QUARTERLY REPORT
Q1 2020

HAWKSMOOR
FUND MANAGERS

THE MI HAWKSMOOR VANBRUGH FUND

The one-stop investment solution for real returns.

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 15+ years running retail funds – outperformed peer group by 30%, returning 97% versus 67% (13/01/2005 to 31/03/2020)

Ben Conway *Senior Fund Manager*
Financial Express aggregated track record of 6+ years running retail funds – returning 21% versus 20% for the peer group (01/01/2014 to 31/03/2020)

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: FE Analytics GBP total return.

MARKET PERFORMANCE

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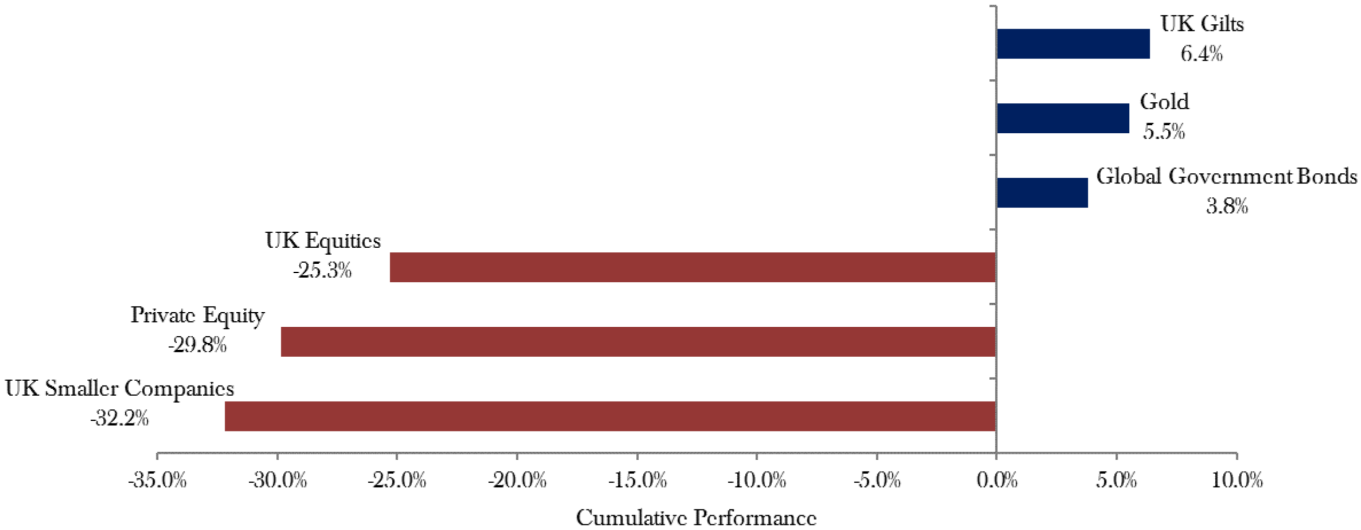
Top and bottom three performing asset classes



UK Gilts - ICE BofA UK Gilts All Stocks, Gold - WisdomTree Physical Gold, Government Bonds - ICE BofA Global Government, UK Equities - MSCI United Kingdom All Cap, Private Equity - IT Private Equity, UK Smaller Companies - MSCI United Kingdom Small Cap

Commentary

The first quarter of 2020 was the most difficult quarter for investors since the depths of the great financial crisis over a decade ago, with financial markets suffering the fastest transition from bull to bear market in history. These unprecedented market falls had a number of key drivers, the majority of which can be linked directly to the impact of COVID-19 on the world. Negative performance during the quarter was particularly concentrated into a one month period between 19th February and 23rd March as the coronavirus spread from China across into Europe, where mass lockdowns took place in an effort to slow the spread of the disease and help ease the burden on global healthcare systems. As investors struggled to come to terms with assessing the economic damage and the implications for global asset prices, a new factor emerged to exacerbate this task. On the 8th March, an oil price war was declared between Saudi Arabia and Russia, sparking a 30% collapse in the oil price in a single day. Over the quarter, the oil price fell an incredible 60%.

As global lockdowns intensified, liquidity across financial markets dried up. Market makers' transition to working from home resulted in an even lower than normal appetite to hold assets on their books. With panicked sellers trying to liquidate positions, prices fell sharply, often on little volume given the lack of available bids. This scenario impacted smaller companies the most given their already narrow shareholder registers, although in the UK, large caps were also affected by the high energy exposure following the oil price collapse, and high banks exposure after the enforced suspension of dividends. The liquidity squeeze extended even to the most liquid asset class on earth, the US Treasury Market, where bid-offer spreads moved to wides never before seen. It is hard to convey in words just how extraordinary this was. Global Central Banks took swift and decisive action, pouring liquidity into the system, engaging in new quantitative easing programmes that extended asset purchases to include the purchase of corporate bonds. Governments also acted rapidly, offering support packages for businesses unrivalled during peacetime, extending offers to pay workers' wages for those businesses and self-employed worst affected.

Few assets were able to deliver a positive return against this backdrop. The gold price proved robust as a haven, although gold mining stocks fell in line with broad equity markets, caught up in the risk off sentiment. Long dated government bonds also proved defensive and generated a positive return.

 Chart Source: FE Analytics GBP total return 31/12/2019 to 31/03/2020.

VANBRUGH FUND PERFORMANCE

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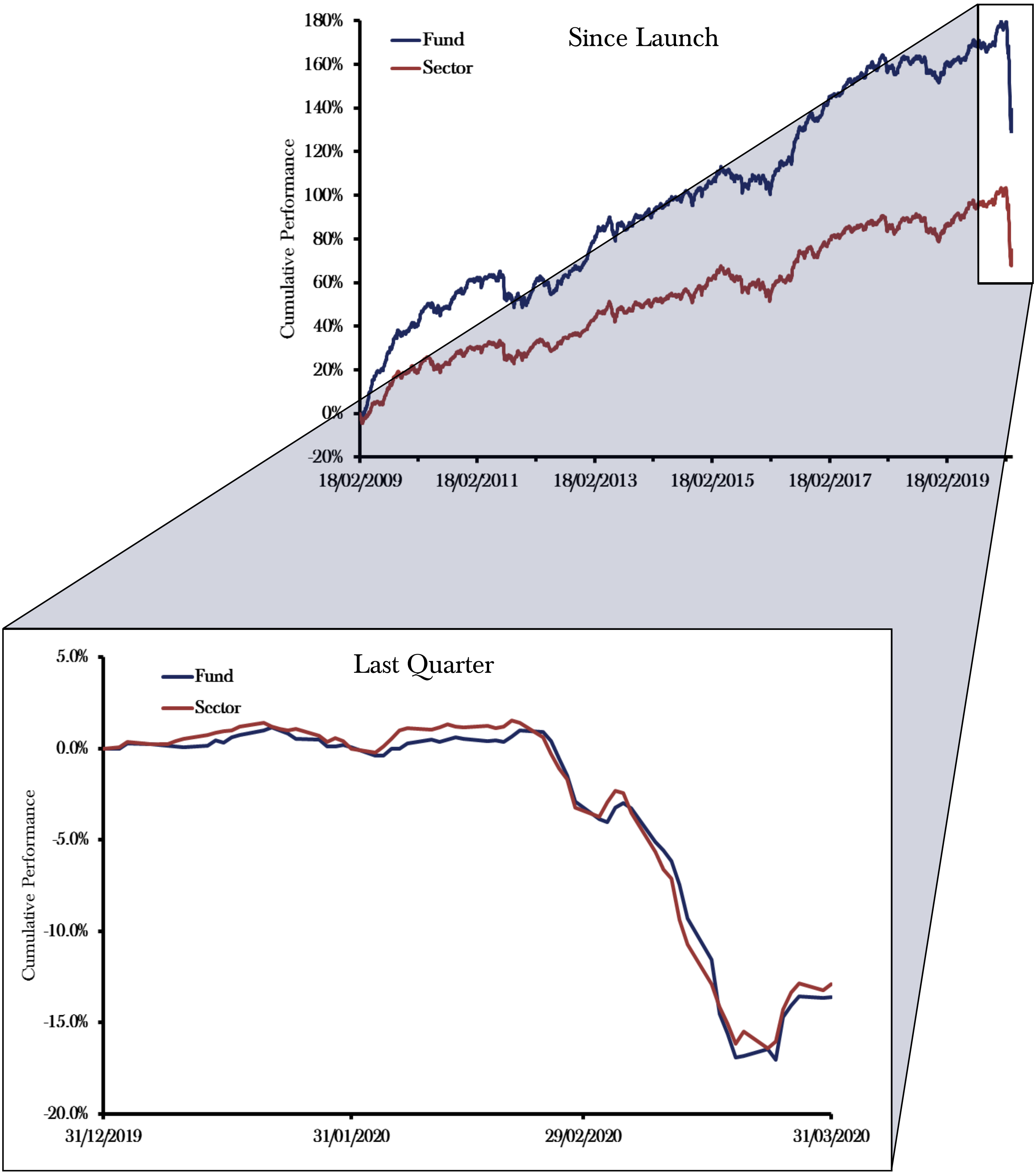

 Source: FE Analytics GBP total return 31/03/2020. C Acc units. Sector: IA Mixed Investment 20-60% Shares.

VANBRUGH FUND PERFORMANCE

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Performance history

Cumulative performance % growth to last month end

	Annualised since launch	*Since launch*	*10 years*	*5 years*	*3 years*	*1 year*	*3 months*	*Annualised volatility since launch*
Fund	**8.2**	**139.2**	**60.8**	**13.9**	**-2.7**	**-8.4**	**-13.6**	**6.4**
Sector	5.2	74.7	39.9	6.0	-3.7	-7.2	-12.9	6.4
Quartile in Sector	1	1	1	1	2	3	3	1

Commentary

In what proved an incredibly difficult quarter to navigate, we were pleased with the performance of the majority of the investments held that we expect to deliver diversification benefits during more challenging market conditions. The best performing fund during the quarter was Allianz Strategic Bond (+12.5%). The fund has low to negative equity correlation and the capacity to protect portfolios during risk off environments. It has performed notably well during both this sell off and during the sell of in Q4 2018, benefitting from a highly flexible approach and quartet of return drivers; rates, credit, inflation and currency. Vanbrugh has c.40% in overseas currency exposure, including 20% exposure to the US dollar which acted as a risk off currency and appreciated 6.8% against sterling during the quarter. The position in CG Dollar (+9.8%), which invests in US TIPS, notably benefitted from this currency move. Vanbrugh's exposure to managed futures, using a basket approach of three funds with complementary strategies, also contributed positively. In particular these funds did well from their currency positioning, and the fact they had very limited to no net long equity exposure. Odey Swan (+8.7%) performed well, with the short book adding significant value. Despite negative performance from many real estate investment trusts, both Civitas Social Housing (+6.7%), which benefits from government backed inflation linked revenue, and Supermarket Income REIT (+1.1%), with supermarkets benefitting from a strong operating environment, bucked this trend and delivered positive returns.

Unfortunately, these positive performers were more than offset by negative performance from the rest of the portfolio. The biggest detractor to returns came from our investment trust exposure. Financial markets declined sharply between 19th February and 23rd March. During this drawdown, investment trust exposure in Vanbrugh averaged 32%, but investment trusts contributed in excess of 50% of the -16.7% drawdown, led by the performance of a number of real estate and asset backed debt trusts. Vanbrugh's investment trust holdings are extremely targeted, with the majority of the exposure in trusts with net asset values that we believe will prove defensive in the fullness of time. One example of the extreme volatility is shown by Civitas Social Housing, where rents are 100% backed by the government. The share price fell 20% in March over an 8 day period, before rising 27% over a 10 day period. We explain in more detail in our quarterly article why we believe many of the price moves have been irrational, do not represent permanent capital destruction, and that extreme price volatility has created significant opportunities we are taking advantage of.

Elsewhere, UK stocks suffered more aggressive falls than many other national equity markets due to a higher exposure to energy companies, as the oil price fell in excess of 60%. Private equity trusts saw discounts widen in line with broad equity market declines as investors attempted to price in the likely impact on private equity NAVs. Though the price of gold proved robust and acted as a safe haven, gold mining equities suffered sharp declines, caught up in the general negative sentiment, with Merian Gold & Silver (-25.5%) suffering.

 Source: FE Analytics GBP total return 31/12/2019 to 31/03/2020.

VANBRUGH FUND ACTIVITY

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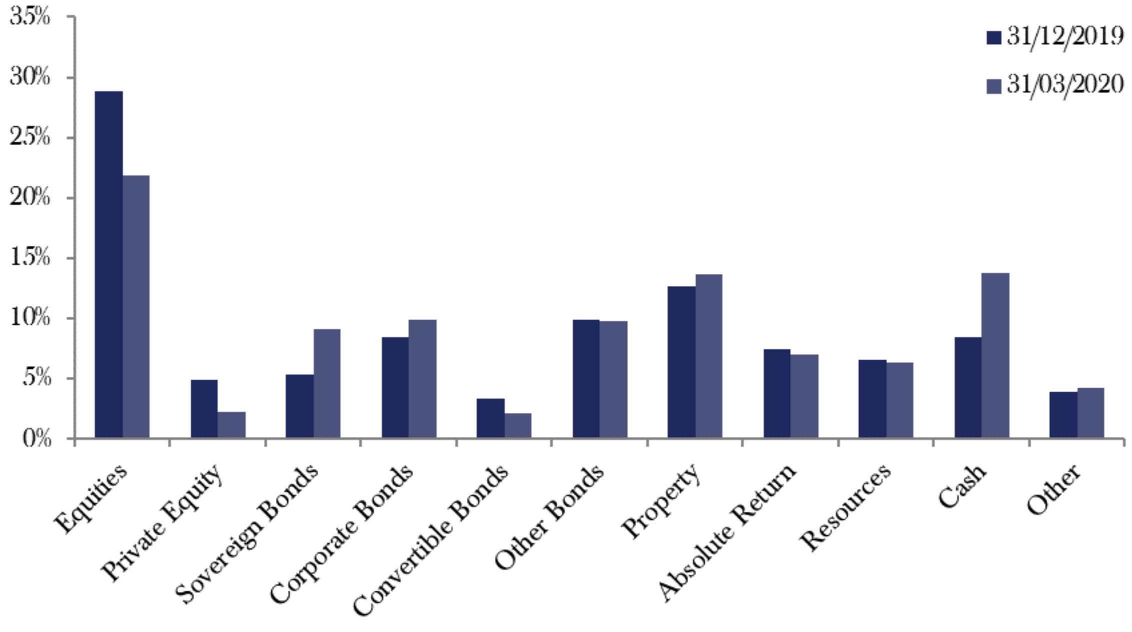
By holding

This was one of the busiest periods for dealing activity in Vanbrugh's history. Before the coronavirus induced market sell off we sold our position in Man GLG Undervalued Assets and introduced positions in GVQ UK Focus, Gresham House UK Multi Asset Income and Teviot UK Smaller Companies. We identified a more compelling valuation opportunity further down the market cap spectrum, and supported small and nimble funds with highly experienced management teams with excellent long term track records. We exited our position in Jupiter Absolute Return after losing confidence in the fund's ability to perform its role as a defensive hedge. We exited Vanbrugh's longstanding position in HG Capital Trust after it had re-rated to a premium and the underlying portfolio valuation had become increasingly expensive. Henderson Alternative Strategies Trust was sold after the shares rose considerably as the board announced the trust would wind up.

As concerns grew about the economic impact of coronavirus, we began to learn of the emergence of liquidity issues in bond markets. We took swift and decisive action, selling our entire position in Royal London Short Duration Global High Yield Bond (RLSDGHYB), leaving the proceeds in cash. We conducted 75 meetings in a little over a week in order to understand what was happening in each asset class, and determine where opportunities had opened up and where price moves did not yet reflect deterioration in fundamentals. This research unearthed an excellent opportunity emerging in credit markets, where spreads were pricing in default rates never before seen in history, including during the depths of the financial crisis. We reintroduced RLSDGHYB after the gross redemption yield on the fund had doubled since our sale, and we introduced Man GLG High Yield Opportunities and Schroder Strategic Credit (a fund that had been held in Vanbrugh for over a decade before we sold in summer 2019 after valuations had become unattractive). We opportunistically brought in a position in BH Global on a 15% discount (the board defends a 10% discount), an investment trust that benefits during periods of heightened volatility in credit markets. We took part in the IPO of Nippon Active Value, an activist Japan equity investment trust that was 100% cash going into the market declines and is thus well positioned to take advantage of opportunities market declines present.

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 31/12/2019 and 31/03/2020.

VANBRUGH FUND HOLDINGS

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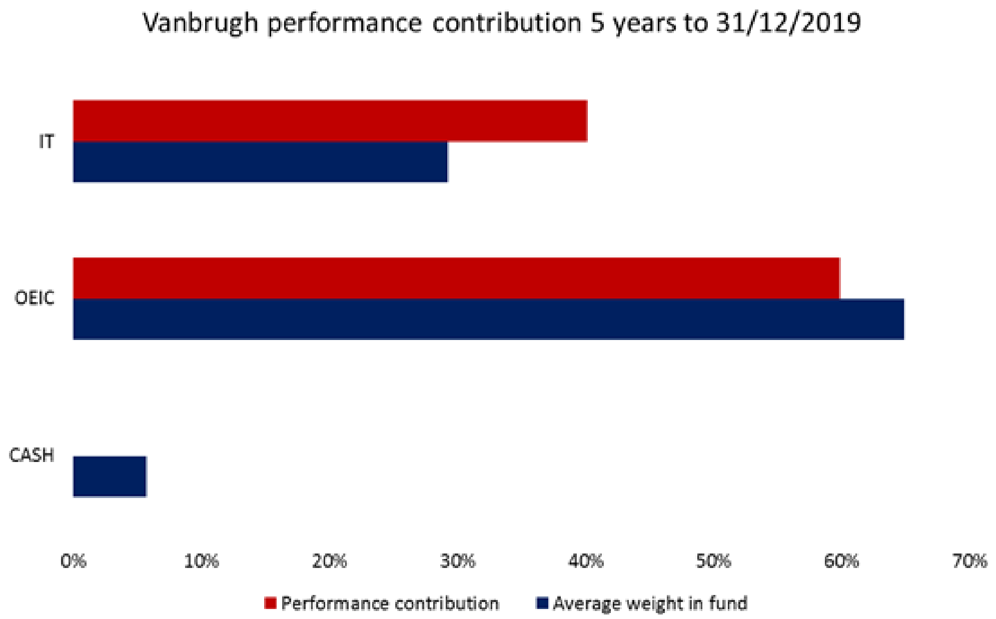
Each fund has been allocated to an asset class for this pie chart, therefore there may be differences in the breakdown shown here and on the asset allocation chart on page 6.

 Source: Internal as at 31/03/2020.

COMPELLING OPPORTUNITIES IN CHALLENGING MARKETS

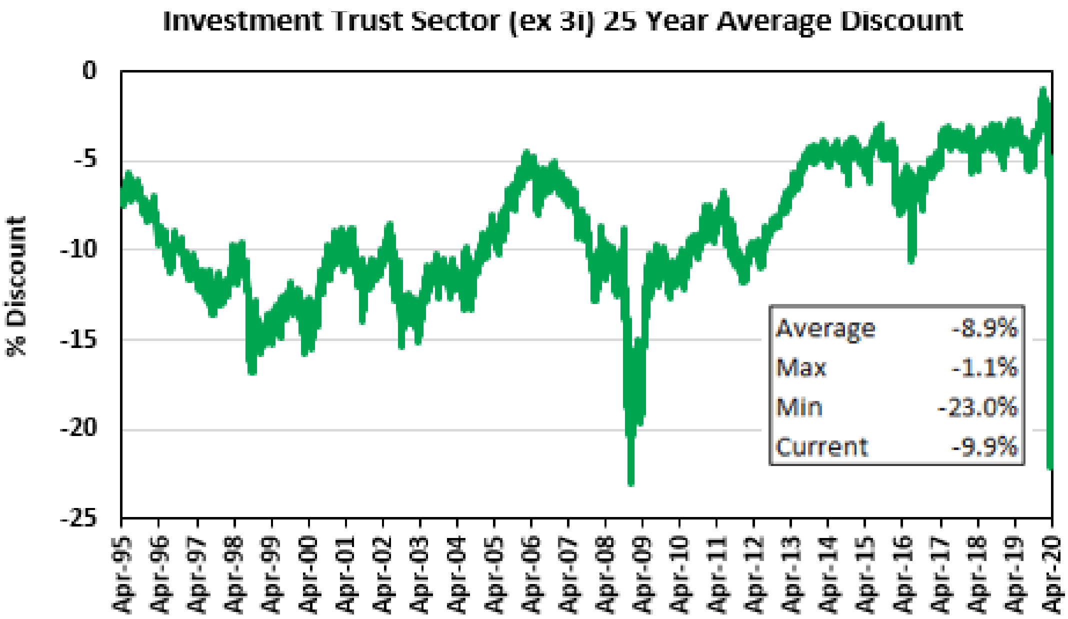
These are clearly extraordinary and highly uncertain times from a humanitarian, social and economic perspective. During the quarter, financial markets declined at the fastest pace on record. Our Funds were not immune from these falls. We have long communicated to our investors our concerns that valuations in mainstream equity and credit markets looked extended and that in constructing our portfolios, we seek to avoid the most expensive areas of financial markets and instead ensure that each investment offers a margin of safety, uncorrelated returns, or a combination of both. Over recent years, this more cautious approach has seen our exposure to traditional equities and bond markets fall. The corollary of this is a higher allocation to more idiosyncratic risk and investments that exhibit limited correlation to mainstream financial markets. These include lowly-geared investment trusts investing in private equity, direct loans, ships, song royalties and targeted areas of the property market. Whilst we hoped that this cautious approach would stand us in good stead during a more difficult period for financial markets, we always accepted there was a risk that in the short term the prices of some of these investments could detach from fundamentals. This has been the case, and our Funds have therefore not been immune from the broad based nature of the selloff. In absolute terms, our three Funds have protected capital better than equity markets. Taking the MSCI United Kingdom Index as a proxy (given the majority of our investors are based in the UK and have sterling liabilities), downside capture during the sharp falls between 19th February 2020 and 23rd March 2020 was 52% for Vanbrugh, 71% for Distribution and 85% for Global Opportunities. Nevertheless, we are disappointed with the absolute returns the Funds have generated during the declines.

You will recall that we use investment trusts to gain access to asset classes that either cannot (i.e. private equity) or should not (i.e. property) be accessed through open ended vehicles. Over the years, investment trusts have been a big positive contributor to our Funds' returns, with their contribution to performance far in excess of their overall weight in the Funds. The below chart shows the average investment trust exposure and the proportion of returns generated by investment trusts in Vanbrugh over the five year period to the end of December 2019. In recent weeks, however, price falls have been indiscriminate across financial markets, but in particular within the investment trust universe. Going into the recent market falls, Vanbrugh had 31% in investment trusts, Distribution 42% and Global Opportunities 47%, with investment trusts contributing 51%, 52% and 52% respectively of the performance of the Funds during this difficult period.



Source: Internal and FE Analytics.

There are a number of factors that we believe have contributed to the rapid widening of investment trust discounts in the short term, but three in particular stand out. The first, and arguably most important reason for the speed of the declines, is liquidity. Never before has the majority of the investment community and in particular the market-making community been working from home at the same time, and it was natural to expect a short transition period as communication lines were being fully established. Traders lacked the confidence to step in and deal in size in the market. The second factor is sentiment. During the financial crisis over a decade ago, discounts widened rapidly, most notably for property and private equity trusts. The scars of those moves live fresh in the memories of many investors, and a number of market participants began panic selling positions into falling markets. The effect of these two technical factors simultaneously occurring was both unprecedented and unforeseeable, but they were augmented by a third factor - uncertainty over what impact the coronavirus and resulting economic slowdown might have on to the underlying net asset value (NAV) of trusts. This triumvirate combined to spook a number of investment trust participants into making the decision to sell first, and ask questions later. This led to price falls that in many cases were completely irrational, with price falls far in excess of any reasonable (and most unreasonable!) scenario for the long term impact of coronavirus. The below chart emphasises both the speed and the extraordinary scale of the widening of discounts across the investment trust universe.



We did not panic. The first two levels of uncertainty mentioned above are a function of market technicals, which whilst exerting a short term influence on market moves tend to have limited impact on longer term fundamentals. Changes in market liquidity and other technical factors are also hard to predict and as such our process does not expend too much time trying to forecast here, but we do embrace the fact that technicals can create shorter term investment opportunities around better entry and exit points for nimble investors such as ourselves. The third factor, looking at the fundamental drivers of an investment trusts performance and making a probabilistic assessment of the expected impact on the NAV and the income we expect a trust to generate and pay out, is always where the bulk of our analytical work is focussed and this is as true of late as ever. During the past two weeks, the HFM team have conducted in excess of 70 (virtual) meetings with managers from across all of the asset classes in which we invest. This has augmented our views and

9 Source: Winterflood Securities to 01/04/2020.

helped us build a comprehensive picture of the current investment environment allowing us to assess where opportunities may lie, and also where price falls may not yet reflect the deterioration in fundamentals. The benefit of being able to access best in class managers, experts in their respective fields, at such short notice has been an incredibly valuable resource to tap into at a time when events are developing rapidly. In recent weeks, these meetings have given us the confidence to use some of our elevated cash levels to achieve fantastic long term entry points into some investments in both the open ended and closed ended arena. Significantly our research has led us to believe that much of the unwelcome volatility the Funds have had to endure over the past month due to the sharp moves in our investment trust holdings has not resulted in a permanent loss of capital. We look at two asset classes where we have identified opportunities below.

We went into the market falls with elevated exposure to real estate investment trusts relative to history. At a time when yields available from traditional sources such as government and corporate bonds were paltry, income from certain areas of the property market appeared highly attractive. We are very selective in our property exposure, utilising best in class managers who are experts in their fields to take advantage of long term structural themes in very specific sub-sectors such as use of care homes and the shift towards online shopping, of compelling supply/demand dynamics in regional offices and private rented sector homes, and of inflation linked government backed revenue streams. Property trusts today are very different from the financial crisis, when the sector was composed of generalists who were jack of all trades, and masters of none, deploying vast amounts of covenant heavy leverage into their buildings in order to boost returns. Today, leverage levels are considerably lower, and interest cover costs are cheap thanks to incredibly low interest rates.

All of the trusts we invest in have significant room on all of their covenants, have long term debt in place that doesn't need to be refinanced, and work incredibly closely with all of their tenants and the banks. Despite this, property trust prices fell in line with UK small cap stocks. We spoke to all of our property trust managers, and were surprised to hear of a lack of engagement from other investors despite the opportunities that appeared to be materialising. We gained the confidence to selectively add to areas where the price fall appeared indiscriminate, where we had confidence in the strength of the trusts balance sheet, and where the long term opportunity and thus income generating potential in our assessment was not impaired, even if there would be a short term hit. Examples of our dealing include topping up Impact Healthcare REIT at 68.5p (currently over 83p), Civitas Social Housing at 78p (now over 93p) and a small top up in Regional REIT at 51p (now over 80p as I write). Despite several price rebounds, we still believe there is significant value in very select areas of property markets.

We have identified a very good opportunity developing in corporate bond markets, where the recent drawdown has resulted in widening credit spreads that are now pricing in an unprecedented increase in corporate defaults. The sell-off has been indiscriminate, driven in part by redemptions and forced selling which has created a fertile hunting ground for our trusted, active managers. Corporate bond prices may well head lower still in the coming weeks and months but we take comfort from the confidence our managers have in the solvency of their underlying portfolios and see current yields and spreads as offering a decent margin of safety. Central bank action to support fixed income markets in recent weeks is also important and has helped restore liquidity in investment grade and high yield markets alike. We expect many companies to cut dividends in the coming months to help shore up balance sheets and for cash flows to be diverted away from shareholders towards bondholders. The fact that companies are legally obliged to meet coupon and principal payments on their debt, provides us with greater confidence in the security of income offered by corporate bonds relative to that offered by equity dividends. We have therefore taken the decision to materially increase exposure to mainstream credit across our three funds through the (re-)introduction of Schroder Strategic Credit and Royal London Short Duration Global High Yield Bond and Man GLG High Yield Opportunities. We recently sold RLSDGHYB across all of our mandates but in the weeks following this sale, the fund has fallen c.12%. In recent years, the fund has broadly offered a cash-like total return profile of LIBOR +250bps to investors. This has rapidly changed. High yield spreads have widened sharply and the gross redemption yield on the fund has risen to 8.2%, despite the fact that the portfolio has 20% in cash. It is a similar story for Man GLG High Yield Opportunities which invests in high yield corporate bonds and has the ability to short credits, and Schroder Strategic Credit, which owns a mixture of investment grade and high yield bonds. For Schroder Strategic Credit the effective yield on the portfolio was 3.8% at the end of February, it is close to 8% today.

In the same way that we have been dynamically shifting exposure in our Funds, we believe that the active managers that we invest with are very well placed to take advantage of the dislocations that are occurring in their respective asset classes. The ability to act swiftly to rotate portfolios towards the most compelling opportunities in their specialist fields will provide the foundation for attractive long term returns from today, with many expressing genuine excitement about the scale of the opportunity that is beginning to present itself. The road ahead is going to be bumpy, but our Funds are in a strong position to be able to selectively and carefully take advantage of these opportunities with our elevated cash position and ability to quickly and dynamically adjust our portfolios. We are acutely aware of the responsibility you have placed in us to manage your savings, and we are immensely grateful for the faith you have shown in us to navigate through this difficult period. As investors in all three Funds, alongside our family, friends and colleagues, we share in your experience, and we are as determined and focused as ever to deliver good outcomes for our clients. We are always happy to talk to investors, so if you have any further questions, please don't hesitate to get in touch.

CONTACT INFORMATION

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IMPORTANT INFORMATION

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