

Fund Review

MI Hawksmoor

Distribution Fund

December 2021

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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

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

Hawksmoor Fund Managers
Distribution Fund
Fraser Donaldson, Insight Consultant



Executive summary



Hawksmoor is a growing, profitable, asset management company that focuses on both fund management and discretionary management.

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, increasing level of income plus some capital growth over the medium to long term (rolling periods of 3 to 5 years)

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), which they believe 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 shipping 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.

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) and the funds' Depositary and Custodian, Northern Trust.

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. The portfolio will maintain diversity through exposure to a range of asset classes, currencies, geographies, asset managers and investment styles.

About Hawksmoor Fund Managers

Founded in 2007, Hawksmoor Investment Management was bought by US Private Equity firm The Carlyle Group early in 2021. As at the end of September 2021, Hawksmoor managed in excess of £1.5bn. This is split approximately 70% discretionary portfolio management, 30% fund management (Hawksmoor Fund Managers).

Until the end of 2018, Ben Conway and Daniel Lockyer managed both the funds and the model portfolio service. A

major restructure has resulted in Ben and Daniel running the funds, with the model portfolio service being run by a separate team. 2018 saw Hawksmoor achieve a gross profit for the first time in several years. Overall assets have been growing strongly since the restructure.

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



Quantitative Summary

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 44% which enables access to a wider range of alternative assets such as real estate and private equity. The fund aims to remain fully invested.

The top ten holdings represent almost 45% of the portfolio. There are currently 43 holdings in all, with some that are perhaps less familiar to investors, underlying Hawksmoor's philosophy of supporting smaller funds and trusts where possible.

Over the last 5 years, the Distribution fund has, in the main, fared well against its peers in the IA sector, particularly as unlike many of its peers, income is a priority.

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 was an equity driven recovery in the markets following the falls in March and April 2020. Hawksmoor have less equity exposure than many of their peers but none-the-less have still recovered well in the second half of 2020 and 2021 so far.

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.

Although underperforming its peers in the IA sector over the short term, the fund has none-the-less achieved positive returns in almost 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 in 2020, particularly March and April. Hawksmoor would expect these periods of underperformance from time to time, but this would not distract them from their long term strategy.

With a current AUM of £151m, the Distribution fund is well above the size that its longevity could be questioned,

The OCF is perhaps a touch above its 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.

The current income yield is competitive against its sector and over the years there has been a trend of slowly growing income. 2020 and 2021 so far have proven difficult to achieve income growth. 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.

Fund information and classification

Launch date	13 April 2012
Fund Manager	Daniel Lockyer & Ben Conway
Domicile	GBR
Assets	Active
Approach	Return Focused
Type	OEIC

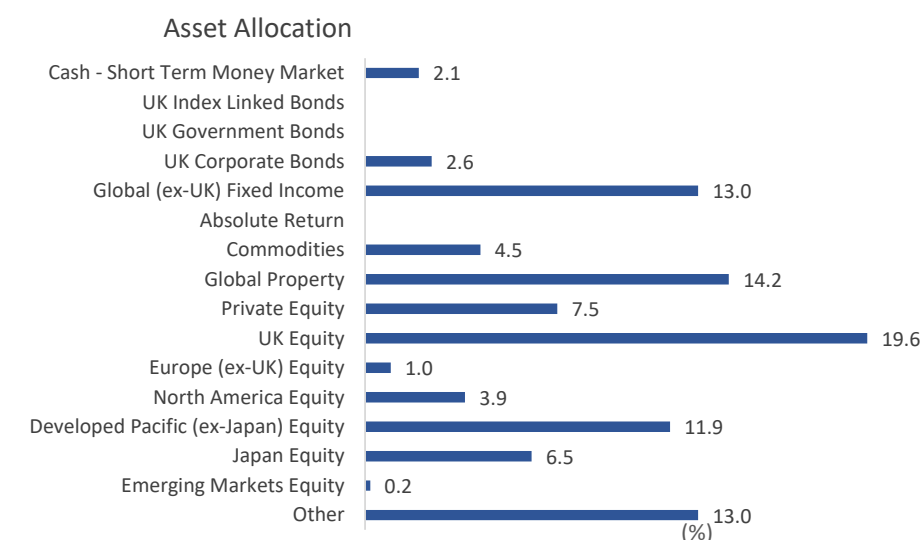
IA sector	Mixed Investment 40-85%
Morningstar category*	GBP Moderately Adventurous
Defaqto Diamond Rating Type	Multi-Asset Income & Multi-Manager Return Focused
Diamond Rating	5

*Note: The Morningstar Category is used in all comparative analysis, over the

Fund size and fees

AUM	£151M
Date	30 September 2021
OCF Estimated	1.43%
OCF Actual	1.43%
Transaction Fee Actual	0.25%
Performance Fee (Yes/No)	No
Performance Fee Actual	n/a

Asset allocation



Source, Hawksmoor November 2021

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.

Top 10 holdings

Total Number of Holdings	43
Exposure to Investment Trusts (%)	43.8
Assets in Top 10 Holdings (%)	44.4

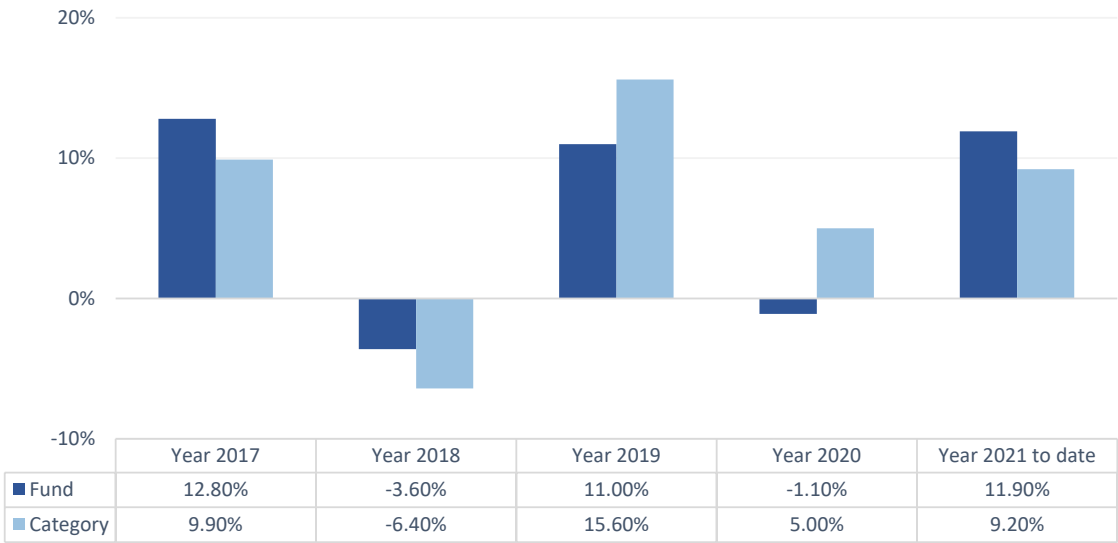
Name	Asset Class	% of assets
CIM Div Inc	Asian Equity	5.80%
GVQ UK Focus	UK Equity	5.60%
Prusik Asian Equity Income	Asian Equity	5.50%
Man GLG Income	UK Equity	4.50%
LF Gresham House UK Mlt Cap Inc	UK Equity	4.40%
Oakley Capital Investments	European PE	4.40%
Phoenix Spree Deutschland	German Property	4.30%
Jupiter Japan Income	Japan Equity	3.50%
Polar Capital Gbl Convert	Global Fixed Income	3.40%
Muzinich Asia Credit Opps	Asian Fixed Income	3.00%

Source, Hawksmoor November 2021

Performance

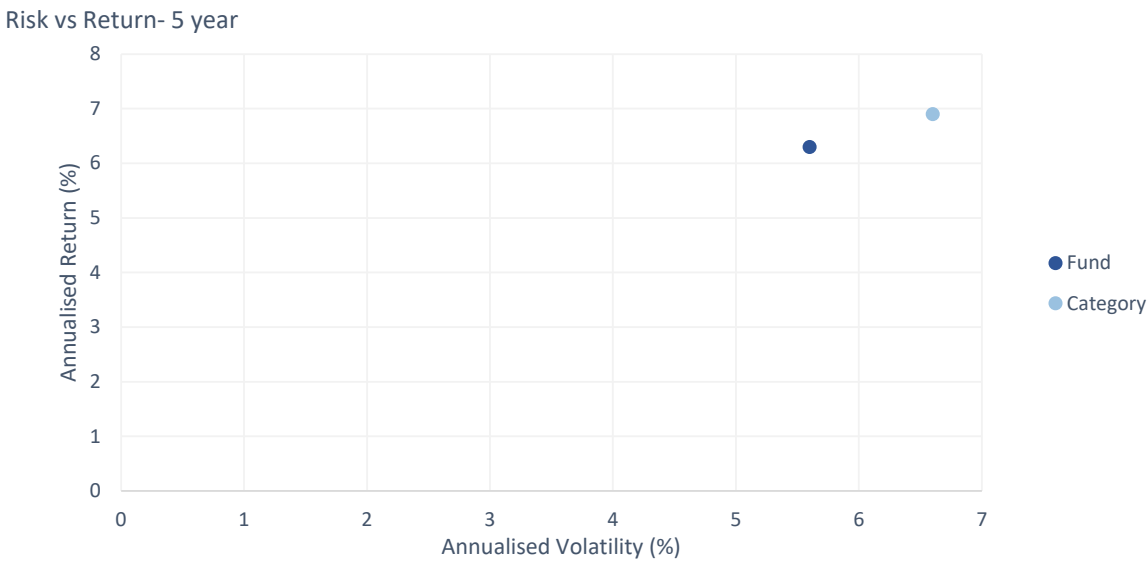


Annual Performance



Source, Morningstar, December 2021

Risk



Source, Morningstar December 2021

Drawdown

Last 60 Months	
Max Drawdown	-24.30%
Positive Months	44
Negative Months	16
Worst Month	-15.30%

[Source, Morningstar December 2021

Liquidity

Days to liquidate holdings	% of portfolio
1 - 5 days (%)	68
10– 20 days (%)	20
20+ days (%)	12

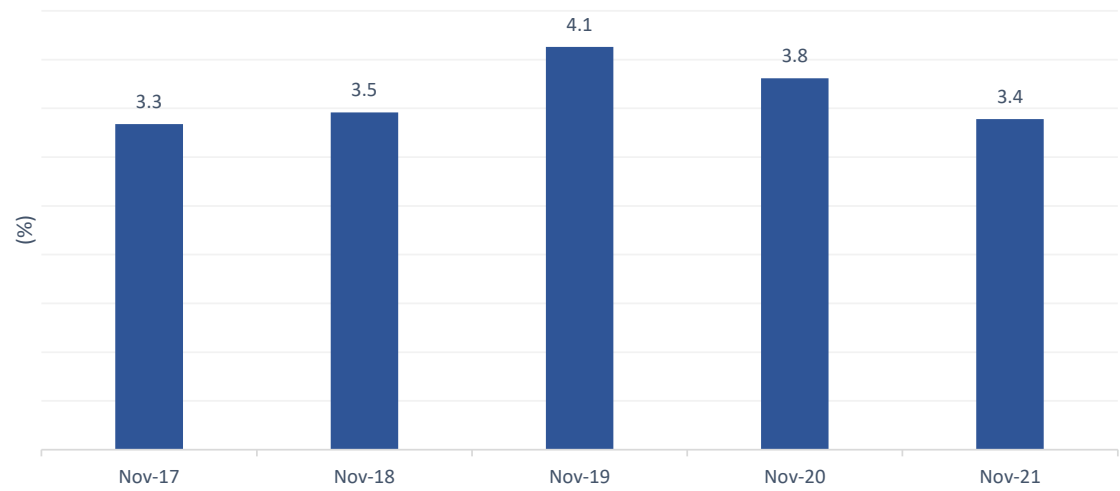
Source, Hawksmoor September 2021.

Based on the portfolio at the end of September 2021, 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.

Income and yield

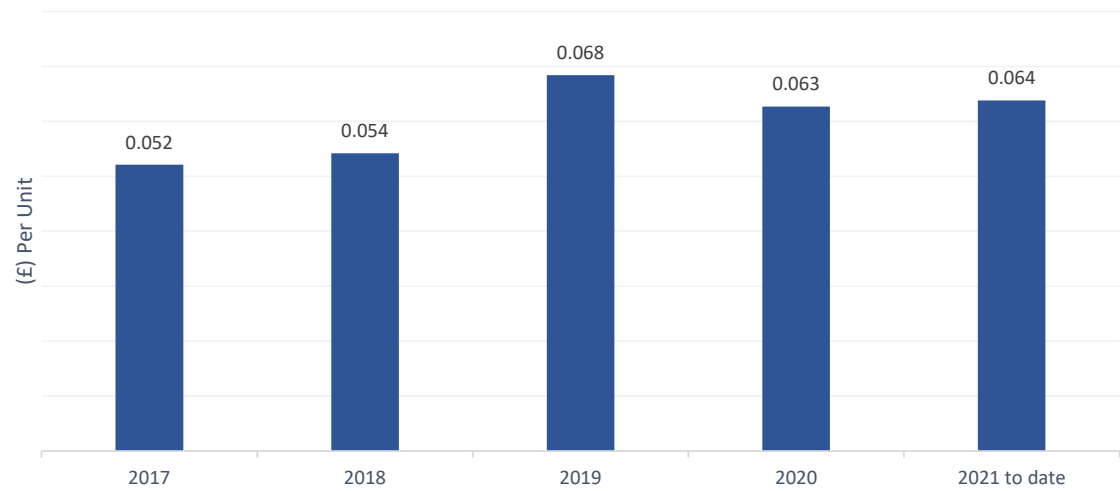
Distribution Yield	3.5%
Distribution Frequency	Quarterly

Distribution Yield



Source, Morningstar December 2021

Pre Tax Income



Source, Morningstar December 2021

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. 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.

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, 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.

Kieran Daly, Business Development Manager, joined Hawksmoor in May 2021 having previously spent his time covering the advisory market in the Midlands, North, Scotland and N. Ireland.

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.

Charlotte Sternberg, Team Assistant, provides administration and sales and marketing support to the Fund Management team.

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.

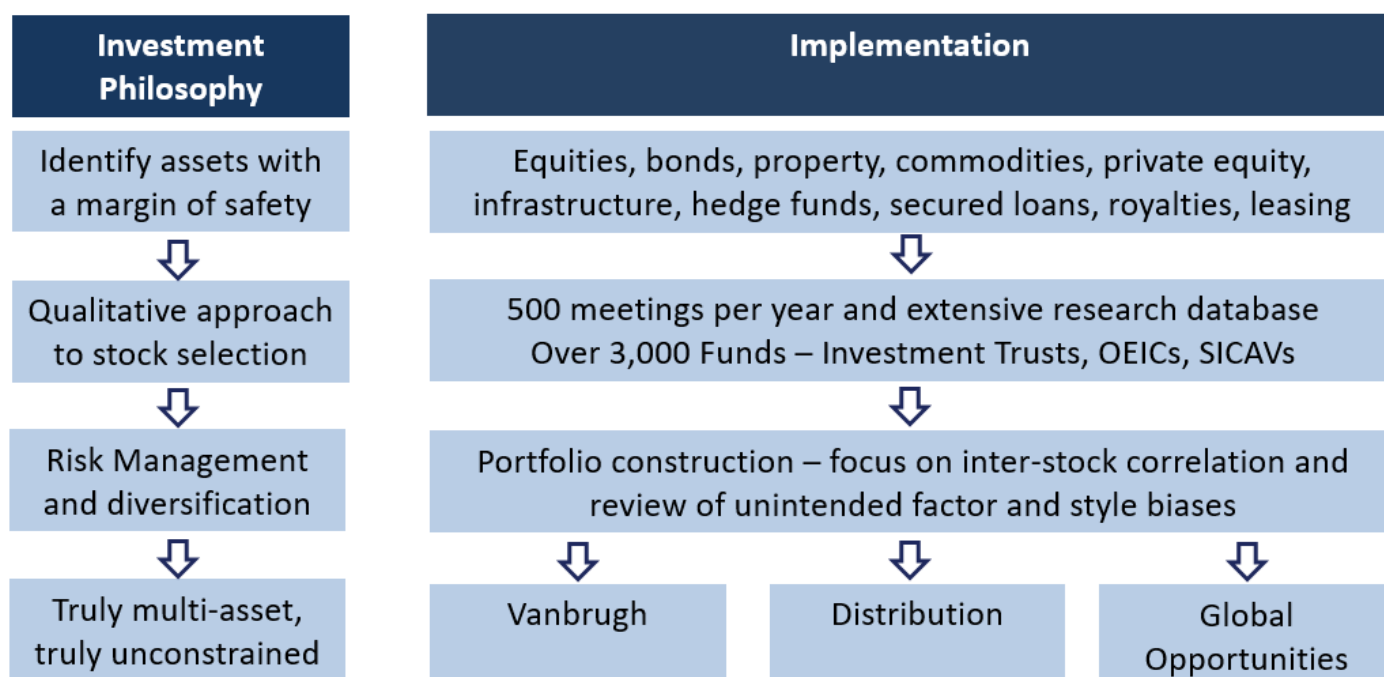
Prospective funds are discussed amongst the whole team. The key questions being:

- 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.



Source: Hawksmoor Fund Managers

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.

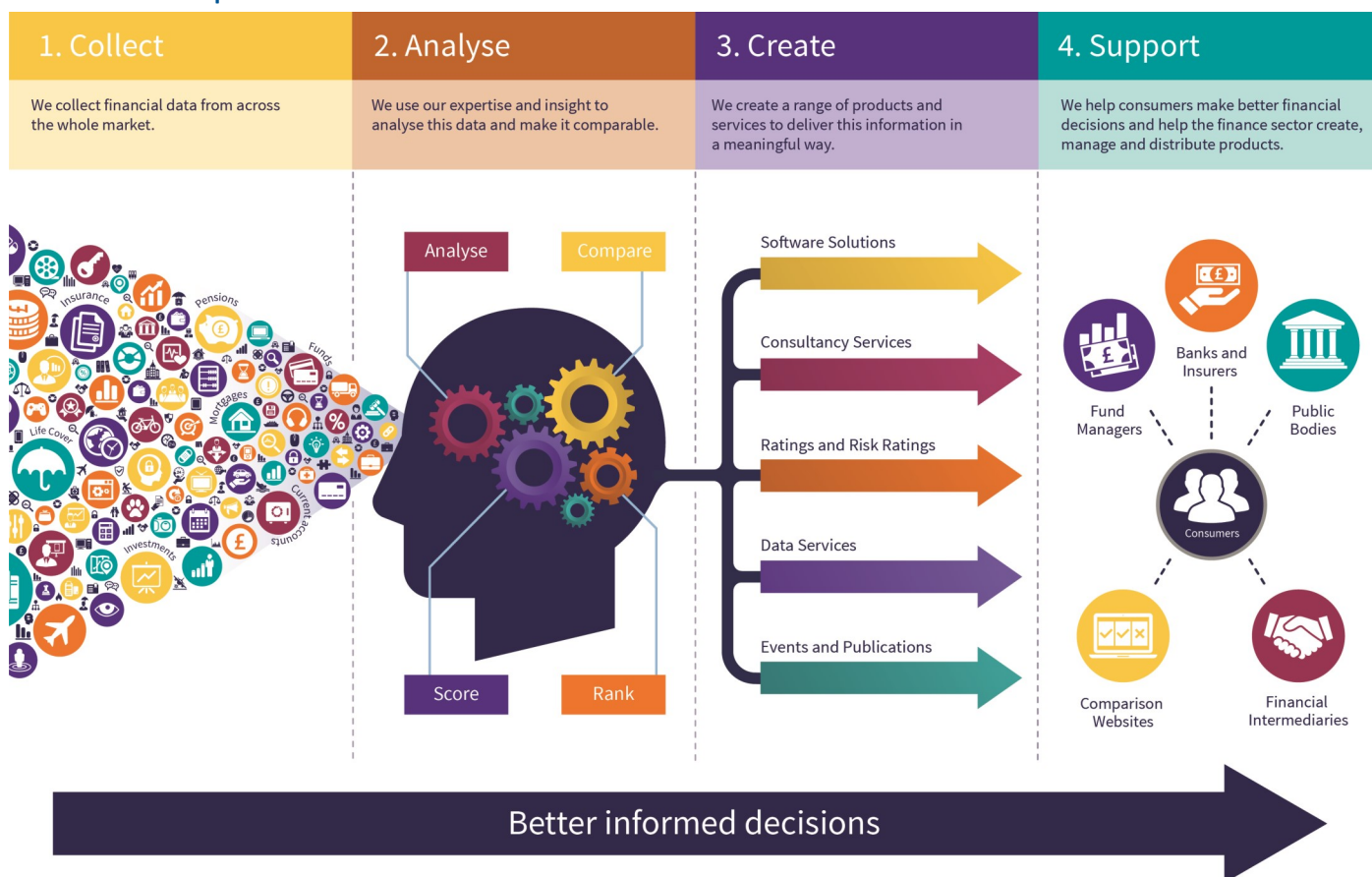
Hawksmoor see volatility as a backward looking by-product of performance and as such take what they see as a common

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.

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