fallen over 20% since our sale. We sold our position in Jupiter Absolute Return, recycling proceeds into areas with greater long term return potential. We introduced Strategic Equity Capital on an attractive discount, and took part in a secondary placing of shares in Merian Chrysalis which invests in established private equity companies before they seek to IPO. The valuation opportunity in Japanese 'value' companies looks compelling, and we used the opportunity to introduce Polar Capital Japan Value.

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 as at 31/03/2019 and 30/06/2019

GLOBAL OPPORTUNITIES FUND HOLDINGS

HAWKSMOOR
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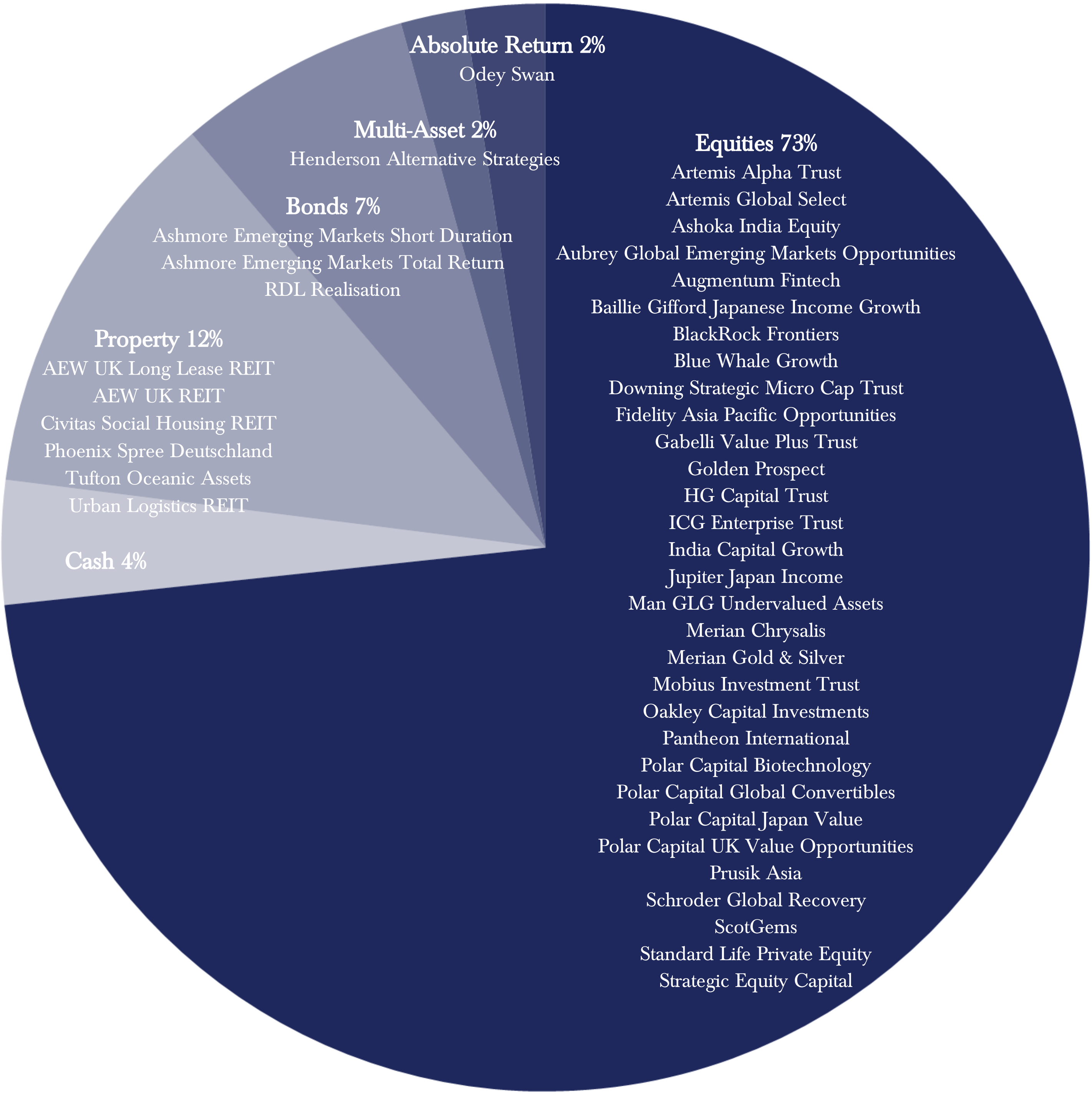

Each fund has been allocated to an asset class for this pie chart, therefore there may be differences in the breakdown shown here and on the asset allocation chart on page 6.

 Source: Internal as at 30/06/2019

AN OPEN AND SHUT CASE

HAWKSMOOR
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"The best way to find out if you can trust somebody is to trust them."
Ernest Hemingway

Trust is perhaps the most important element in a decision to invest with an active fund manager, particularly when the cost of doing so is typically more expensive than with a passively managed alternative. This is because the validation of that decision is only evident after a reasonable period of time – it cannot be measured instantaneously like it would be for a plumber tasked with fixing a leaking tap.

Trust in our process

A rigorous and repeatable investment process is something most fund managers should be able to demonstrate, and we at Hawksmoor Fund Managers are no different. This should give some reassurance as to the pattern of performance investors should expect from an investment in an actively managed multi-asset Fund of funds such as ours.

However, we believe we need to do more to justify an investment in our Funds.

Alongside our proven investment process is a belief that **investors in the Funds are not just our clients, but our partners as co-investors in Funds in which we ourselves, our friends and family are invested**. We aim to give our investors an excellent service, where access and ongoing dialogue with us as their fund managers are a given. Many fund managers regard their funds as 'products' (some even call them that) which gives the impression that investors, once invested, are left alone.

Trust in our teamwork

One of the key issues arising from the well-publicised suspension of the Woodford Equity Income Fund is its heavy exposure to illiquid holdings despite promising investors the ability to trade the fund daily.

Our full-time job involves scouring and ongoing monitoring of the fund universe to identify best-in-class managers and investing in the most attractively valued asset classes, using the most appropriate structure for that asset class, i.e. whether open-ended (unit trusts or open-ended investment companies (OEICs)) or closed-ended (investment trusts).

Investors in our Funds can take comfort from the fact that **our portfolios are highly diversified across a range of high quality funds, bringing together the talents of a variety of managers** into a single actively managed holding. Furthermore, that trust in the benefits of teamwork extends to our Funds which have always been managed by the whole team at Hawksmoor Fund Managers, rather than by an individual.

Trust in our controls

However, it is not just our process and philosophy that ensures that the liquidity of our underlying investments matches the daily liquidity of our Funds. There are strict internal and external controls to ensure this remains so. First and foremost, the Hawksmoor Funds are structured as Undertakings for Collective Investments in Transferable Securities (UCITS) which place greater restrictions on what fund managers can do. In contrast, many other funds-of-funds are structured as Non-UCITS Retails Schemes (NURS) that constrain their managers to a far lesser degree.

 Source: Financial Express Analytics

The relevant protections include that a UCITS fund cannot:

- have a single investment representing more than 10% of the portfolio
- have investments issued by the same group representing more than 20% of the portfolio
- own more than 20% of the assets in another fund
- invest in open-ended funds that own 'immovables', i.e. highly illiquid assets such as physical property or gold

These restrictions are monitored by the fund managers, Hawksmoor's own Compliance team, the Funds' Authorised Corporate Director (Maitland Institutional Services) and their Custodian (Northern Trust).

Trust in our experience

As multi-asset investors, **we use investment trusts to access less liquid assets such as property, private equity and specialist debt**, since they have fixed capital and do not have to manage inflows and outflows. We never have and never will own property or any other illiquid asset within an open-ended fund due to the inherent liquidity mismatch between the underlying investments and the daily dealing mechanism offered by most open-ended funds. This discipline ensured we avoided the suspensions in the property sector in 2016 and we did not invest in the Woodford Equity Income Fund due to concerns about the underlying portfolio.

A drawback of investment trusts is the potential for a more volatile return profile given their shares trade on the stock market. They are therefore subject to supply and demand which can cause the share price to move independently and with a greater level of volatility than the value of the underlying assets, resulting in a discount or premium to net asset value. As active managers, this can provide trading opportunities but it does mean investor sentiment can be a significant driver of short-term performance.

We have witnessed this recently in a couple of our real estate investment trusts (REITs), Civitas Social Housing and Phoenix Spree Deutschland, where negative newsflow questioning their business models has caused sharp share price falls, even though the net asset value and our confidence in the managers' ability to generate attractive returns over the medium to long-term remains intact.

Such share price falls, whilst painful, should be temporary and store up value that we hope will be unlocked in the future.

Trust in our reputation

Unfortunately one thing any fund manager cannot guarantee is future performance, but we hope that the above explanations provide some degree of comfort that **we take the responsibility of the wealth entrusted to our care extremely seriously**. We also hope that it is clear that we have investors' interests at the forefront of everything we do.

Together with our rigorous investment process, we hope that the disciplines we impose on ourselves give our investors in the Hawksmoor Funds the greatest chance of seeing their desired outcomes achieved. We constantly consider what might go wrong, and do our best to protect our investors against downside risks, because as the veteran investor Warren Buffett said ***"It takes twenty years to build a reputation and five minutes to ruin it. If you think about that you'll do things differently."***

Daniel Lockyer
Senior Fund Manager

Source: Financial Express Analytics

CONTACT INFORMATION

For further information on any of our Funds or Services, or to arrange a meeting with a Fund Manager, please contact us on the details below:

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RISK WARNINGS AND OTHER INFORMATION

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