QUARTERLY REPORT
Q3 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

DYNAMIC PLANNER PROFILED 7

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

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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 131% versus 90% (13/01/2005 to 30/09/2019)

Ben Conway *Senior Fund Manager*
Financial Express aggregated track record of 5+ years running retail funds – outperformed peer group by 6%, returning 42% versus 36% (01/01/2014 to 30/09/2019)

Ben Mackie *Fund Manager*

Dan Cartridge *Assistant Fund Manager*

Richard Scott *Advisor*

Hannah Isaac *Head of Fund Operations*

David Chapman *Business Development Manager*

Charlotte Sternberg *Team Assistant*

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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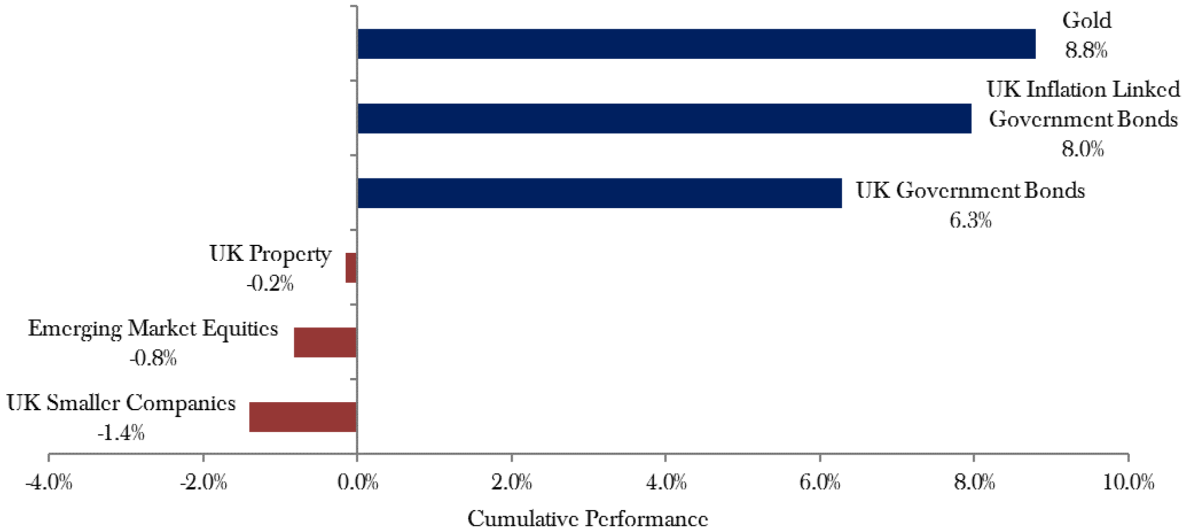
Top and bottom three performing asset classes



Gold - WisdomTree Physical Gold, UK Inflation Linked Government Bonds - IA UK Index Linked Gilts, UK Government Bonds - IA Gilts, UK Property - IA UK Direct Property, Emerging Market Equities - IA Global Emerging Markets, UK Smaller Companies - IA UK Smaller Companies

Commentary

The low single digit positive headline index returns delivered across developed equity and debt markets during the third quarter of 2019 suggests a relatively benign period. However, these headline returns hide significant volatility under the surface. Smaller companies underperformed larger companies for the first half of the quarter, before this trend reversed in September. There was also sharp style rotation, with perceived 'value' stocks enduring their worst ever month during August as global bond yields continued to decline. UK and German 10 year government bond yields, for example, hit all-time lows, in part reflecting investor concerns regarding the outlook for global economic growth. However, these moves were also quickly reversed in September as bond yields backed up, catching out many investors as 'value' rallied. Elsewhere, Asian and emerging market equities fared less well than their developed market counterparts, delivering modestly negative returns over the period.

The decline in global real yields reduced the opportunity cost of holding zero yielding assets like gold with increased investor appetite driving the yellow metal to 6 year highs in early September. The price of silver, which tends to act as a high beta version of gold, also rose considerably. These moves had a knock on impact on gold and silver mining equities, with very sharp rises across the board. There is now a staggering $17tn of bonds offering investors a negative yield if held to maturity. Meanwhile, heightened geopolitical tensions continued to dominate headlines benefiting gold's performance as a perceived safe haven asset. The US-Sino trade war rumbled on. Boris Johnson became the new leader of the Conservative Party and Prime Minister in the UK as the Halloween Brexit deadline fast approached. Added to this, risks of war surfaced in the Middle East following the bombing of oil fields in Saudi Arabia, and a surprise poll result in the run up to the next general election in Argentina was interpreted very negatively by financial markets. Later in the quarter, bond yields backed up from their lows and gold and silver prices and mining equities reversed some of their gains.

 Chart Source: Financial Express Analytics GBP total return 30/06/2019 to 30/09/2019.

GLOBAL OPPORTUNITIES FUND PERFORMANCE

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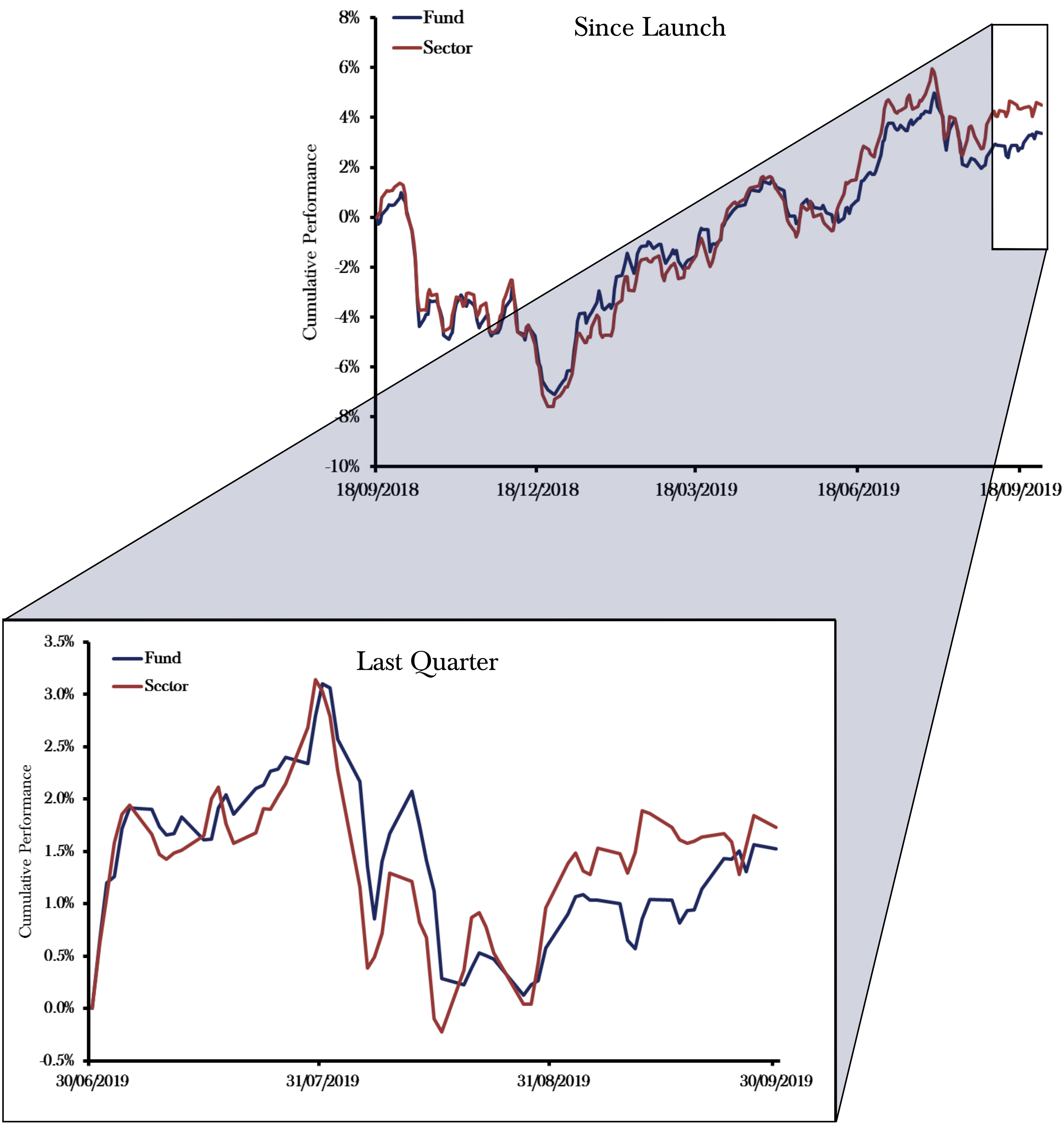

 Source: Financial Express Analytics GBP total return 30/09/2019. C Acc units. Sector: IA Mixed Investment 20-60% Shares

GLOBAL OPPORTUNITIES FUND PERFORMANCE

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Performance history

Cumulative performance % growth to last month end

	Annualised since launch	*Since launch*	*1 year*	*3 months*	*Annualised volatility since launch*
Fund	**3.3**	**3.4**	**2.9**	**1.5**	**7.7**
Sector	4.3	4.5	3.2	1.7	8.0
Quartile in Sector	3	3	2	2	2

Commentary

One of the best performing funds and biggest contributors to returns over the quarter was **Merian Gold & Silver (+15.9%)**, a 3.5% position in Global Opportunities. The fund invests in gold and silver bullion and equities, and benefitted from the sharp rise in gold and silver prices during the quarter which boosted share prices. Mining companies typically have high fixed costs, with rises in the underlying precious metal prices feeding straight through to higher profitability. Global Opportunities also benefitted from a 1.6% position in **Golden Prospect (+22.8%)**, a small investment trust that also owns gold and silver equities. Performance of the trust was aided by the discount to net asset value (NAV) narrowing.

It was pleasing to see improved share price performance from **Phoenix Spree Deutschland (+8.2%)**, a 3.4% holding in Global Opportunities. The share price had been weak following a proposed rent freeze by the Berlin government. We have carried out significant due diligence on the position following the announcement, including a trip to Berlin and analysis of other markets such as Stockholm that have seen similar measures introduced. This work underpinned our confidence in the NAV of the trust, and we topped up our position with the shares at a c.33% discount to NAV. Since our addition, the board has indicated a willingness to buy back up to 10% of the shares in issue, whilst management continued their efforts to adjust the strategy, positioning the trust to perform well no matter the outcome of the rent freeze proposals. This served to boost investor confidence, with the share price rallying.

Mobius Investment Trust (-13.9%) had a difficult quarter and was one of the largest detractors to returns, being a 2.0% weighting. The share price moved from a 2% premium to a 7% discount over the period, with the NAV also declining along with broader emerging markets. Sentiment towards emerging markets weakened after a surprise poll result in the run up to the next general election in Argentina, with incumbent president Mauricio Macri suffering a large defeat to populist rival Alberto Fernandez. Argentinian debt and equity markets sold off heavily as a result, knocking investor sentiment towards the broader emerging market universe. This poll result also proved detrimental to Global Opportunities' 2.2% position in **Odey Swan (-14.0%)**, which had c.20% exposure to Argentina. The fund also struggled in the wake of sharp sector rotation between value and growth through the quarter, with the September rally in value stocks lifting the share prices of some of the funds' short positions.

The 1.6% holding in **Polar Capital Biotechnology (-9.5%)** detracted from returns. Healthcare stocks struggled as ongoing political noise in the run up to the 2020 US presidential election saw investors shun the sector. This seems to be a theme that occurs every election cycle, and historically election campaign rhetoric ultimately gets significantly watered down by Congress. Weakness was broad based across the sector, despite the heterogeneous nature of many of the sub-sectors that complete the healthcare universe. Valuations have become more compelling, and we used the opportunity to introduce a position in BB Healthcare.

Source: Financial Express Analytics GBP total return 30/06/2019 to 30/09/2019. Holding size reflects average of month end weights at end July, August and September.

GLOBAL OPPORTUNITIES FUND ACTIVITY

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By holding

Purchases/Increases:

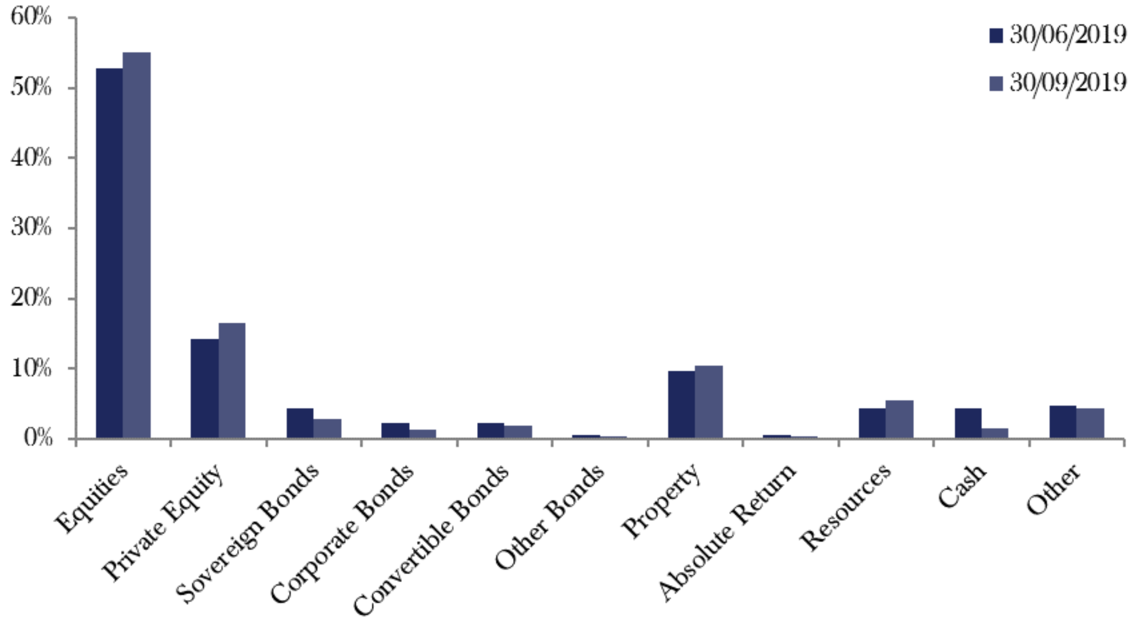
- Aberforth Smaller Companies Trust
- BB Healthcare
- Geiger Counter
- M&G Emerging Markets Bond
- Miton Global Opportunities
- Princess Private Equity
- River & Mercantile UK Micro Cap

Disposals/Reductions:

- Ashmore Emerging Markets Short Duration (EMSD)
- Ashmore Emerging Markets Total Return (EMTR)
- Baillie Gifford Japanese Income Growth
- Gabelli Value Plus

A review into our emerging market debt exposure led to the sale of both Ashmore EMSD and EMTR. The former after a strong period of performance that saw the valuation argument diminish and assets under management balloon in what can be a volatile and illiquid area of financial markets. The latter was switched into M&G Emerging Markets Bond, a highly active fund that has shown great consistency of returns and is managed by a team that has benefited from significant recent investment in resources. We introduced Aberforth Smaller Companies Trust and River & Mercantile UK Micro Cap, both on wide discounts to net asset value, whilst the smaller capitalisation stocks they invest in are trading on the cheapest valuations since the Great Financial Crisis. BB Healthcare was introduced following a period of weakness for the healthcare sector, amid a backdrop of heightened political noise in the run up to the 2020 US presidential election, that has seen valuations become compelling. We halved the position in Gabelli Value Plus following a sharp narrowing of the discount after the trusts largest shareholder wrote an open letter to the board demanding a continuation vote. Baillie Gifford Japanese Income Growth was sold into strength to finance new ideas. Princess Private Equity, Miton Global Opportunities, and a small position in Geiger Counter were introduced on attractive discounts. Geiger Counter is highly volatile but offers significant upside potential with current supply/demand dynamics in the uranium market presenting an attractive opportunity.

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 30/06/2019 and 30/09/2019

GLOBAL OPPORTUNITIES FUND HOLDINGS

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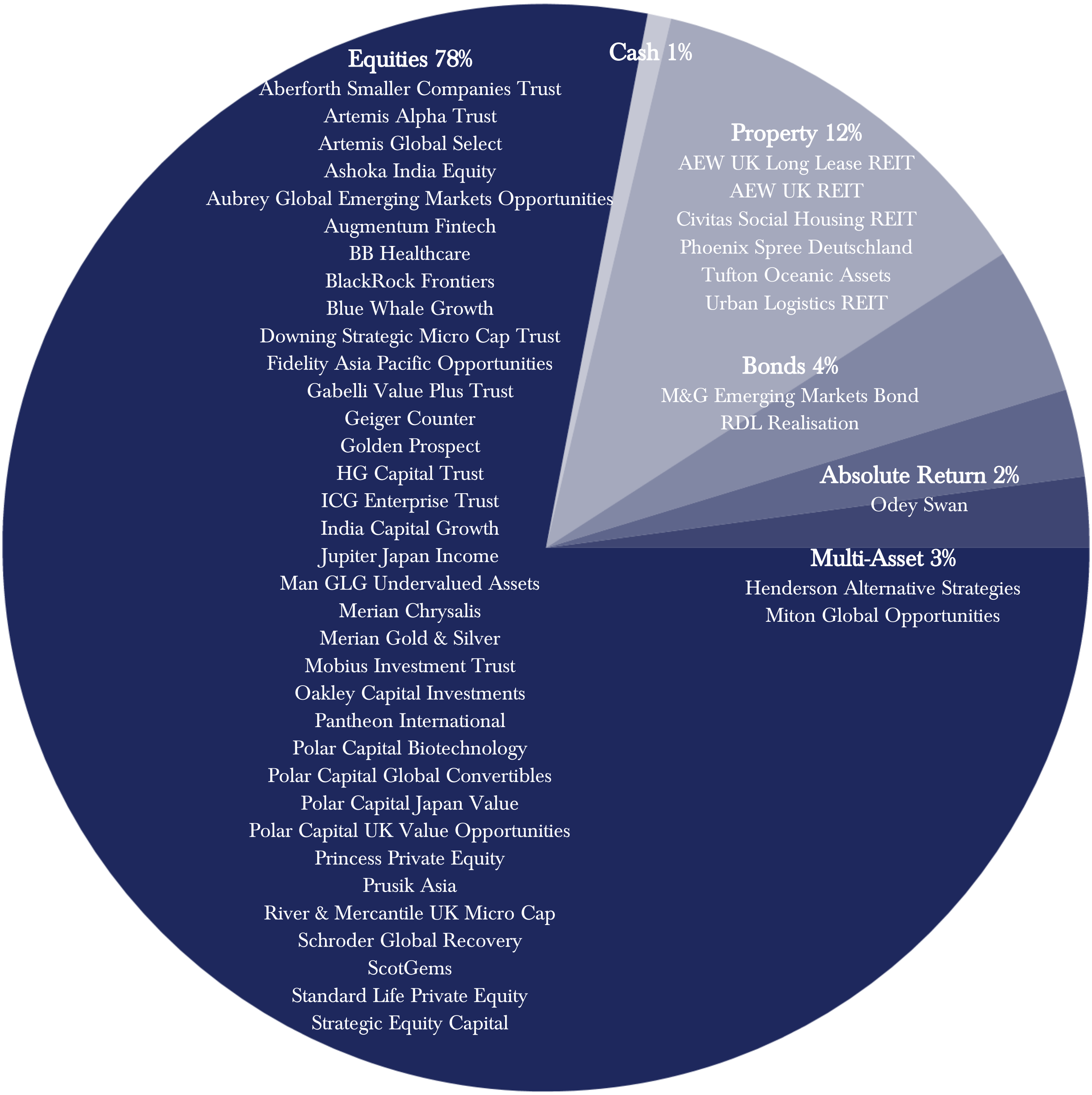

Each fund has been allocated to an asset class for this pie chart, therefore there may be differences in the breakdown shown here and on the asset allocation chart on page 6.

 Source: Internal as at 30/09/2019

GOOD PERFORMANCE - UNDERSTANDING WHAT IT MEANS AND HOW IT CAN BE ACHIEVED

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Is it possible for any investor to achieve enduringly good performance? Feelings of disillusionment about the investment industry are commonplace such that many might argue Enoch Powell could have had fund managers rather than politicians in his sights when he wrote "*All political lives, unless they are cut off in midstream at a happy juncture, end in failure, because that is the nature of politics and of human affairs.*" *

At Hawksmoor Fund Managers we believe recognising the scale of the challenge in having an investment process that can prove lastingly successful helps avoid pitfalls that have undermined many in the investment industry. It is also essential for fund managers and their clients to have a clear mutual understanding about what constitutes 'good performance' and how it can be achieved sustainably. Without such an understanding, fund managers and their clients are prone to lose sight of their objectives and how they can be achieved.

Successful investment requires discipline, holding fast to an agreed plan to be able to master your emotions and thereby navigate the unavoidable turbulence in markets.

A means to an end – not an end in itself

We frequently remind our investors that our objective is simple to state while irritatingly harder to achieve; namely to increase the value of their wealth over time, fully incorporating the impact of all costs and inflation. Put simply this means that 'good performance' is delivering real returns, or to cut out the jargon, to provide the ability to forgo consumption now, to have the ability to consume more in the future.

Time and time again forgetting this universal investment-raison d'être leads fund managers and their clients astray because they forget why they are investing in the first place. Many forget that investment is a means to an end, not an end in itself. You should never feel compelled to invest in something just because others do.

All investments should contribute towards achieving your objective, and for us that is simply to increase the real value of our clients' wealth over time in the most consistent and responsible way possible.

Greed and fear

Investors lose sight of the primacy of achieving real returns influenced by the timeless human emotions of greed and fear. When financial markets are performing well greed causes many investors to be discontent with good performance because they see others doing better. By contrast, when asset prices are falling even fund managers whose portfolios prove relatively resilient are often criticised as any loss strikes fear into the hearts of most investors.

The consequence of these emotions of greed and fear creates pressure on fund managers to provide consistently positive real returns which are also always better than peers regardless of the nature of the prevailing investment environment. Fund managers end up chasing returns when they should be becoming more cautious, and acting defensively when they should instead be taking advantage when weakness in markets creates excellent investment opportunities.

Good fund managers should not just do their utmost to avoid mistakes caused by their own greed and fear, but they also need to be communicating well with clients to create realistic performance expectations.

* Joseph Chamberlain by Enoch Powell Thames & Hudson 1977

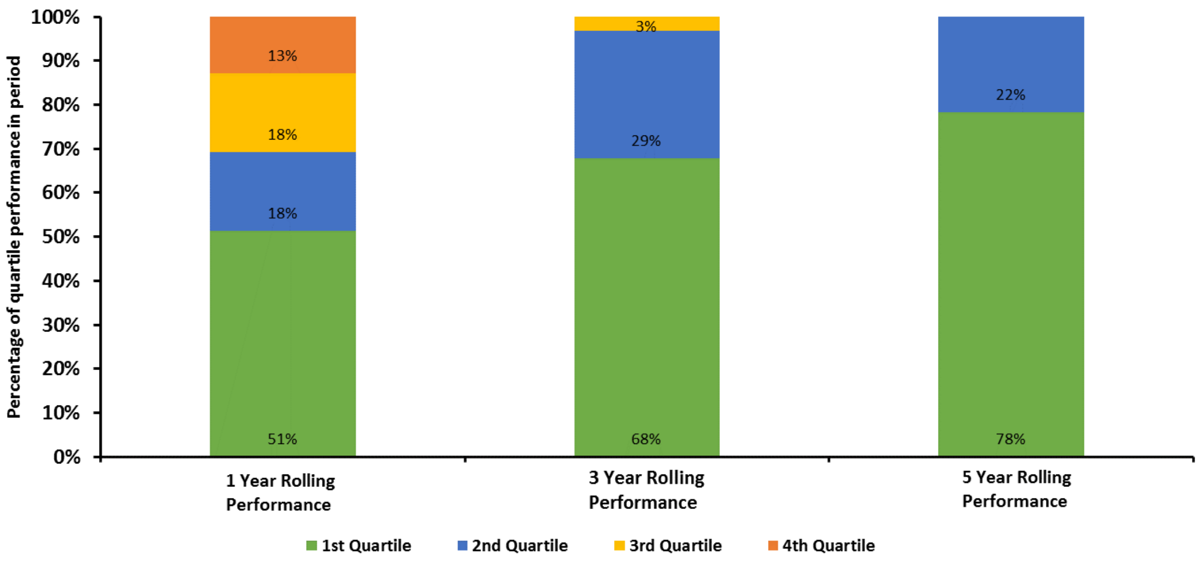
Short term vs. long term

We believe the best way of reconciling the conflicting objectives of producing attractive real returns and outperforming peers is to recognise that it is impossible to reconcile these objectives over short periods.

Indeed, we don't regard outperforming peers as an *objective*, but see it as the *inevitable consequence* if we succeed in our goal of increasing the real value of our investors' wealth over time.

It's not that we don't care about short term performance relative to peers. It's that we care about our clients' wealth too much to allow short term performance concerns to undermine how to be best invested for our clients' well-being.

This approach has required accepting uncomfortable times when our Funds' performance has been disappointing particularly during periods when our Funds' performance has looked relatively pedestrian in strong markets, or when we have reacted to market sell-offs to buy cheapening investments which have taken time to work. Thus, even though The Vanbrugh Fund has won several awards since it was launched in February 2009, over rolling one-year periods it has ranked in the bottom 25% of its peers 13% of the time. **However, over rolling five-year periods Vanbrugh has outperformed a majority of its peers 100% of the time.**



Source: Financial Express Analytics GBP Total Return B Acc. Quarterly from 31/03/2009 to 30/09/2019. Relative to IA Mixed Investment 20-60% Shares Sector.

Our Investment Process

The pattern of our Funds' performance is inevitably determined by our investment process, and the distinctive traits of our process explain the pattern of our Funds' performance both in absolute terms and relative to their peers. In seeking to grow the real value of our investors' wealth over time we do our utmost to avoid investments that risk a permanent loss of capital by favouring those with a reasonable margin of safety.

Our starting point is assessing an investment's value relative to its future prospects. We recognise that changes in the environment cause all investments' values to fluctuate in ways that are impossible to predict, and this often causes us to have to adjust our initial assessment of an investment. However, this uncertainty can be mitigated by building a diversified portfolio of investments, each with distinct drivers, which are not dependent on a particular set of circumstances playing out.

Fund resilience

Over the past few years we have been steadily reducing exposure to those strongly performing investments with good momentum whose valuation relative to their prospective returns has deteriorated.

Our Funds have continued to deliver positive real returns over most periods, and performance relative to peers has not suffered as much as our unwarranted caution might have implied. This is because performance relative to peers has been helped by the strong returns from several specialist funds providing exposure to attractive areas ignored by most others. To use industry jargon, our Funds' performance has been sustained by a high level of 'alpha', (fund management stock-picking skill), rather than 'beta' (changes in value due to the general direction of asset markets).

Our success in identifying cheap investments and scaling out of positions in expensive areas has also resulted in the pattern of our Funds' performance being less volatile than most peers. Our Funds have proved more resilient than most in poor markets while more often than not participating in buoyant markets.

Going forwards

The pattern of our Funds' performance relative to peers evolves over an investment cycle, although exactly how can only be known in retrospect. Performance over the past year has shown an increasing tendency for our Funds to lag peers in months when markets are strong. This is because of our response to the increasingly expensive valuation of most mainstream bonds and equities by making portfolios more divergently positioned compared to those of our peers.

We now have less exposure to mainstream government bonds and equities, and we have strengthened our Funds' defensive characteristics and have broadened diversification with greater exposure to well-managed funds with fundamentals that are less correlated to overall movements in the world economy and financial markets. We are always seeking to balance a need to stick firmly within our 'circle of competence' while constantly endeavouring to make that circle as large as we can.

Above all our focus remains unwavering on achieving 'good performance' by increasing the real value of our investors' wealth over time through a disciplined investment process.

Each of our Funds is run with a differing level of risk. Within in each risk profile, our aim is to offer Funds which give their investors the greatest ability to sleep at night – after all, the fund managers, the fund managers' families and their colleagues are all investors too!"

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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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