QUARTERLY REPORT
Q2 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

Contents

Our Team

Ben Conway *Head of Fund Management, Senior Fund Manager*
Financial Express aggregated track record of 6+ years running retail funds – returning 37% versus 34% for the peer group (01/01/2014 to 30/06/2020)

Daniel Lockyer *Senior Fund Manager*
Financial Express aggregated track record of 15+ years running retail funds – outperformed peer group by 36%, returning 123% versus 87% (13/01/2005 to 30/06/2020)

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*

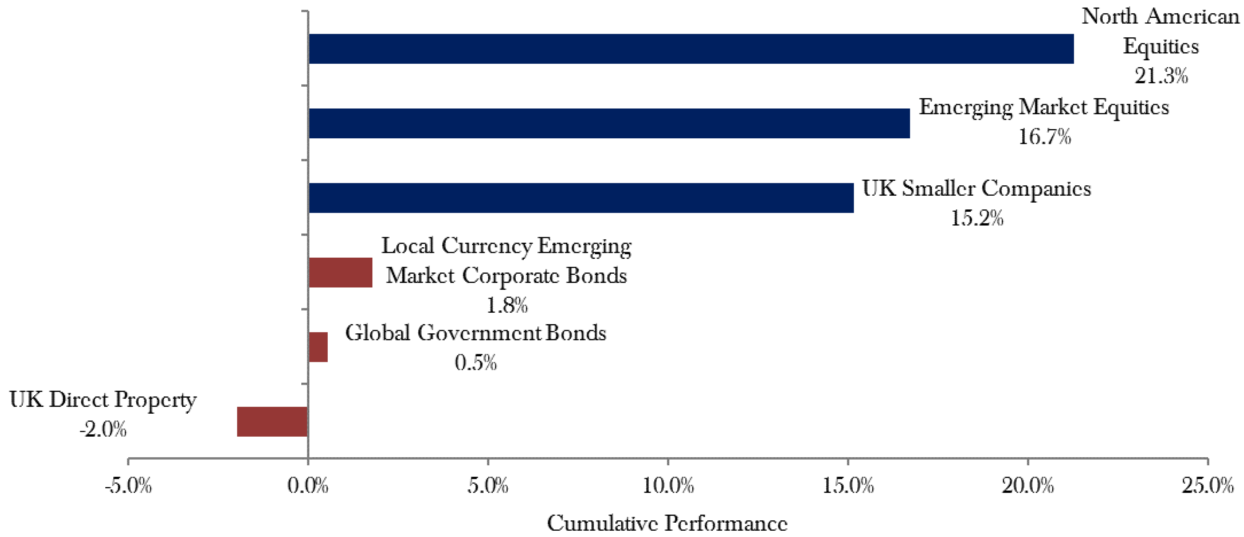
Left to right: David Chapman, Dan Cartridge, Ben Mackie, Ben Conway, Daniel Lockyer, Hannah Isaac

 Source: FE Analytics GBP total return.

MARKET PERFORMANCE

HAWKSMOOR FUND MANAGERS

Top and bottom three performing asset classes



North America: MSCI North America, Emerging Markets: MSCI Emerging Markets, UK Smaller Companies: MSCI United Kingdom Small Cap, Local Currency Emerging Markets Corporate Bonds: ICE BofA Local Emerging Markets Non-Sovereign, Global Government Bonds: ICE BofA Global Government, UK Direct Property: IA UK Direct Property.

Commentary

It has been an extraordinary first half of the year for investors. The first quarter of 2020 was the most difficult quarter for performance since the depths of the Great Financial Crisis. The second quarter of 2020 proved to be one of the best for investors for decades. The swift and decisive action from both global central banks and governments has been staggering in its scale and scope. Liquidity has been poured into the system on an unprecedented scale. New quantitative easing programs, most notably by the Federal Reserve Bank of America, have been extended to allow asset purchases including buying high yield corporate bond ETFs (exchange-traded fund). Government support schemes including loans for businesses of all sizes, furlough schemes to keep employees (at least temporarily) in work, and even 'helicopter money' in the form of tax rebates in the US were initiated. In total, major central bank balance sheets have expanded by an estimated $5 trillion with government stimulus programs adding up to an estimated $18 trillion. The first 6 months thus saw the fastest 30%+ fall in history (clocked at 22 days) for US equities shifted to the fastest 30%+ gain (26 days).

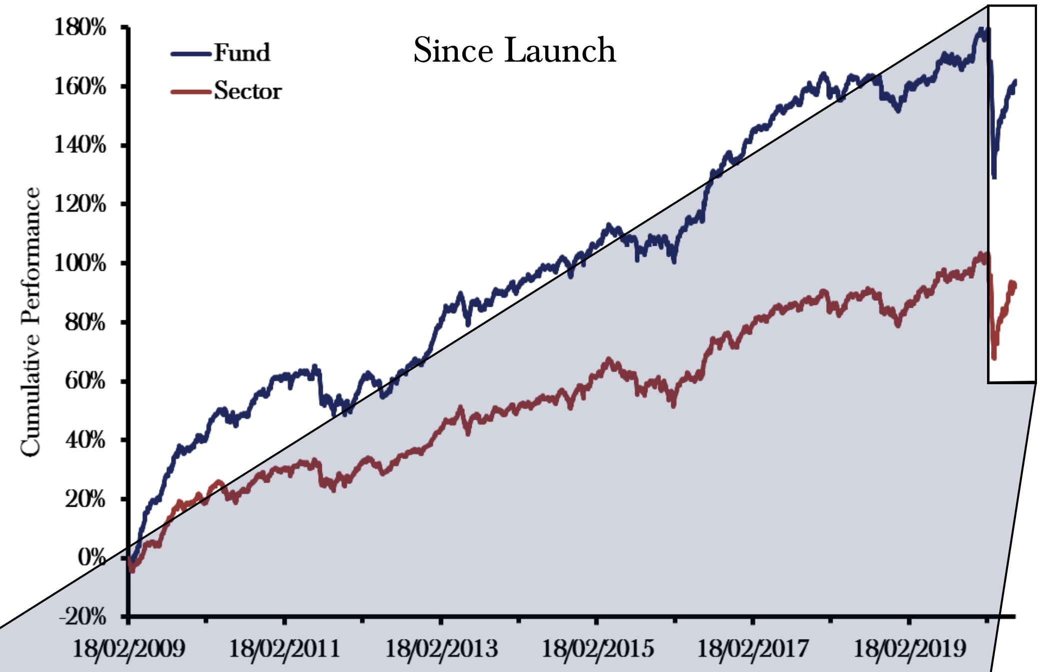
Against this backdrop, most asset classes delivered positive returns, with equity markets in particular performing strongly. However, this high level performance hides wide dispersion below the surface. Quality growth stocks with strong balance sheets have been seen as a source of relative safety amid fears of a moribund economic backdrop, particularly in the technology and healthcare sectors that are perceived as 'winners' in the lockdown and post-COVID world. Meanwhile, many stocks that are directly impacted by lockdowns, particularly in the leisure and hospitality sectors, continue to trade on low valuations. More recently, hopes of a 'V-shaped' economic recovery have seen strong performance widen out to even those sectors hardest hit in the sell-off. Of course, central bank and government largesse may also have played a huge part in this widening recovery in the stock markets. With central banks effectively promising to keep government bonds at all time lows for an extended period, credit enjoyed a strong rally with high yield and investment grade spreads roughly halving from the March wides. Though the IA UK Direct Property sector delivered a small negative return, most physical property valuation has been suspended due to lockdowns. REITs, whose share prices sold off sharply in the initial declines, experienced material rallies in line with broader equity market returns.

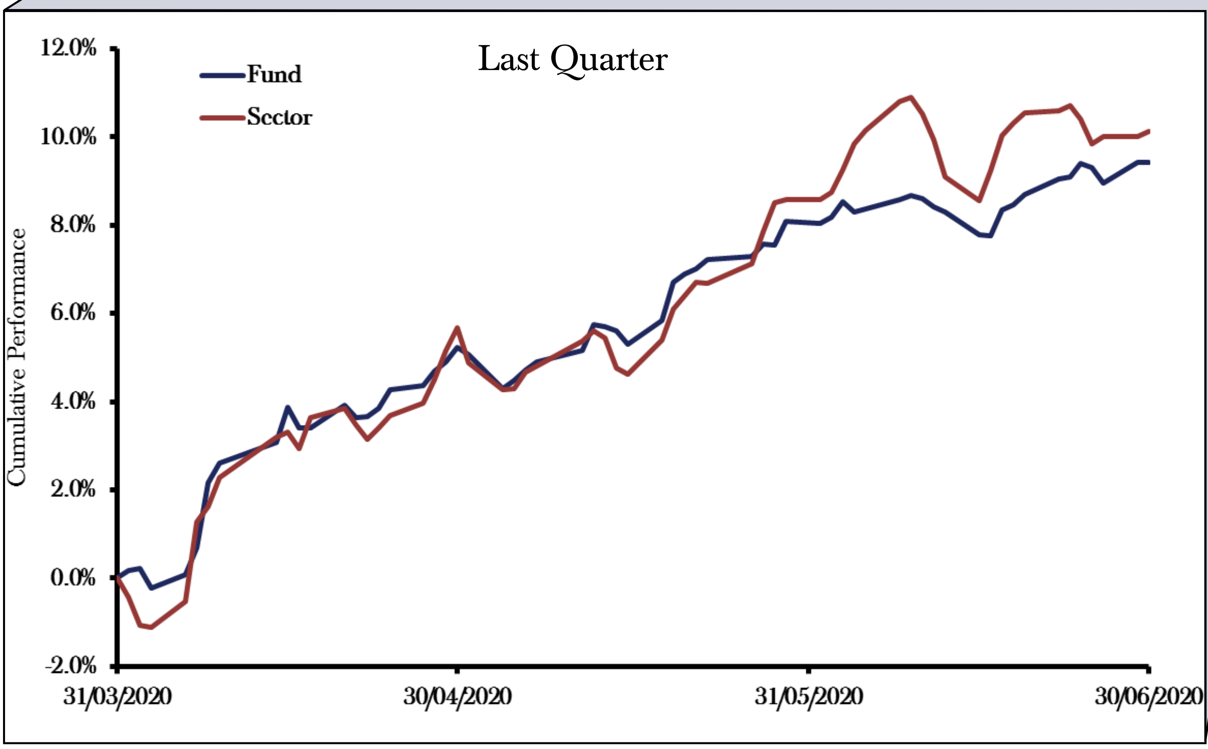
Fundamentals (in the shape of expected falling sales and earning across most sectors) remain incredibly poor but have likely bottomed for the time being as lockdowns are eased. However, COVID-19 continues to do tremendous harm to communities and demands a cautious approach from individuals and governments as restrictions are relaxed further. Rapidly spiking cases in Latin America and the US, as well as smaller outbreaks in countries that were perceived to have the virus under control, act as a stark reminder to all that we are not yet out of the woods.

 Chart Source: FE Analytics local currency, total return 31/03/2020 to 30/06/2020.

VANBRUGH FUND PERFORMANCE

HAWKSMOOR
FUND MANAGERS





 Source: FE Analytics GBP total return 30/06/2020. C Acc units. Sector: IA Mixed Investment 20-60% Shares.

VANBRUGH FUND PERFORMANCE

HAWKSMOOR FUND MANAGERS

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	**8.8**	**161.8**	**79.3**	**26.0**	**3.8**	**-1.3**	**9.4**	**6.4**
Sector	5.9	92.4	60.4	19.4	4.7	-1.6	10.1	6.5
Quartile in Sector	1	1	2	1	3	3	3	1

Commentary

The strength of the quarter under review can be characterised by the fact that of the Vanbrugh Fund's 48 holdings, 42 delivered a positive return. 22 funds delivered a return between +10% and +20%, with a further 6 returning in excess of 20%. The 3 month total return was ahead of the Vanbrugh Fund's annualised return of 8.8% since launch, and was the third best quarter for returns in the Fund's history, only bested by Q2 and Q3 of 2009.

It was a particularly strong period for gold, silver, and the respective mining equities. The two best performing positions in the Vanbrugh Fund were Ninety One Global Gold (+54.6%) and Merian Gold & Silver (+52.0%). During the height of the market falls in March, the gold price sold off as real yields increased over 1% on the back of falling inflation expectations as the perceived risk of deflation soared. During the second quarter, real yields reversed this move, firstly as nominal government bonds fell towards all time lows and then as inflation expectations picked back up as investors weighed the likely consequences of the unprecedented monetary and fiscal stimulus efforts from central banks and governments. Looking ahead, the fall in the price of oil, mining companies biggest input cost, combined with the higher gold price means margins and cash flow generation will continue to be high this year, in stark contrast to results expected from the broader equity market universe.

The market sell off in February and March was indiscriminate as investors typically shot first and asked questions later in a squeeze for liquidity. Performance during the second quarter was more discerning, with investors rewarding companies with strong balance sheets and business models that would prove defensive during or even benefit from lockdowns. The technology and healthcare sectors in particular performed strongly, and the Vanbrugh Fund's third best performing position was BB Healthcare Trust (+31.7%), which benefits from both trends. Following a challenging March, the Vanbrugh Fund's investment trust positions recovered well with notably strong performance from Tufton Oceanic (+20.8%), Urban Logistics (+17.1%) and Civitas Social Housing (+14.8%).

The main detractors to returns came from the Vanbrugh Fund's managed futures funds and from the position in Odey Swan (-19.7%). These positions are held to play a specific and important role within the Vanbrugh Fund, namely offering the ability to deliver positive returns in difficult market conditions when other areas of the portfolio may be struggling. Indeed, these were the best performing funds during the prior drawdown, and it is no surprise that they are at the bottom of the performance table during such a sharp rally. The rapid rally we have seen in financial markets, without a concurrent improvement in the underlying economic fundamentals, has seen the valuations of many areas of financial markets re-rate back to eye-watering levels. We continue to believe that the positioning of these funds offers vital protection against the risks of prices catching down to the weak fundamental story.

 Source: FE Analytics GBP total return 31/03/2020 to 30/06/2020.

VANBRUGH FUND ACTIVITY

HAWKSMOOR
FUND MANAGERS

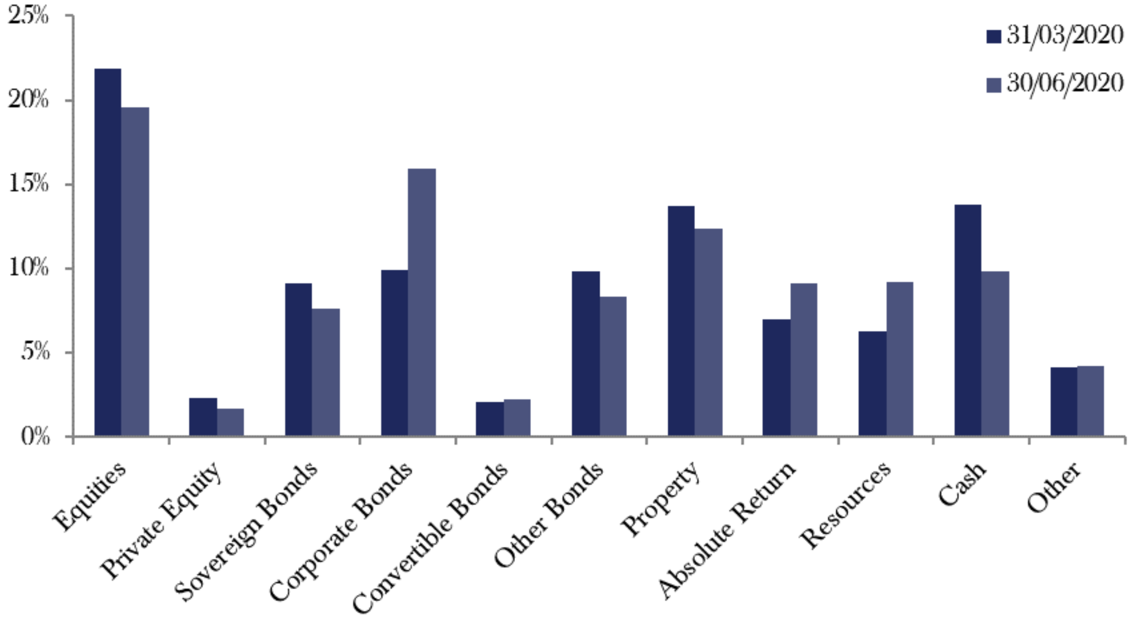
By holding

Purchases:
- Angel Oak Multi Strategy Income
- Artemis Corporate Bond
- Ashmore Emerging Markets Short Duration
- Prusik Asian Equity Income

Disposals:
- Ashoka India Equity Investment Trust
- Guinness Asian Equity Income
- GCP Asset Backed Income
- ICG Enterprise Trust
- Mobius Investment Trust
- Sequoia Economic Infrastructure Income
- Warehouse REIT

It was another busy period for dealing activity, with a number of top ups and trims in addition to the full purchases and sales highlighted above and below as heightened market volatility provided fertile conditions for highly active management of positions. We identified significant value in a broad range of credit markets, where the spreads and yields on offer were compensating investors for incredibly high default rates. In the Vanbrugh Fund we concentrated mainly on adding investment grade exposure where risk of default was small despite what spreads implied. We introduced Artemis Corporate Bond, non-agency RMBS fund Angel Oak Multi Strategy Income, and a small special situations position in Ashmore Emerging Markets Short Duration which traded on a highly distressed valuation. We adjusted our exposure to Asian and Emerging Market equities, selling Mobius Investment Trust and Ashoka India after strong rallies in the share prices resulted in the discounts narrowing. Competition for capital led to the sale of Guinness Asian Equity Income, with proceeds recycled into a new position in Prusik Asian Equity Income. The latter recently re-opened to new investment allowing us to bring it into the Vanbrugh Fund, having had a long-standing position in our Distribution Fund. We sold out of Warehouse REIT after the trust moved to a premium, focusing our warehouse and logistics exposure into Urban Logistics REIT. We sold our position in ICG Enterprise Trust into strength, completing a gradual transition away from 'fund of fund' private equity trusts towards more concentrated direct private equity trusts like Oakley Capital, which have greater control over the underlying holdings.

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 31/03/2020 and 30/06/2020.

VANBRUGH FUND HOLDINGS

HAWKSMOOR
FUND MANAGERS

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 30/06/2020.

FIVE ACCELERATING TRENDS AND HOW WE'RE RESPONDING

HAWKSMOOR
FUND MANAGERS

In 2018, almost a decade after the Great Financial Crisis we wrote a piece on the prominent investment themes that were influencing the shape and construction of our portfolios. In recent months, many of the trends we identified have experienced a rapid acceleration as a result of the extraordinary reaction to the emergence of COVID-19 from governments and central banks in particular, with global lockdowns becoming the norm. In this article we will explore five of these accelerating trends and how we are responding to the threats and taking advantage of the opportunities that are being created.

The accelerating trend: Ever more creative and looser monetary policy

In our investment themes article written in August 2018, we noted that "monetary policy was extraordinary and we should not be tempted to treat it as anything other than that despite many coming to the viewpoint of policy in the post Global Financial Crisis environment as being 'normal'". 'Extraordinary' can now be replaced by 'unprecedented'. The action of the Federal Reserve Bank of America (Fed) in particular has been astonishing in its scale and speed in the wake of COVID-19. In a matter of weeks, the Fed injected more liquidity into the market than had been seen during any of its previous quantitative easing programs. They have gone as far as buying high yield corporate bond ETFs (exchange-traded fund), with some commentators expressing outrage that this is illegal as it strays from monetary policy towards fiscal policy. Modern Monetary Theory has accelerated from derided theory into mainstream practice with central banks on a printing spree, directly buying newly issued government bonds. The result has been government bond yields that are anchored at or near all-time lows, with credit spreads (the additional yield above and beyond the government bond yield) also at or near all-time lows prior to the COVID-19 sell off.

How we are responding: Easy money has resulted in a 'hot potato' effect, as investors have been forced into riskier assets in the search for higher returns. This has resulted in crowding into high quality businesses with the result being eye watering prices for some large cap companies, notably the FAAAMNs (Facebook, Apple, Amazon, Alphabet, Microsoft and Netflix). Our valuation driven process means we will not chase expensive assets higher, especially when they are offering paltry, and even negative, prospective returns. We have taken a more unconventional approach to income investing, seeking secure income from less well known but attractively valued sources including asset backed debt, music royalties and emerging market and Asian debt. The recent COVID-19 induced sell off enabled us to shift the portfolios' bond exposure back towards conventional investment grade and high yield bond funds on compelling valuations. But the subsequent sharp recovery in spreads means unconventional income continues to remain an important component of our portfolios. Despite the rise of digital currencies over the past decade, gold remains the ultimate physical store of value and the best hedge against a loss of confidence in monetary authorities and fiat currencies. Not only is gold a hedge against this extreme event, but historically it has protected the long term purchasing power of investors in both inflationary and deflationary environments. We have exposure to both physical gold and gold mining equities, which trade at historically cheap levels relative to the precious metal price.

The accelerating trend: The Death of the High Street

One of the trends in recent years which has received a lot of media coverage has been the 'death of the high street' and the shift by consumers towards online shopping. This has impacted many business models, with traditional bricks and mortar only offerings having to adapt quickly. The result has been a surge in demand for warehouse and last mile logistics space to facilitate home delivery. Despite this, small and mid-box warehouse space across the UK is still valued at below the cost of replacement, meaning it is not profitable for speculative development to occur. This is constraining supply at a time of surging demand. It was forecast that 25% of retail sales would occur online by the end of 2022, but so far this year over 30% of retail sales have been transacted over the internet. If the proportion continues to hover around this 30% figure, 50 million square feet of additional warehouse space will be needed almost immediately, putting significant upward pressure on rental growth and property valuations.

How we're responding: We access this theme in each Fund through a position in Urban Logistics REIT, a trust that owns single let warehouse space focusing on last mile and regional logistics centres in the UK.

The accelerating trend: Aging demographics and improving healthcare provision in developed markets

Birth rates in developed markets have been on a downward trend in recent decades, and when combined with improved healthcare provisions, has led to an acceleration in the average age of developed market populations. In 2015, there were around 901 million people aged 60 years plus worldwide, representing 12.3% of the global population. By 2030, this will have increased to 1.4 billion (16.4%), and by 2050 to 2.1 billion people (21.3%).[1] As populations age, additional strain is placed on healthcare systems as demand for medical attention increases. There is greater need for specialist living facilities and care homes which are able to cope with age related diseases such as dementia. The current supply of this infrastructure significantly lags the growing demand, with the increased strain being put on hospitals reflected in lengthening waiting times for appointments. Improving and increasingly efficient healthcare provision is vital, as are sources of funding for new discoveries and innovations.

How we're responding: All of these themes are accessed within our portfolios through property specialists like Impact Healthcare REIT and Civitas Social Housing REIT, equity specialists BB Healthcare and Polar Capital Biotechnology, and debt specialist Biopharma Credit. The latter provides debt to life science companies, senior secured against the cash flows of proven and approved drugs or technology. This frees up capital at these businesses to pursue new, innovative healthcare solutions. More broadly, as increasing numbers of people reach retirement age, the way they save and consume changes. Pension funds shift into drawdown mode and money drains from financial assets towards real goods and services. This opportunity is captured by our more generalist developed market equity exposure in our Funds.

The accelerating trend: The rise of Asia and Emerging Markets

Whilst we are seeing aging demographics accelerate in western developed economies, across emerging markets and Asia many populations are in a sweet spot for growth and consumption. The rapid rise of China as a global powerhouse has created a burgeoning middle class with disposable income to burn, and a number of companies both old and new are moving quickly to try and capture the imaginations of this demographic. The story is not limited to China, with the growth in the middle class seen right across Asia. Statistics centred on the continent are staggering. Asia is home to over five billion people, two-thirds of the world's mega-cities (populations in excess of 10 million people), one third of the global economy (but currently contributes around two-thirds of global economic growth), thirty of the Fortune 100, six of the ten largest banks, eight of the ten largest armies and five nuclear powers.[2] Whilst healthcare systems lag behind the western world in many Asian countries, younger demographics leave them better placed to successfully navigate through the COVID-19 pandemic, which disproportionately afflicts elderly patients. Meanwhile, debt levels are more manageable across Asia as governments have not been in a position to add the excessive levels of debt western

[1]https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/ageing/articles/livinglongerhowourpopulationischangingandwhyitmatters/2018-08-13

[2]The Future is Asian - Parag Khanna, 2019

economies have taken on to support their economies. Paying off debt in the long-term will constrain economic growth in developed markets, a burden that will not be as keenly felt in Asia.

How we're responding: Long-term equity valuations are currently attractive and provide a good foundation for returns. However, as the above statistics suggest, the need for highly selective active exposure has never been more important to navigate such a diverse region. Single region focused funds have come into existence. In the same way that there are many US or UK dedicated funds, there are now China or India focused funds amongst others. The opportunity is not just limited to equity investment. We are accessing this theme across multiple asset classes including equity, debt and even song royalties via funds including Ashoka India Equity Investment Trust, Muzinich Asia Credit Opportunities and Hipgnosis Songs.

The accelerating trend: Peaking globalisation

The pace of globalisation has slowed in recent years, and has perhaps even reached a turning point where we accelerate away from globalisation towards more closed and autonomous economies. Tensions between the US and China have resurfaced, having taken a backseat as attention was turned to management of the pandemic. As the November Presidential election in the US draws nearer, it would not be a surprise to see Trump drum up the blame game around COVID-19 and further escalate tensions. We may see an acceleration in manufacturing activity returning closer to home as a direct result of the virus, in a bid to reduce the level of disruption experienced in supply chains. Trade restrictions, particularly centred on goods of strategic importance such as medical equipment and pharmaceuticals are becoming more prominent. As barriers to global trade increase, exporting goods and services becomes more difficult. This will have a greater negative impact on large companies that require overseas expansion to continue their growth, over smaller companies that benefit more from domestic demand, particularly if foreign countries seek to boost tax revenue to fund elevated debt levels by targeting large global corporates.

How we're responding: The past decade has seen impressive outperformance from mega cap companies, breaking the long-term trend of smaller companies outperforming. The process of deglobalisation may see this reverse in the coming years. We are generally finding that valuations and growth prospects for small and mid cap companies are more compelling than large and mega caps, and this is reflected in a general tilt within our equity exposure towards medium and smaller companies. One other consequence of deglobalisation is inflation given, among other things, globalization has been cited as a major deflationary force over the years. Most of our property exposure is inflation linked, and equities generally benefit while government bonds lose out in inflationary environments, an asset class we have very low exposure to.

Conclusion

We are living through an extraordinary time of accelerating trends. It is impossible to predict the future with any certainty, but one thing that appears clear to us is that an active approach to investment management has never been more important, with traditional passive vehicles particularly vulnerable to the acceleration of many of the trends that we are seeing today. We believe the construction of highly diversified portfolios invested in assets with a margin of safety that take advantage of a multitude of accelerating and decelerating trends is a powerful combination that provides a strong foundation for attractive long term returns for our investors.

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:

David Chapman - Business Development Manager
Email: david.chapman@hawksmoorfm.co.uk
Phone: 07384 114953
Website: www.hawksmoorim.co.uk

IMPORTANT INFORMATION