

Fund Review

MI Hawksmoor

Distribution Fund

November 2020

Contents

Executive summary	Page 4
About	
Defaqto Ratings	

Quantitative review

Investment objective	Page 5
Fund information and classification	
Asset allocation	
Top 10 holdings	Page 6
Liquidity	
Performance - total and discrete returns	Page 7
Risk	Page 8
Drawdown	
Fund size and fees	
Income and yield	Page 9

Qualitative review

Philosophy	Page 10
People	
Process	Page 12
Risk management	Page 13
About Defaqto	Page 14

Defaqto Fund Reviews

This document is designed to provide the reader with a quantitative overview of the fund reviewed. The review then goes on to examine information of a more qualitative nature, which has been obtained through an interview process with the fund manager/s.

The qualitative information covers specific areas including the fund manager's philosophy, their people, and the processes they employ. Additional information is also provided on their research capability, the resources they have at their disposal and how they manage risk.. All of this information goes towards creating this comprehensive Fund Review.

Defaqto Ratings

Ratings to help advisers and their clients make better informed decisions

The Defaqto experts have created a range of ratings to help advisers find the best product or proposition for their clients.



Show at a glance how a fund or fund family performs in comparison to the rest of the market.



Demonstrate the comprehensiveness of products across a range of areas, from pensions to DFMs.



An overall assessment of service – by advisers for advisers.

Suitability ratings to support compliant advice

Defaqto have created a set of ten Risk Profiles, and four Income Risk Profiles with corresponding ratings to which funds are mapped using a robust process. This helps advisers to evidence suitability for their clients in both the accumulation and decumulation phase:



Fund Review

Fund managers: Daniel Lockyer & Ben Conway
Fund name: Distribution Fund
Lead author: Fraser Donaldson



Executive summary



Hawksmoor is a growing, profitable, asset management company that has benefited from a restructure two years ago, where a new discretionary management team has been put in place allowing the fund management team to concentrate solely on the running of the Hawksmoor funds.

The fund managers are Ben Conway and Daniel Lockyer, who have both been at Hawksmoor for more than 10 years, and are assisted by Ben Mackie and Dan Cartridge.

The primary aim of the Distribution fund is to deliver an attractive level of income. The objective is to increase distributions as well as achieving a level of capital growth in order to maintain an attractive distribution yield for new and existing investors.

Hawksmoor have an unconstrained approach to asset allocation. This flexibility is not viewed as an opportunity to increase risk, rather it is their belief that reliance on artificial limits can hinder the successful implementation of their portfolio construction risk controls.

Hawksmoor are active managers, they do not invest to a benchmark and they aim to remain fully invested at all times. They aim to stick to their long term view and in doing so will accept short term periods of higher volatility.

Hawksmoor feel they have an advantage in their size, in that they can invest in smaller funds (boutiques, start-ups and

closed-end funds). As well as seeing the benefits of possible early growth, they believe that this helps in developing stronger relationships with the fund managers and aids their qualitative driven investment process.

Significant exposure to investment trusts, gives Hawksmoor access to a wider range of asset classes including property, private equity and even areas such as ships and songs. This enables Hawksmoor to target their investments more accurately to the themes they believe in.

Hawksmoor operate a collegiate approach to investment, with all members operating a generalist approach to fund analysis. Being qualitative driven, the team undertake more than 500 manager meetings a year. Notes and conclusions are all peer reviewed amongst the whole team before any action is considered by the fund managers.

Hawksmoor view risk to the investor as the risk of permanent loss of capital. With this in mind they do not believe in assessing risk by correlation to a benchmark or a statistical measure of volatility, rather they assess how volatility may change in the future, which works with the more qualitative approach.

Internal oversight of the fund is provided by the compliance team. External oversight of the fund is provided by the funds' Authorised Corporate Director and the funds' Depositary and Custodian, Northern Trust.

About Hawksmoor

Founded in 2007, Hawksmoor Investment Management is a privately owned business originally set up to provide private client portfolio management. For the last 10 years or so the company has also been providing fund management. As at the end of January 2020, Hawksmoor managed in excess of £1.5bn. This is split approximately 70% discretionary portfolio management, 30% fund management (Hawksmoor Fund Managers). Revenue attribution between discretionary and funds is approximately 50/50.

Until the end of 2018, Ben Conway and Daniel Lockyer managed both the funds and the model portfolio service portfolios. A major restructure has resulted in Ben and Daniel running the funds, with the model portfolio service portfolios

being run by a new team, headed by Jim Wood-Smith. The fund managers see this as a positive step allowing them to concentrate on the management of funds only.

2018 saw Hawksmoor achieve a gross profit for the first time in several years, although once the 'golden hello's' had been paid to new investment managers on the discretionary side this became a net loss. However, golden hellos have been paid and overall assets have been growing strongly (increased by more than £0.5bn in 2019) so Hawksmoor appear to be set fair for the future.

The fund management team are based in Exeter, with offices in London, Taunton, Dorchester and Bury St Edmunds.



Quantitative review



All analysis using Morningstar data to 30 November 2020

Investment objective

The fund will consist primarily of a diversified range of open and closed ended funds. The primary aim is to deliver an attractive level of income. The managers aim to ensure that the fund's yield will always be at a premium to a composite index of financial classes (equity, bonds, property and cash). The objective is to increase distributions as well as achieving a level of capital growth in order to maintain an attractive

distribution yield for new and existing investors. The portfolio will maintain diversity through exposure to a range of asset classes, currencies, geographies, fund management groups and manager investment styles.

Fund information and classification

Launch date	13 April 2012	IA sector	Mixed Investment 40-85% Shares
Fund Manager	Daniel Lockyer & Ben Conway	Morningstar category*	GBP Moderately Adventurous Allctn
Domicile	GBR	Defaqto Diamond Rating	Multi-Asset Income
Assets	Active	Diamond Rating	5
Approach	Return Focused	*Note: The Morningstar Category is used in all comparative analysis, over the following pages.	
Type	OEIC		

Asset allocation

The primary objective of the fund is to deliver an attractive income yield in comparison to a composite index of asset classes, while maintaining a diversified portfolio of open and closed end funds.

The fund is unconstrained in its asset allocation but will have a minimum of 40% exposure to equities. It is currently at the

lower end of equity exposure, with an increase in exposure to corporate debt over the course of 2020.

There is an exposure to investment trusts of 35.4% which enables access to a wider range of alternative assets such as real estate and private equity.

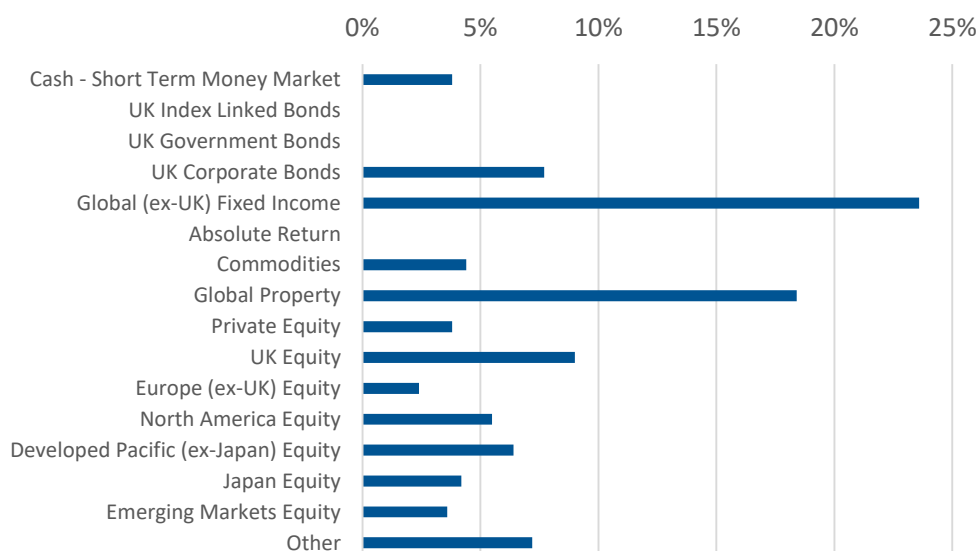
The fund aims to remain fully invested.

Note

This asset allocation chart is drawn using the 16 asset classes (including 'other') that we use in our modelling.

This may differ slightly from the asset allocation described by the fund manager, due to various asset class roll-up and mapping variances.

Net Asset Allocation



Top 10 holdings

If cash is taken out of the equation, the top ten holdings represent less than 40% of the portfolio. There are currently 48 holdings in all, with the extended list beyond the top ten containing a number of holdings that are perhaps less familiar to investors, underlying Hawksmoor's philosophy of supporting smaller funds and trusts where possible.

The full list of holdings also supports Hawksmoor's contention that the use of smaller funds and trusts enables them to target their asset allocation more accurately. For instance, Phoenix Spree Deutschland focus on rental property in Germany.

Date	30 September 2020
Total Number of Holdings	48
Exposure to Investment Trusts (%)	35.4
Assets in Top 10 Holdings (%)	41.30

Name	Sector	Country	% of assets
Fidelity Global Enhanced Income	Equity	Global	6.9
Cash	-	-	5.2
Polar Capital Global Convertibles	Fixed Income	Global	5.1
Muzinich Asia Credit Opportunities	Fixed Income	Asia	4.1
Schroder Strategic Credit	Fixed Income	Global	4.0
Phoenix Spree Deutschland	Real Estate	Germany	3.5
Merian Gold & Silver	Equity	Global	3.5
Royal London Short Duration High Yld Bd	Fixed Income	Global	3.1
Artemis Global Bond	Fixed Income	Global	3.1
Schroder Asian Income Maximiser	Equity	Asia	2.8

Liquidity

Based on the portfolio at the end of September 2020, Hawksmoor have declared the following liquidity position.

The majority of the portfolios are invested in open ended funds, all of which are daily dealing, so can be liquidated in one day.

For investment trusts, of which there is a significant exposure, Hawksmoor conservatively estimate the number of days based on 15% of the 120 day trading volume average.

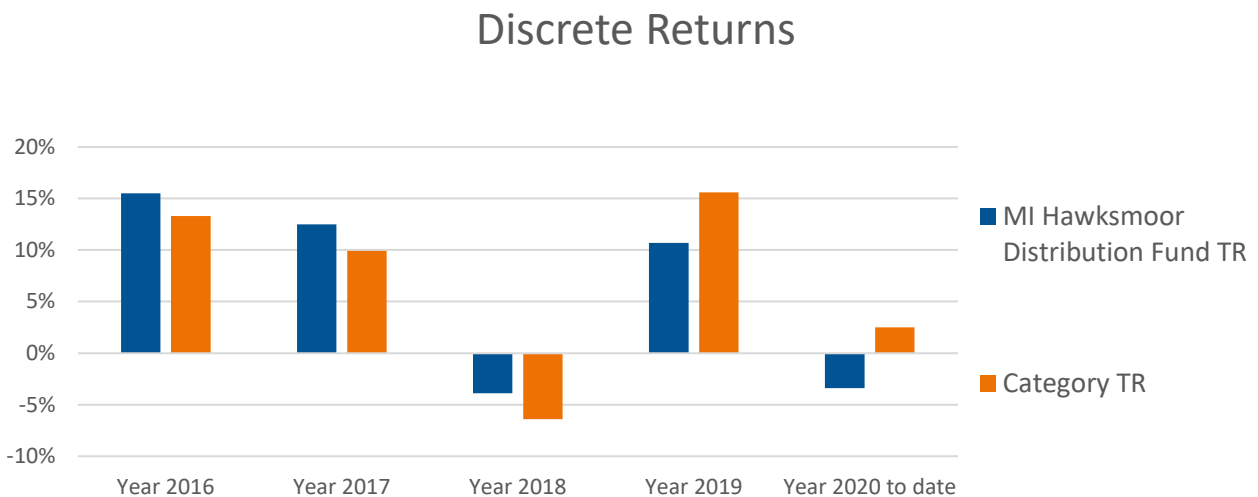
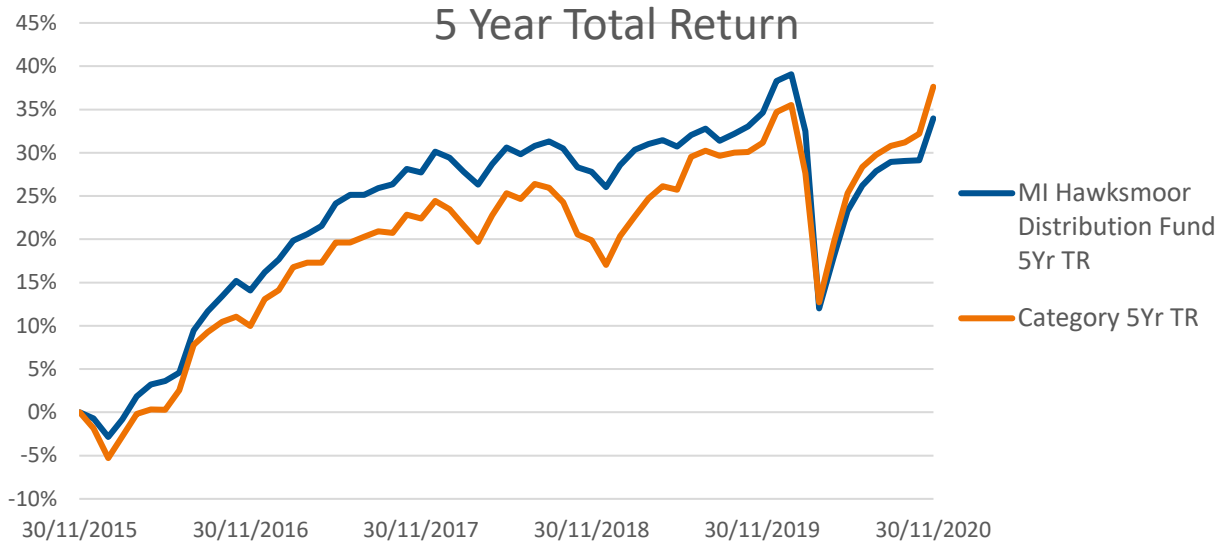
Days to liquidate holdings	% of portfolio
1 - 5 days (%)	70.76
10– 20 days (%)	15.55
20+ days (%)	13.69

Source: Hawksmoor October 2020

Performance - total and discrete returns

Over the last 5 years, the Distribution fund has fared well against its peers in the IA Mixed Investment 40-85% shares sector, particularly as, unlike many of its peers, income is a priority. It is only during 2019 and 2020 where the fund has underperformed in relation to the sector average. However, it should be noted that Hawksmoor expect periods of underperformance as they focus on outcomes over the

longer term and do not manage to a benchmark. There has been an equity driven recovery in the markets following the falls in March and April. Hawksmoor have less equity exposure than most of their peers but none-the-less have still recovered well since earlier in the year, taking less risk than their peers.



Risk

Hawksmoor invest with a margin of safety, so while annualised return over the last 5 years is lower than peers, the level of risk taken, measured by volatility has been exceptionally low. At this level of return, it is likely that the

fund is delivering on its outcomes over time with the added comfort of taking minimal risk.



Drawdown

Although underperforming its peers in the IA sector over the short term, the fund has none-the-less achieved positive returns in three quarters of the months over the last five years. The estimated max drawdown of -24.3% and a worst month of -15.3% have been as a result of the unusual market conditions this year and driven by markets in March and April. Hawksmoor would expect periods of underperformance from time to time, but this would not distract them from their long term strategy.

Last 60 Months	
Max Drawdown	-24.3%
Positive Months	44
Negative Months	16
Worst Month	-15.3%

Fund size and fees

With a current AUM of £214m, the Distribution fund is well above the size that its longevity could be questioned, and well below the size where capacity constraints would be considered. The fund continues to receive positive inflows.

The OCF is perhaps a touch above it's peer group average, although over 5 years this does not seem to have been detrimental to the fund achieving its aims. Actual transaction fees are reasonably competitive.

AUM	£214M
Date	30 November 2020
OCF Estimated	1.66%
OCF Actual	1.66%
Transaction Fee Actual	0.15%
Performance Fee (Yes/No)	No
Performance Fee Actual	n/a

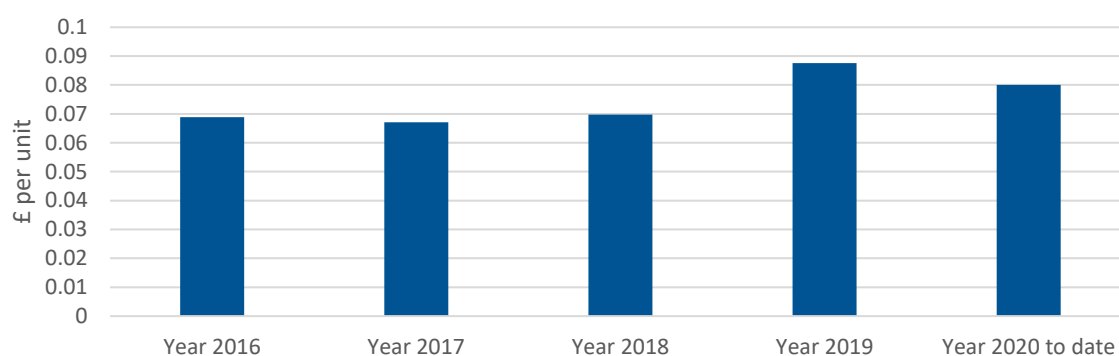
Income and yield

The current income yield is competitive against its sector and over the years there has been a trend of slowly growing income. Obviously this year has been particularly challenging, but distributions should end close to last year's levels with one more dividend to be paid in December. Hawksmoor are

pragmatic about income, in that they would not chase higher incomes at the expense of quality of holdings or compromise their investment philosophy.

Yield	3.8%
Distribution Frequency	Quarterly

Pre Tax Income





Philosophy

The fundamental aim of Hawksmoor is to achieve client objectives rather than shooting for volatility and/or performance targets. This applies to all their funds and managed portfolios. With this in mind, the driver of their due diligence is qualitative rather than quantitative.

In turn, this means that Hawksmoor have an unconstrained approach to asset allocation. The only constraints are those imposed by the Investment Association (IA) sector in which the fund sits and the rules governing UCITs funds. This flexibility is not viewed as an opportunity to increase risk, rather it is their belief that reliance on artificial limits can hinder the successful implementation of their portfolio construction risk controls.

Hawksmoor do not invest to a benchmark and they aim to remain fully invested at all times. They will stick to their long term view and in doing so will accept short term periods of higher volatility.

Hawksmoor are in favour of active management, they seek out smaller funds which they believe they can develop stronger relationships with, which chimes with their more qualitative approach. Because of their size they can invest in smaller funds getting the benefit of early growth and have some exposure to 'incubator' funds

Hawksmoor's size also allows them to invest in closed-end funds to a significant extent, where larger funds cannot. This gives them access to a wider range of asset classes including property, private equity and even areas such as ships and songs. In turn, this enables Hawksmoor to target their investments more accurately to the themes they believe in.

Given their fundamental aim, they not only look to diversify their portfolios but also build in a value margin of safety to their selections. The Team aim to seek good value investments that exhibit a margin of safety, but that does not necessarily preclude investments in high growth areas.

Hawksmoor will not rule out fund capacity restraints should the size of their funds reach a level that compromises their philosophy.

In relation to the Distribution fund, Hawksmoor would take a pragmatic approach to income. While the primary driver of returns is income, they would not chase that income if it meant excessive hit to capital returns or compromising their investment philosophy.

People

Ben Conway and Daniel Lockyer are the lead managers for this fund.

Ben joined Hawksmoor in July 2010. He has worked on the Fund Management team since 2011 and been a co-manager of the Vanbrugh, Distribution and Global Opportunities Funds since January 2014. In the Autumn of 2018 he was appointed a Director of Hawksmoor Investment Management Limited and is now Head of the Fund Management Team.

Daniel joined Hawksmoor in June 2009 as Fund Manager and remains co-manager of the Vanbrugh, Distribution and Global Opportunities Funds. He is also CIO – Fund Management.

Ben and Daniel are ably assisted by Ben Mackie, Dan Cartridge and Richard Scott. Ben joined Hawksmoor in 2019 as a fund manager. Dan, an assistant fund manager joined Hawksmoor in 2016. Richard was a co-manager of both the Vanbrugh fund and the Distribution fund since launch, having established the fund management department. Since the beginning of 2019, he works as an adviser to the Hawksmoor Fund Management team.

The Executive Board of Hawksmoor are Sarah Soar, Chief Executive. James Gaisford, Finance Director. Ben Conway, Head of Fund Management. Jess De Alwis, Head of Compliance.

The Fund Management Team



The fund management team from left to right: Ben Mackie, Ben Conway, Daniel Lockyer, Dan Cartridge, Hannah Isaac, David Chapman

Ben Conway, Senior Fund Manager and Director, joined Hawksmoor in 2010 and has been a co-manager of the Vanbrugh, Distribution and Global Opportunities Funds since January 2014. Before this, he specialised in Japanese equities at Deutsche Bank and Merrill Lynch. In the Autumn of 2018 he was appointed a Director of Hawksmoor Investment Management Limited and is now Head of the Fund Management Team.

Daniel Lockyer, Senior Fund Manager, was a founding member of iimia in 2002. His role progressed from assistant fund manager of the iimia Accelerated Fund and iimia Investment Trust, to lead manager of the iimia Income Fund and finally Head of Investment Services. He joined Hawksmoor in June 2009 as Fund Manager and remains co-manager of the Vanbrugh, Distribution and Global Opportunities Funds. Previously, he was Head of Investment Services at iimia and lead manager of the iimia Income Fund.

Ben Mackie, Fund Manager, joined Hawksmoor in 2019 as a Fund Manager and helps manage the Vanbrugh, Distribution and Global Opportunities Funds. He is a Fellow of the Chartered Institute for Securities and Investment.

Dan Cartridge, Assistant Fund Manager, joined Hawksmoor in October 2016 and was promoted to Assistant Fund Manager in November 2018 in relation to the Vanbrugh, Distribution and Global Opportunities Funds. He has completed his Investment Management Certificate and has passed Level 1 of the CFA programme.

David Chapman, Business Development Manager, has worked in financial services since 1986, working in Stockbroking and Investment Management – most recently spending 23 years at BlackRock covering IFAs and discretionary clients before joining Hawksmoor in November 2018.

Hannah Isaac, Head of Fund Operations, joined Hawksmoor in 2010 and is now responsible for the administration of the Vanbrugh, Distribution and Global Opportunities Funds, as well as providing sales and marketing support. Hannah holds the Investment Management Certificate.

Process

Hawksmoor operate a collegiate approach to investment. The fund management team is close-knit, with all members operating a generalist approach to fund analysis. Lines of communication between the team are permanently open and access to all research and meeting notes can be accessed by the team at any time in their internal library.

Although a separate team, all notes and research produced by the discretionary team are also available.

Hawksmoor, where possible, and because of their size are able to include smaller funds (boutique, start-ups and closed-end funds), which gives them a larger pool of potential investments than many of their peers, and also enables them to target preferred themes more accurately.

Hawksmoor believe that supporting smaller funds, leads to a much stronger relationships with the fund managers.

This is important as the foundation of Hawksmoor's investment process is qualitative rather than quantitative. There are likely to be at least two due diligence meetings with a fund manager before a fund is considered for inclusion in the portfolio. Once selected, there would be at least one formal fund manager meeting a year and also likely one or more informal meetings/calls.

The analyst due diligence notes and opinion, from fund manager meetings, are a key input in to the fund selection process.

Overall, the team undertake some 500+ manager meetings

each year.

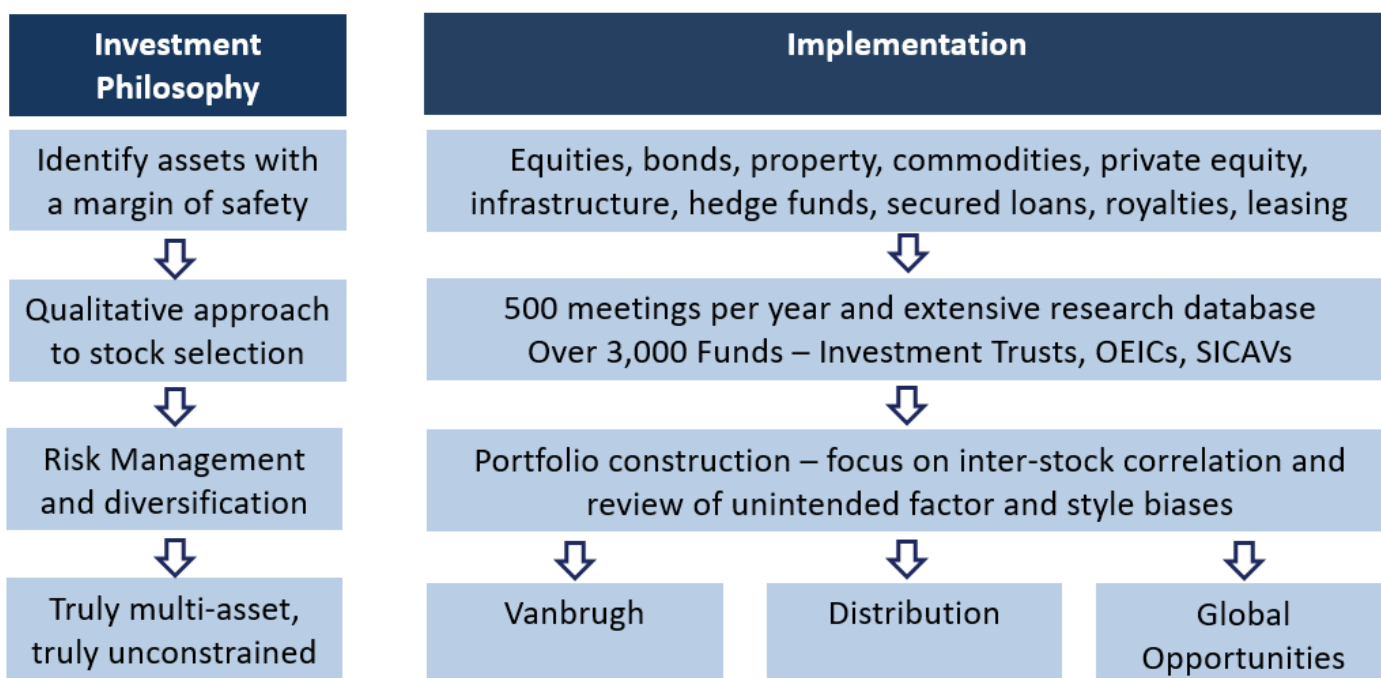
Prospective funds are discussed amongst the whole team. The key questions being:

- Is the fund needed to fulfil portfolio construction requirements?
- Is the fund better than what they have already got in the portfolio?
- Is the fund (underlying holdings) exhibiting good value in terms of price, or for closed-end funds perhaps undervalued?
- Do the fund managers operate a philosophy and process that chimes with their own?

Before a fund is included in a portfolio, at least two of the four fund managers have to agree to its inclusion.

While there is perhaps less formality in terms of structure and meeting regularity, this approach is perhaps well suited to the close-knit nature of the team and their collegiate approach.

They would consider imposing fund capacity limits if size ever got in the way of their process and philosophy.



Risk management

Hawksmoor do not believe in running risk models, suggesting that nothing works well enough. They do, however, run frequent compliance test tolerances to ensure that the portfolio is not too heavily weighted to one fund or theme and that sufficient diversification is maintained.

All prospective investment selections are peer reviewed with at least two of the four fund managers having to agree actions before any portfolio change are made.

Portfolio construction ensures diversification in terms of asset distribution, despite the fund being unconstrained in terms of asset allocation.

Hawksmoor view risk to the investor as the risk of permanent loss of capital. With this in mind they do not believe in assessing risk by correlation to a benchmark or a statistical measure of volatility.

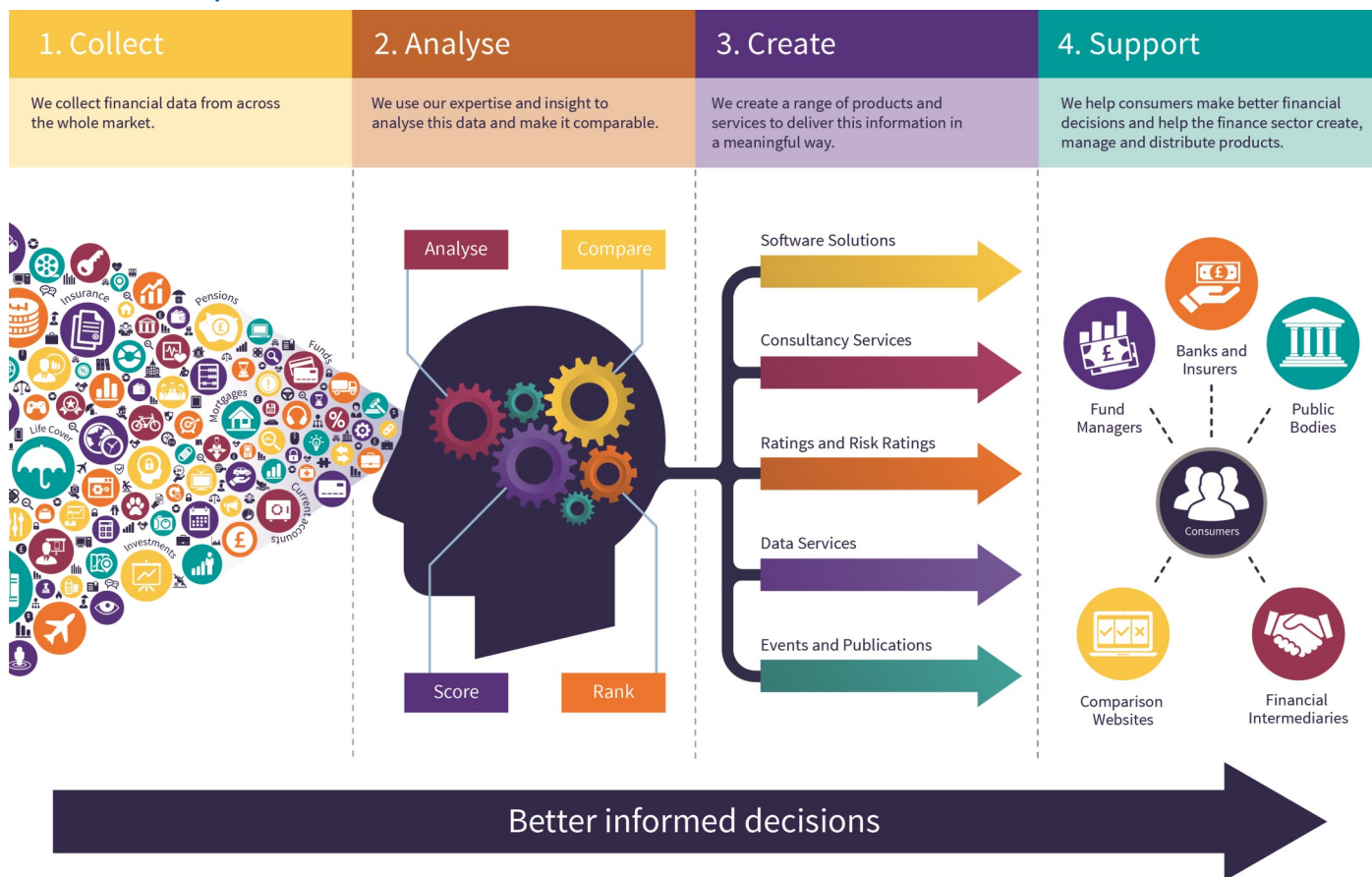
Hawksmoor see volatility as a backward looking by-product of performance and as such take what they see as a common

sense approach by assessing how volatility may change in the future, which means using a more qualitative approach.

The historic quantitative factors the Team use include: the last 10 years' discrete volatility, the maximum drawdown and the fund's beta relative to a composite index of financial assets. The forward-looking qualitative factors used include: valuations, structural changes, correlation benefits within portfolios, style and mandate of the fund.

Internal oversight of the fund is provided by the compliance team. External oversight of the fund is provided by the funds' Authorised Corporate Director (Maitland Institutional Services Ltd) and the funds' Depositary and Custodian, Northern Trust.

About Defaqto



Defaqto is a financial information business, helping financial institutions and consumers make better informed decisions.

Our independent fund and product information helps banks, insurers and fund managers with designing and promoting their propositions. We analyse more than 41,000 financial products in the UK. These products change on a daily basis, and our customers need help with keeping track of this.

We have been doing this for over 20 years, and we have 60 analysts spending 400 hours a day monitoring the market. They ensure that the information we provide is accurate and up to date. Our experts have done all the hard work so that financial institutions and consumers can make better informed decisions.

If you would like more information please contact sales@defaqto.com or call us on 0808 1000 804.

© Defaqto Limited 2020. All rights reserved.

No part of this publication may be reprinted, reproduced or used in any form or by any electronic, mechanical, or other means, now known or hereafter invented, including photocopying and recording, or in any information storage or retrieval system without the express written permission of Defaqto. This Fund Review is for the professional use of professional financial advisers only, and is solely made to and directed at such financial advisers. It is intended to be used by them only to inform them in the independent financial advice they give to their clients, and then only if those financial advisers are not acting as agents for their clients or, at least, will not be acting as agents for their clients in purchasing an interest in the investment or fund which is the subject of this Fund Review (Purchasing the Investment).

This Fund Review is not for the use of, and is not made to, or directed at, the clients of professional financial advisers or anyone who may be considering purchasing the investment. No such clients or such other persons should rely on this Fund Review, and Defaqto shall not be liable in any respect whatsoever to such clients or other persons if they do so. This Fund Review was prepared by, and remains the copyright of, Defaqto.

Defaqto makes no warranties or representations regarding the accuracy or completeness of the information or views contained in this Fund Review. The views contained herein simply represent the views of Defaqto at the date of publication and both those views and the information set out herein may change without reference or notification to any recipient of this Fund Review.

Defaqto does not offer investment advice or make recommendations regarding investments and nothing in this Fund Review constitutes, is intended to constitute, or should be taken as, a recommendation or advice that any investment activity be undertaken by any person. Readers of this Fund Review must make their own independent assessment of whether it is appropriate to purchase the investment. Defaqto is not acting as financial adviser or in any fiduciary capacity in relation to any transaction in any investment. Nothing in this Fund Review constitutes, is intended to constitute, or should be taken as, financial promotion, any incentive or any inducement to engage in any investment activity whatsoever, including to purchase the investment. It is not the purpose or intention of this Fund Review to persuade or incite anyone to engage in any such investment activities.

Please contact your Defaqto Account Manager or call us on 01844 295546

defaqto.com/advisers

© Defaqto Limited 2020. All rights reserved.

No part of this publication may be reprinted, reproduced or used in any form or by any electronic, mechanical, or other means, now known or hereafter invented, including photocopying and recording, or in any information storage or retrieval system without the express written permission of the publisher. The publisher has taken all reasonable measures to ensure the accuracy of the information and ratings in this document and cannot accept responsibility or liability for errors or omissions from any information given and for any consequences arising.