QUARTERLY REPORT
Q2 2019

HAWKSMOOR
FUND MANAGERS

THE MI HAWKSMOOR VANBRUGH FUND

The one-stop investment solution for real returns.

Professional Adviser AWARDS 2019 WINNER Best Multi-Asset Fund: Long-Term Growth MI Hawksmoor Vanbrugh Fund

defaqto 2019 Multi-Manager Return Focused

Money Observer FUND AWARDS 2018 Best Mixed Asset Lower Risk Fund MI Hawksmoor Vanbrugh

defaqto 4 RISK RATING CAUTIOUS BALANCED

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

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.

INTRODUCTION

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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

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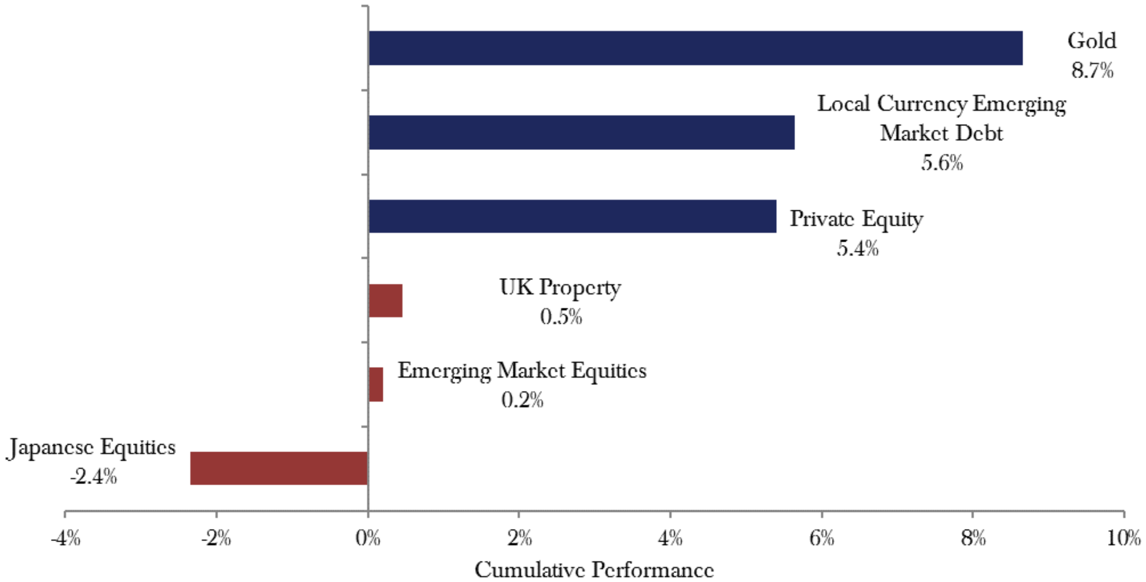
Top and bottom three performing asset classes



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

VANBRUGH FUND PERFORMANCE

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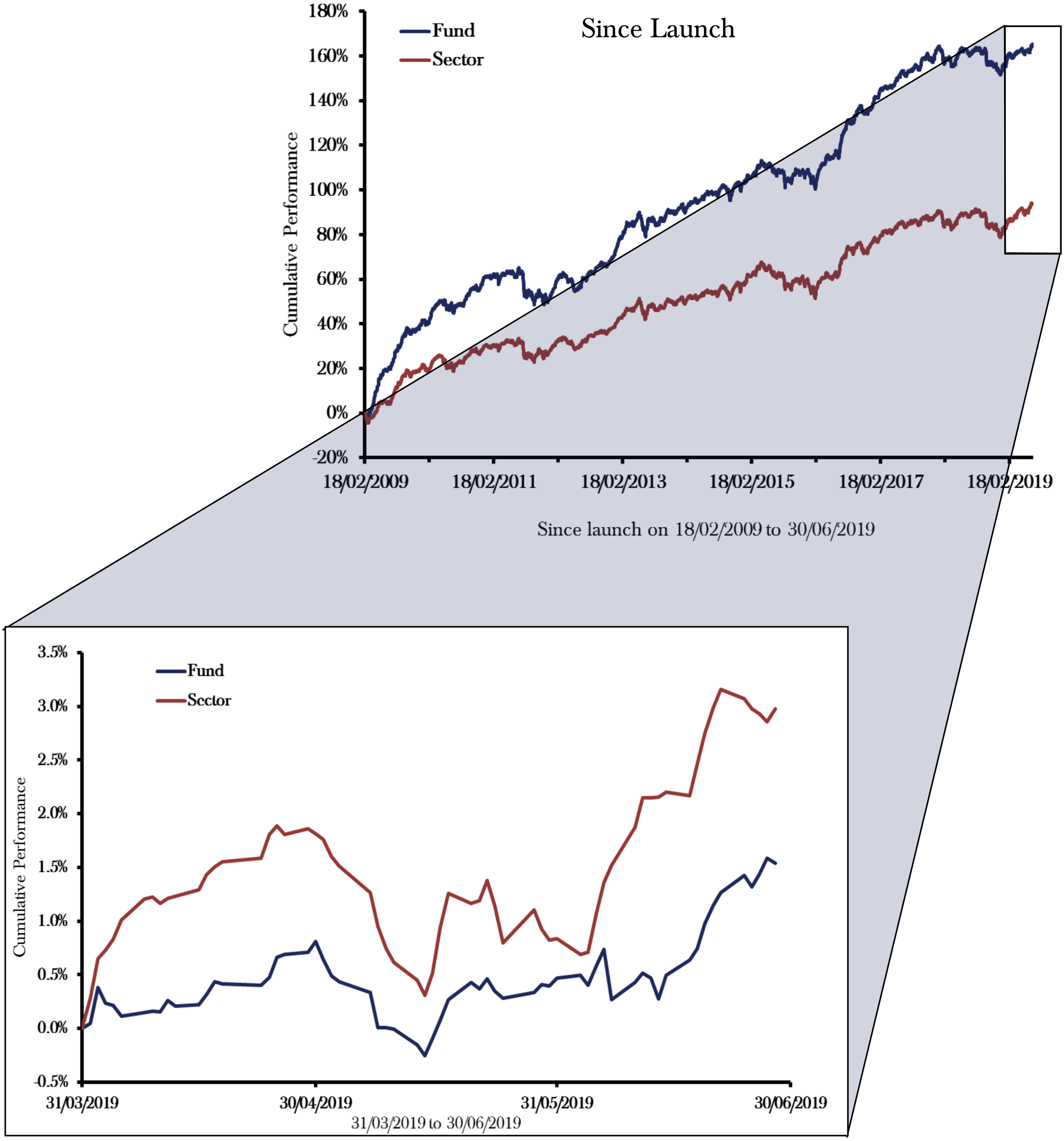

 Source: Financial Express Analytics GBP total return 30/06/2019. C Acc units. Sector: IA Mixed Investment 20-60% Shares

VANBRUGH FUND PERFORMANCE

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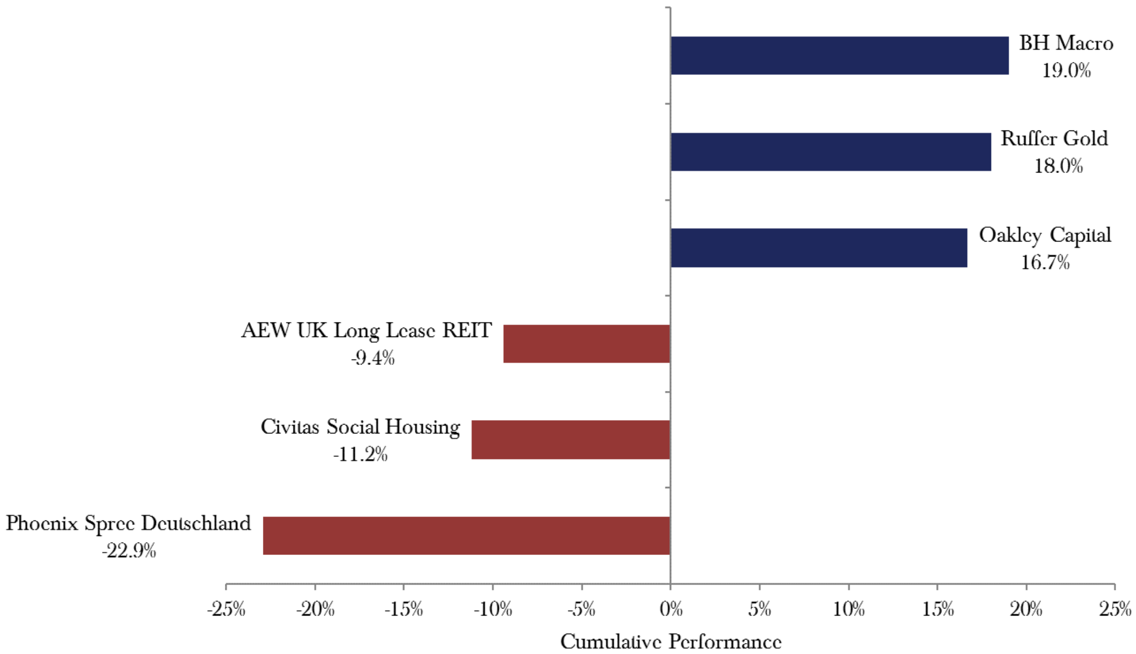
Top and bottom three performing holdings



Best performers:

- **BH Macro** (absolute return) - the introduction of this fund at the end of March at a c.6% discount proved propitious as strong underlying net asset value (NAV) performance improved sentiment and saw the shares re-rate to a premium.

- **Ruffer Gold** (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

- **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 NAV continue to narrow

Worst performers:

- **AEW UK Long Lease REIT** (UK property) - the re-leasing of a property following the administration of the previous tenant on slightly less favourable terms and ongoing uncertainty over the future direction of the trust saw the share price continue to drift lower

- **Civitas Social Housing REIT** (UK property) - previous falls in the share price resulted in the trust being removed from the FTSE 250, with forced index selling pushing the price lower. The release of a decent set of results towards the end of the period has seen a recovery in the share price

- **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 impact of the rent freeze

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.

VANBRUGH FUND ACTIVITY

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By holding

Purchases/Increases:

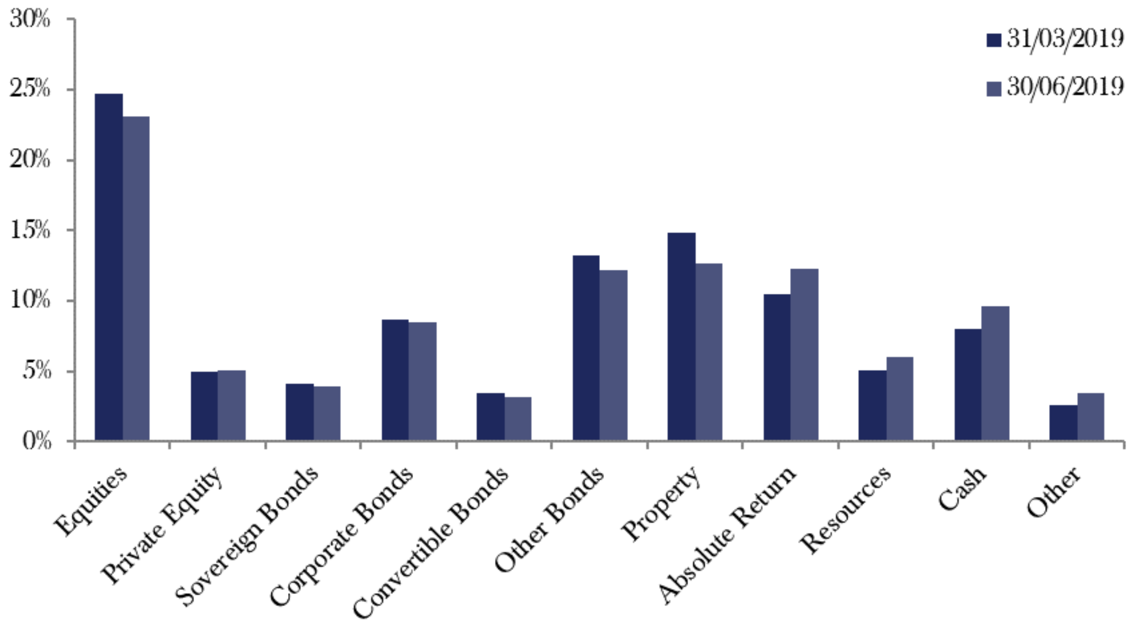
- GCP Asset Backed Income
- LXi REIT
- Merian Gold & Silver
- Managed Futures funds
- Mobius Investment Trust
- Odey Swan
- Royal London Short Duration Global High Yield
- Tufton Oceanic Assets

Disposals/Reductions:

- Downing UK Micro Cap Growth
- GCP Asset Backed Income
- ICG Longbow Senior Secured UK Property Debt
- Impact Healthcare REIT
- Jupiter Emerging & Frontier Income Trust
- PRS REIT
- Schroder Strategic Credit

We sold our position in Vanbrugh's longest standing holding Schroder Strategic Credit, as the prospective returns no longer adequately compensate for the risk following the sharp rally in corporate credit year to date. We reinvested some of the cash into Royal London Short Duration Global High Yield, which offers greater risk adjusted returns. We trimmed Impact Healthcare into strength, and reduced our position in PRS REIT given increased build execution risk as Brexit uncertainty continues. Downing UK Micro Cap Growth was sold as the managers continue to struggle to turn around the underlying companies, and we felt there was better potential elsewhere in the portfolio. ICG Longbow was sold to finance more attractive alternatives, including increasing our position in Tufton Oceanic Assets. We reviewed our emerging market equity exposure, selling our position in Jupiter Emerging & Frontier Income Trust and increasing our conviction in Mobius Investment Trust. We increased exposure to funds that we believe will offer diversification benefits during more difficult market conditions. Merian Gold & Silver, Odey Swan and our two Managed Futures funds Garraway Financial Trends and Natixis ASG Managed Futures were all increased. We opportunistically reduced our position in GCP Asset Backed Income early in the period, correctly anticipating that they would seek to raise money in the not too distant future. We bought back the shares close to 4p below where we had been selling them.

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

VANBRUGH FUND 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.

 Source: Internal as at 30/06/2019

TRUST

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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.

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

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FUND MANAGERS

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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