Our Duty to the Consumer

We take our duty to the consumer very seriously. This document sets out the objectives of each of our Funds, how we achieve those objectives, and why we think this offers value for money. In addition, it explains the types of investors our Funds are suitable for. This document is not intended to explain our investment process - please refer to our Fund brochure or contact a Hawksmoor sales representative.

Investor Outcomes

Each of our Funds are constructed with clear investment outcomes in mind:

Vanbrugh: "The Fund's primary aim is to deliver returns, after charges, in excess of Consumer Price Index (CPI) over the medium term (defined as rolling periods of at least 3 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 this volatility by ensuring a diversified portfolio of assets, each of which shares the common characteristics of a margin of safety and low intra-asset correlations. 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."

Distribution: "The Fund's primary aim is to deliver an attractive level of income, whilst also delivering capital growth over the medium to long term (defined as rolling periods of 3-5 years). In doing this the managers will aim to ensure the Fund's yield will always be at a premium to a composite index of financial asset classes (equities, bonds, property and cash). The intention is to increase the distribution alongside capital growth in order to maintain an attractive distribution yield for new and existing investors. In striving to achieve these targets, the managers invest in a variety of financial assets which can be volatile. They will seek to mitigate this volatility by ensuring a diversified portfolio of assets, each of which shares the common characteristics of a margin of safety and low intra-asset correlations."

Global Opportunities: "The Fund's primary aim is to deliver capital growth, after charges, in excess of general markets over the long term (defined as rolling periods of at least 5 years). In order to achieve this, the managers will invest in a variety of financial assets (with a minimum exposure to equities of 60%), which can be volatile."

We intentionally relate the intended investor outcomes to real-world outcomes. For example, Vanbrugh, our lowest risk fund, seeks to deliver a total return (after all charges) that at least keeps pace with inflation (as measured by CPI). We believe this is the minimum objective any investor should require. We do not believe a low-risk investor would be happy with a negative real return (i.e. a loss of purchasing power) even if that result was materially better than that achieved by our peers.

How we achieve those outcomes

Our investment policy (which is the same for each fund) describes how we seek to achieve these investor outcomes:

"The Fund's portfolio will consist primarily of a diversified range of open and closed ended funds. The portfolio will be actively managed, with the investment manager seeking to take advantage of inefficiencies in the pricing of closed ended funds and significant movements in the financial markets. Through its investments in these collectives, the portfolio will be exposed to a range of asset classes (such as equities, bonds, property and commodities), underlying currencies, geographic spread and funds managed by a variety of fund management groups and style of investment manager."

In practice this policy results in the following principles which guide our investment process:

- We do not construct the Funds' portfolios with reference to any industry benchmark (the only benchmark we use is the minimum desired investor outcome).
- We ensure the portfolios are always diversified by asset class (i.e., not invested in a concentrated portfolio of assets that might only deliver the intended investor outcomes in certain conditions).
- We utilise funds rather than invest directly into securities.
- We capacity constrain our Funds to ensure the investment process and likely future results are not impacted by the size of assets.

Why this offers value for money

The fact that we use funds rather than invest directly into securities results in a higher ongoing charge figure (OCF) than many of our industry peers (see accompanying OCF explanation document for more details on what is (and is not) included in the OCF). Indeed, the use of funds in conjunction with our capacity constraint is a key differentiating feature of our own Fund range. Our Funds are designed to be diversified. This means investing in as diverse an array of investable assets as possible. Our investable universe includes not just daily dealing open-ended funds, which give access to ordinary more liquid equity and bond markets, but also closed-ended funds such as investment trusts. Investment trusts give us appropriate access to less liquid asset classes such as property, private equity, infrastructure and many more assets. In turn, since our Funds offer our investors daily liquidity, the size of these investment trusts necessitate we limit our own capacity to ensure sufficient liquidity in our Funds. Indeed, some of the open-ended funds we access are highly specialised and themselves are capacity constrained to aid continued outperformance.

We believe that the deliverance of optimal client outcomes is best achieved using experts in each asset class and region. We believe that outsourcing the investment to specialist managers for exposure to Japanese smaller companies' equities or last-mile urban logistics properties, to name but two, more than justifies the extra fees incurred. In other words, we believe they can achieve superior after-charges performance than we could. In addition, not having to invest directly in every market we access frees us up to research a greater universe of funds and asset classes.

Finally, our own annual management charge is, we believe, competitive due to the capacity constraint (as of 31/12/2022 this is £1bn of assets under management) we impose upon our Funds. For a range of multi-asset funds, we believe this capacity is unusually low. In addition, our fund management team is appropriately resourced, with four fund managers dedicated to running these three Funds due to the labour intensive research process. We conduct our own research and any external research costs we incur are borne by the firm.

How do we prove we offer value for money?

The only way we can prove whether our Funds offer value for money is whether we have a satisfied client base and whether we are achieving the intended investment outcomes.

Past performance is no guide to future performance, but the evidence to date displays that we are exceeding our investment outcomes. While these outcomes intentionally do not relate to relative performance versus our peers, we do nonetheless believe it is reasonable to expect our Funds to deliver superior risk-adjusted performance to the peer group given the relatively high/above average OCFs of our Funds. To date this is exactly what we have achieved.

We strive to ensure our clients are satisfied via continual dialogue with them. We achieve this via proactive contact with them, offering in-person meetings and by sending ad hoc communications when needed in addition to the usual formal monthly factsheets, quarterly commentaries and webinars. Constraining our capacity also ensures we never have so many clients that we cannot continue to offer a high level of service – which includes direct access to fund managers when clients need it.

Ultimately, as with any business, the best way to ensure a satisfied client is to meet or exceed their expectations. Our investment outcomes are delivered over a period of time of at least 3 years. In the intervening period, our Funds may well go through periods when they perform less well. Therefore, at the outset of a new client relationship, we explain when we think those bouts of poorer performance might occur. Many of our ad hoc emails also remind our clients that we cannot deliver strong performance month-in-month-out and when that poorer performance does occur we seek to reassure our investors and explain why it is happening and how it is in accordance with our investment process.

The following measures are in place so that future performance can remain strong:

- We capacity constrain our Funds.
- Fund managers invest in their own funds, demonstrating alignment of interests with clients.
- Part of fund manager renumeration is linked to investment performance and “softer” factors such as demonstration of a high quality of service to our clients.
- We eschew the ‘star manager’ culture. We are close-knit team, who enjoy working together, fostering a collaborative and collegiate team environment, with no fund manager turnover in over 13 years.
- We stick to our circle of competence and are very disciplined in the execution of our investment process.
- We explain to our clients that we may not perform strongly at all times and this increases the chances of our investors remaining patient, which in turn gives us the ability to execute our investment process to the fullest extent, emphasising the time horizons investors in each Fund should adopt.

We cannot guarantee future results will match past excellent results, but we can control the environment, incentives and investment process. All of this is done to ensure a robust, repeatable and disciplined investment process.

What will the pattern of performance look like? When might you produce disappointing outcomes?

Our Funds brochure details our investment process. We think it is important to stress that any successful investment process must be disciplined, robust and repeatable but it cannot be perfect. Unfortunately, no investment process can guarantee good outcomes over every discrete performance period. We believe it is important to let you know when our performance might, temporarily we hope (!), disappoint. We should first point out that we may make errors of judgement. These can take the form of incorrect position sizing or a break in our investment thesis. We have a very well-resourced team and every investment has four sets of eyes and brains over-seeing it. Inevitably, however, we will make mistakes. This type of poor performance should be regarded as unexpected and we will endeavour to communicate to you as soon as possible if this occurs.

Another reason for disappointing performance could be due to factors outside our control. The onset of the Coronavirus pandemic in Spring 2020 was one such example. Again, our priority when this happens is to communicate with you as quickly as we can, and explain why the Funds’ portfolios are reacting as they are, and what we are doing about it.

But the final reason for “disappointing” performance could simply be that our disciplined process dictates that this be the case (hence the inverted commas!). Our process is extremely valuation focused. Experience dictates that that most of the time we will outperform our peers during weaker markets. The protection that buying cheaply affords should mean somewhat limited downside. The diversification of our Funds’ portfolios also brings downside protection in this regard. However, on some occasions we may underperform our peers during weaker markets. Typically this occurs at the end of bear markets when cheap assets become cheaper.

The other time our process leads to underperformance of our peers is at the end of bull markets. Markets have a tendency to overshoot to the downside and upside. At the end of bull markets, expensive assets may get even more expensive and we will eschew investment in these areas leading to our performance lagging. Unfortunately, we cannot time market tops and bottoms.

Through a market cycle (that is from a peak to a peak or a trough to a trough over many years) you should expect us to meet (and ideally exceed) our intended investment outcomes. This will be made up of periods when we perform particularly well, and periods when we do not. Knowing when these periods will occur (e.g. at the end of bull and bear markets) in turn helps you address these weaknesses and potentially blend our Funds with others whose managers have a different investment process and perform well when we do not.

We are relating "disappointing" performance here to our peers. It may be that we meet our investment outcomes despite underperforming our peers – e.g. at the end of bull markets. On the other hand, underperformance during weaker markets might be more distressing as the absolute falls in value of our Funds may cause your underlying clients distress and they may doubt whether we will be able to meet our intended investment outcomes. We stress, however, that this is a necessary part of our investment process and should lead to stronger performance in future periods. Indeed, evidence to date demonstrates this to be the case.

As of January 2023, we can state that our performance since the launch of each Fund has both exceeded our intended investment outcomes and delivered industry-leading returns. All funds are top quartile since launch. Vanbrugh has outperformed in 11 of 14 discrete calendar years, Distribution 9 of 11 and Global Opportunities in 5 out of 5 (includes part calendar years).

Who are our clients and what is our target market?

We manage a range of 3 Funds with 3 different risk profiles and accompanying intended investment outcomes. Our Funds are distributed by and designed to be part of the investment portfolio of intermediaries such as qualified financial advisors and professional investment managers. In turn, we recognise that the underlying clients are ordinary savers. Our investment outcomes are written with those underlying clients in mind.

We market our Funds via intermediaries such as financial advisors because we believe they are best equipped to understand our own investment process and the charges we incur in the execution of our investment process. We do not claim to be able to perform strongly in all market environments and so we believe financial advisors are best placed to explain this to clients and if necessary, blend our Funds with other funds that may perform differently.

Our Funds are available on almost all the platforms used by financial advisors in the United Kingdom.

Our Funds are not suitable for clients who desire the lowest cost multi-asset solutions, who cannot tolerate periods of underperformance versus peers, or who require liquidity greater than one dealing point per day.

Finally, we should stress the time horizons required for investors in each of our Funds. Should your time horizon be less than that stated in a Fund's intended investment outcome, it should be regarded as unsuitable.