ISSUE 07

SPRING 2023

INVESTOR

NEXT GEN CHATGPT

RISE OF THE MACHINES?

MARKET COMMENT

FOURTEEN YEARS YOUNG

TRUST REGISTRATION SERVICE

HAWKSMOOR
INVESTMENT MANAGEMENT

WELCOME

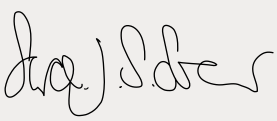
As we enter the new season, it's time to reflect on the past three months and the impact they've had on the investment landscape. From the ongoing energy crisis to rising inflation rates and the threat of a possible recession, investors have had to navigate a challenging market.

This newsletter has been written with the aim of providing you with an overview of what has happened in the markets, as well as including articles which will help you with your investments. In this edition's market update, our Research Team look back at the previous quarter, discussing how the issues that scared markets in 2022 have now largely passed.

Elsewhere, you will be introduced to some names that may be new to you. Assistant Investment Manager Edward Smith looks at the rise of Artificial Intelligence (AI), in particular ChatCPT. We also place the spotlight on our new Worcester office with an introductory interview with the Team.

In a special celebratory article, Assistant Fund Manager Daniel Cartridge wishes the Hawksmoor Vanbrugh Fund a very happy 14th birthday and takes a moment to reflect on the Fund's performance over the last 14 years. Finally, in our regular 'Dear Hawksmoor' feature, Senior Investment Manager Greg Sellers responds to a client query about the Trust Registration Service and how it may impact investors.

As we embrace the longer days and lighter evenings, I hope you enjoy reading this newsletter and that it will offer you some optimism for the upcoming months and year. As always, if you have a question about any aspect of our service to you, please don't hesitate to contact your Investment Manager.



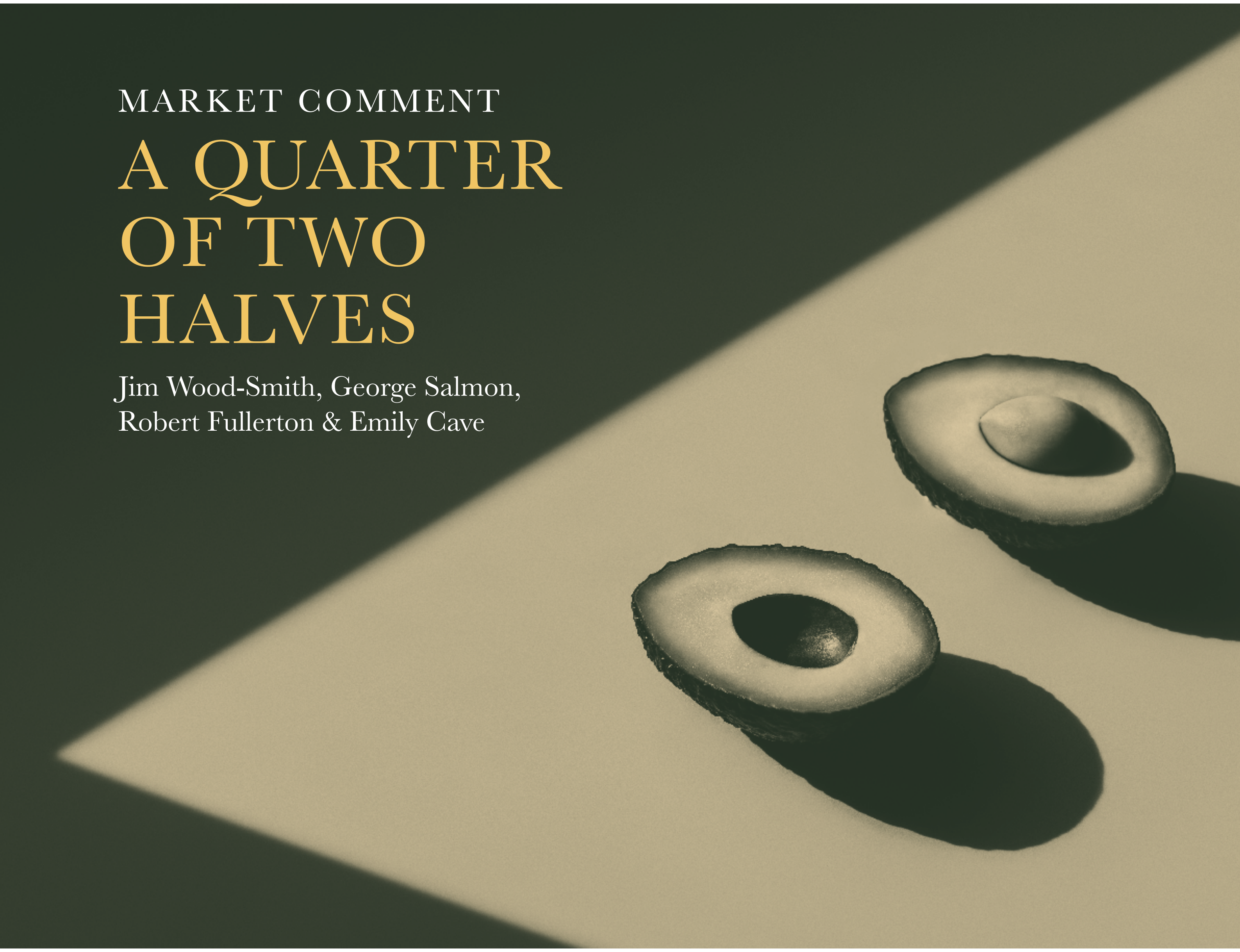
Sarah Soar
CEO

IN THIS ISSUE

MARKET COMMENT

A QUARTER OF TWO HALVES

Jim Wood-Smith, George Salmon, Robert Fullerton & Emily Cave



The greater confidence with which financial markets ended 2022 carried through into the first weeks of 2023. More recently there has been some loss of momentum, primarily attributable to the latest bank wobbles, but we are in a much better place than we were twelve months ago. We still expect markets to make further progress over the course of the year, albeit in an erratic manner, as last year's demons are steadily put to bed.

The dramatic collapses of Silicon Valley Bank and Credit Suisse are not helpful. The debt injected into the system to overcome the hurdles of the Financial Crisis and the outbreak of Covid-19 means we are about a million miles away from being able to afford another banking crisis. That means the risk is greater, but at the same time the likelihood of any problems boiling over are also now much lower.

That is because this time it's different. While we appreciate that this is the most dangerous sentence in investing, there is tangible evidence of it being applicable. There are much tighter controls on the sector, with capitalisation levels in particular now significantly better. We do not anticipate that any of the major US or UK banks will encounter meaningful problems. The turbulence in the sector has nonetheless contributed to significant amendments to consensus interest rates expectations.

> "
> *we are in a much better place than we were twelve months ago*

Central banks across the world have been raising rates to contract their economies and quash inflation. The Bank of England is now expecting the headline UK rate (which is currently c. 10%) to fall below its 2% target during 2024. Rishi Sunak has promised that he will halve inflation before Rudolph takes to the skies. Andrew Bailey, the formidable Governor of the Bank of England, has gone further and recently predicted 3% prior to Auld Lang Syne. It is almost as if they are in a bidding war. Nonetheless, the important part of this is that the pieces are in place for the sky-high inflation rates of 2022 to be dramatically lower by the end of the year.

It's the same story in America. Inflation in the United States has already fallen substantially and many of the technical drivers are reversing. Oil and gas prices have fallen, the latter by a significant amount. The New York Federal Reserve calculates an index of global freight costs, which recently reached its lowest level since August 2019. The United Nations Food Price Index has fallen by nearly 20% from last March's peak, including a halving in the price of cooking oil (whose post-invasion rise captured many column inches).

All else being equal, lower inflation levels take the pressure off central banks to increase rates. That same conclusion can be drawn from the seemingly cooling labour markets on both sides of the Atlantic.

The final piece of the jigsaw is, perversely, the news about the stricken banks. Should issues deepen and problems spread, that would itself be a contractionary force, thus relieving Central Banks from their duty to increase rates. In addition, and without going into the depths of Silicon Valley Bank's balance sheet, it is also the case that higher rates themselves contributed to the problems. Clearly Central Banks do not want to cause another 2008 and so will have one eye on the knock on effects of rate increases.

The combined effect of all of the above has seen investors revise expectations about where interest rates will peak. Just a few weeks ago the midpoint for consensus in the US was nearly 5.7%. Rates are now set to peak at more like 5 or 5.25%, with cuts before possible as soon as June. A similar retrenchment has happened in the UK.

This change in expectations has moved the dial in the bond market. We have been more enthusiastic about gilts recently. Yields have fallen, pushing prices up, but we still think that bond yields – across the entire credit spectrum – are quite attractive relative to where inflation rates are likely to have fallen to over the next twelve months. If, for example, the Bank of England is right in its prediction of sub-2% inflation in 2024, then gilts yields of around 3.5% strike us as having a certain appeal, unfashionable though that is.

We cannot mention U-turns, swivels or pivots without touching on China. Towards the end of last year, it became apparent that the growing civil unrest in the People's Republic meant that either President Xi had to go, or else his policy of zero tolerance to Covid had to. And so China has ditched 'zero-Covid' and has begun to operate its economy more normally. In many ways this will be highly beneficial to the global economy. Supply shortages have already started to ease as factories and ports operate without restriction, and domestic consumption will also start to rise again. The new official forecast of 5% growth in 2023 is very cleverly pitched. Anything lower would have been met as a sign of prolonged trouble, anything higher would have been disbelieved.

There are of course risks around. Inflation remains unusually high and monetary policy has already tightened considerably. Both put economic growth at risk, especially in the United States. China may have reopened its economy, but its relationship with much of the West, especially concerning technology, is tense and shows few signs of easing. Ukraine and Russia remain at war, with a spring offensive likely from both sides after a long winter of attrition. A nuclear escalation remains an unpleasant possibility.

Nonetheless, the issues that so scared markets in 2022 have largely passed. Inflation will be on a downwards trend. Interest rates should be very close to peak levels. Global trade routes have reopened and supply channels have eased. The war in Ukraine is no longer seen as threatening global food supplies. The US dollar has unwound most of last year's painful rise. The UK is unlikely to have more than one prime minister this year.

In short, our central expectation is for progress over the year, although we acknowledge that the prevailing uncertainty could bring some volatility.

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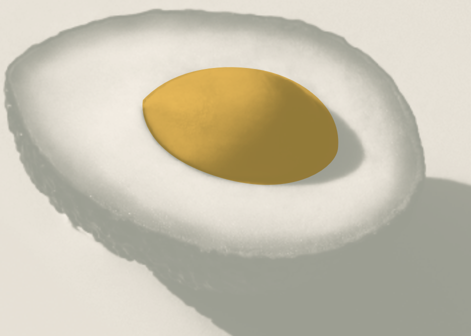
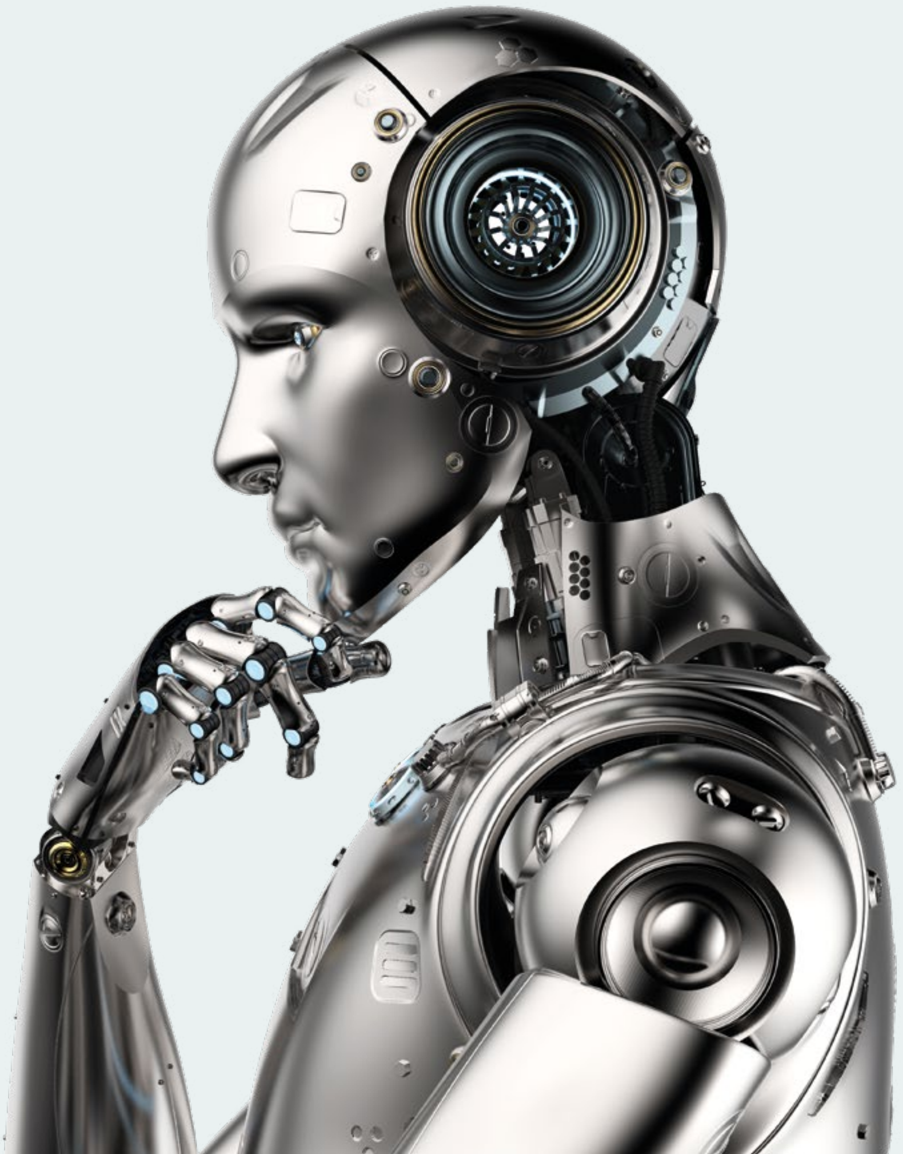
Rishi Sunak has promised that he will halve inflation



NEXT GEN
CHATGPT
RISE OF THE MACHINES?

Edward Smith
Assistant Investment Manager



One of the biggest news stories of 2023 so far, has been the explosion of Artificial Intelligence (AI). In particular, a piece of software that was recently launched into the public domain called 'ChatGPT'.

To keep things simple, ChatGPT is a piece of software that uses Artificial Intelligence in the form of a 'chatbot' that you can converse with. You can ask it just about anything. Powered by vast amounts of data and language models, it will provide you with some rather astonishing responses to your questions, in a matter of seconds.

Type 'can you write me a fairytale that would take me around 5 minutes to read to my children' into the search bar and within seconds it will write one for you. 'Design me a meal plan for a vegetarian consuming 2000kcals per day, excluding broccoli' – it will immediately produce a meal plan right there and then, with no broccoli in sight. Need the ingredients and quantities for those meals once it has finished? Just ask and you'll have those as well, faster than you can say "how is this possible?". It will write code for computers, or poetry, and has even been rumoured to have passed some very high-level examination papers. It really is quite remarkable to watch it in action.

This clearly raises some obvious questions for our industry. "Doesn't that make me redundant?" being the obvious one, for starters. If ChatGPT, or an equivalent program, can answer questions about capital gains tax, investments, company valuations, or economic data, is it time for me to find another job?...

The short and concise answer is no. Absolutely not.

Firstly, and very importantly, ChatGPT is not faultless – it makes mistakes. And it does so with a great deal of confidence sometimes, which is even more concerning. Now, of course, we can also make mistakes, but the circumstances are worlds apart. ChatGPT isn't regulated by the FCA, it has no compliance department or senior management in place. You can't complain or claim compensation from the Financial Ombudsman if it gets something wrong. You won't even get an apology.

Secondly, ChatGPT has some glaring limitations. It cannot understand complex financial circumstances or replicate the nuances of managing a portfolio of investments in varied market conditions, consistently, over long periods of time. It lacks the broader 'out of the box' thinking, creativity, knowledge, and regulatory understanding that comes with decades of experience on this subject.

The truth is that anyone can use a search engine to find answers to their questions. They do every day. But people still choose to use a Personal Trainer instead of Google or YouTube videos to get fit. People still choose to use an accountant rather than search forums and websites for the data to put on their tax returns. People still see a therapist rather than read through websites searching for peer-reviewed research and psychology papers. Which leads me on to my final point:

ChatGPT isn't human, nor will it ever be. A discretionary investment management service from Hawksmoor is completely bespoke and tailored to you. Through life's ups and downs as well as the financial markets. We often manage money for generations of the same families and develop relationships with our clients that can't ever be replicated by a machine. That is the truth.

AI, in time, will help develop into tools that will help **assist** us in what we do for our clients, not replace us…

…Unless, of course, this article was written by ChatGPT and I'm already looking for another job!

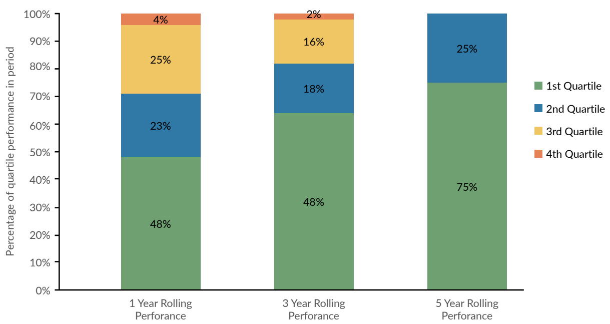
Doesn't that make me redundant?

FUND IN FOCUS

FOURTEEN YEARS YOUNG

Dan Cartridge
Assistant Fund Manager

Our Hawksmoor Vanbrugh Fund celebrated its 14th anniversary on 18th February. Whilst 14 is not seen as a big birthday in the asset management industry (where the only birthdays that count are 3 and 5 years after launch, as many investors screen performance using these time frames), there are few funds out of the thousands in existence today which have been around for as long as our Vanbrugh Fund. That in and of itself isn't a reason to celebrate, but as we look back over the years, we are proud of the journey the team has been on, the relationships we have built with our client base, and the performance that has been generated. We have consistently achieved the minimum objective of any investor, that has acted as the guiding star for everything we have done since day one: delivering positive returns after the impact of inflation, taxes, and all charges. UK prices as measured by the Consumer Price Index have risen 49% since Vanbrugh launched. Vanbrugh has returned 206% net of all charges (18/02/2009 to 17/02/2023) and is the number one performing fund in its sector since launch, achieving that performance with the seventh lowest volatility of the 61 funds, that have been around that long in the IA Mixed Investment 20-60% Shares Sector.

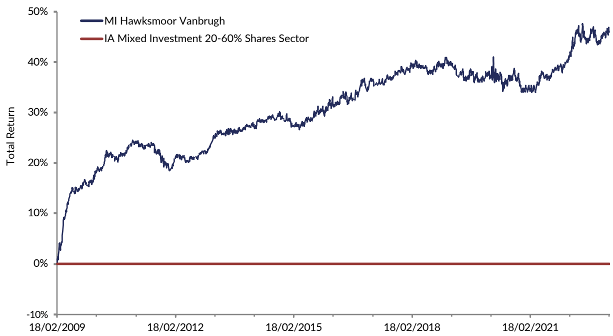


Source: **FE fundinfo, quarterly from 31/03/2009 to 31/12/2022.**
Relative to IA Mixed Investment 20-60% Shares Sector.
May not sum to 100% due to rounding error.

> *Few funds have been around for as long as our Vanbrugh Fund*

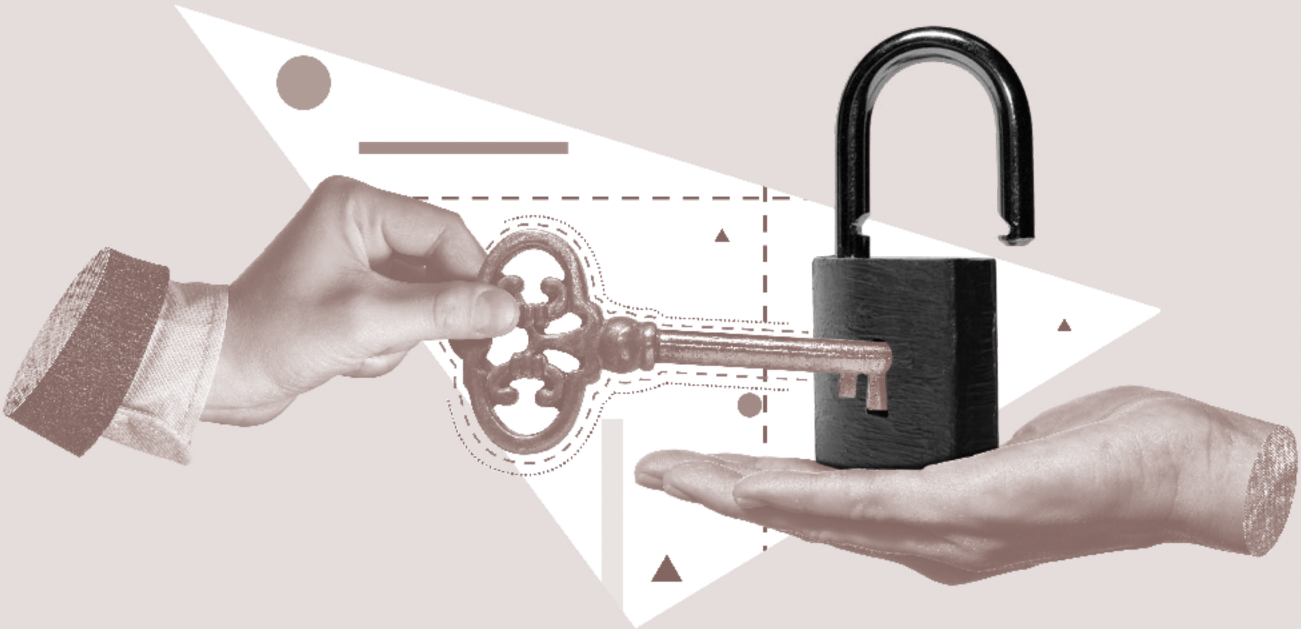
Vanbrugh's performance since launch has not been dominated by one excellent year that makes the cumulative number since launch look great, but rather by consistently being near the top of the sector over five-year periods. To quarter ends, Vanbrugh has always delivered 1st or 2nd quartile performance over every rolling 5-year period.

But what about investors who haven't put money in at a quarter end five or more years ago? The following is a relative performance chart looking at Vanbrugh compared to its sector since launch. It is consistently upward sloping – meaning consistent outperformance over time. Digging more deeply into the numbers what we find is that **for any investor, regardless of the day they invested in Vanbrugh, if they held the Fund for any five-year period through its history (or have currently held Vanbrugh for five or more years) they would have enjoyed sector beating performance net of all costs.**



Source: **FE fundinfo, 18/02/2009 to 17/02/2023.**

Our job as fund managers is to ensure each of the three funds we manage are positioned to perform from today, every day. Investors in our Funds, which includes all the fund managers, as well as our families, friends, and colleagues should expect nothing less from us. We are looking forward to the next 14 years with the same energy and enthusiasm as the day that Vanbrugh was born all the way back in 2009.



DEAR HAWKSMOOR...

I am a trustee and have a trust managed by Hawksmoor. I have heard mention of the Trust Registration Service (TRS). Is this something I need to be aware of?

As this is not really investment related, I was not sure whether to attempt to answer this question. However, given the unfriendly nature of markets currently, it is nice to have a non-investment distraction and, as quite a few of our clients are trustees, it is pertinent to this newsletter. There is the important caveat that neither I nor Hawksmoor are legally qualified nor a trust practitioner to provide the definitive answers to this complex subject. This article therefore merely serves to provide some guidance and pointers. If you believe you are affected by this matter and have any questions, please seek the advice of a solicitor or other trust specialist qualified to deal with such matters.

I will start with the background to the TRS. The purpose of the TRS is to help the authorities (those with a 'legitimate interest') identify the ultimate beneficiaries of the trust as well as all parties connected with it. It was first introduced across the EU in 2017 by the Fourth Money Laundering Directive (4MLD) with the laudable aim of combatting money laundering and the financing of terrorism. Under this legislation, any trust paying income tax, capital gains tax, stamp duty land tax, stamp duty reserve tax, or inheritance tax was required to register via the HMRC. Trustees filing a tax return for the trust and obtaining a Unique Taxpayer Reference (UTR) for the trust will have fulfilled their obligation.

However, nothing ever stays still with legislation and, lo and behold, the Fifth Money Laundering Directive followed hot on the heels of 4MLD and was implemented in January 2020. This broadened the scope of the TRS to non-taxable trusts. Such non-taxable trusts that were in existence on

6th October 2020 (and, importantly, even if they have been subsequently wound up or dissolved) must now register. The deadline for registering these additional trusts was 1st September 2022 and it is the

> *…any trust paying income tax, capital gains tax, stamp duty land tax, stamp duty reserve tax, or inheritance tax was required to register via the HMRC*

responsibility of the lead trustee (or an agent classed as an 'accountancy services operator' appointed by the trustees) to do so. For example, Hawksmoor Investment Management cannot register on behalf of the trustees. All new trusts established since September 2022 have 90 days within the date of establishment to register.

The many different types of complex trusts that may be affected by this new requirement is beyond both the scope of this article and my knowledge. Therefore, to reiterate my point above, if you have any questions, do please check with a specialist in this field. However, some of the more common examples of trusts that- we believe are affected include Will Trusts (those established by the Will of the deceased) unless the benefits were distributed within two years of death, complex estates if a trust and estate return is required (broadly speaking if the estate if greater than £2.5m) and trusts set up for minors (commonly called bare trusts). The last example is particularly important. Initially, there was some confusion as to whether bare trusts were in scope of the legislation as, technically, they are not trusts. After some delay, HMRC clarified that bare trusts are indeed affected by this legislation. As these trusts do not often involve professional trustees (they are commonly set up by the grandparents of the minor), it is these trusts that are most likely to have overlooked this TRS requirement.

Our understanding is that some trusts remain exempt from the TRS requirements, such a life policy trusts which only pay out on death, terminal or critical illness or those trusts classed as "bereaved minor" or "disabled person's trusts". UK registered pension schemes and Junior ISAs (and their predecessors, Child Trust Funds) are other important exemptions.

The details that are required are comprehensive and include: the UTR; date of establishment; full details of all trustees, settlor(s), beneficiaries and value of assets held within the trust. Once the registration is complete, the trust will be given a 'Proof of Registration' document.

Although the deadline has passed for existing trusts, do not panic if the lead trustee has yet to register the trust. It is our understanding that HMRC are showing leniency providing the avoidance of this was not deliberate and simply an oversight. Some trusts of which HMRC are aware will receive an initial letter prompting the lead trustee to register if they have not yet done so. As a lead trustee, you should not assume the trust is exempt if you have not received such a letter. If the lead trustee fails to register on the TRS and HMRC considers the reason as being deliberate, the penalty could be as much as £5,000. The same penalty will also apply if the lead trustee fails to keep the register up to date. To start the registration process, go to the website https://www.gov.uk/guidance/register-a-trust-as-a-trustee

As you can see, the penalties for deliberate avoidance are draconian so, if you think you are affected, either start the registration process or contact a suitably qualified specialist to help you with the procedure.

Greg Sellers, *Senior Investment Manager*

SPOTLIGHT ON...
Worcester

As the doors of our new Worcester office open, we had the pleasure of sitting down with Senior Investment Manager and Head of Office Adam Martyn-Smith, Investment Manager Adele Relihan, and Investment Team Assistant Karen Edwards to gain insight into their experiences at Hawksmoor thus far.

How (or why) did you become an Investment Manager?

Adam: After dabbling in Stocks and Shares, in 1987 I was asked to help out an Uncle who was a broker. After 8 weeks I was asked if I wanted a job full time. A good number of exams later and I was qualified.

Adele: Quite by accident! I was in the right place at the right time and have never looked back. I enjoy helping clients achieve their financial goals and find it very rewarding. Wealth management was never really on my radar as a career option, but I am very glad I stumbled across it during my "year out" working as an office junior for Harris Allday.

If you didn't work in Investment Management, are there any other career paths you might have followed?

Adam: Prior to the offer to help out an Uncle I worked in the building trade and was for a time a qualified JCB operator.

Adele: I always wanted to be a newsreader! So perhaps journalism may have been an option.

What excites you the most about working with Hawksmoor?

Adam: Working for a progressive company is refreshing. It is less about me and more about Hawksmoor with everyone pulling in the same direction. The sense that there is so much more to come.

Adele: Being part of a friendly, supportive, growing business that genuinely seems to care about clients and employees.

What do you think makes the office/team unique compared to others?

Adam: Stability and an in depth knowledge of client's needs and personalities. I have worked with Tammy for over 30 years and Adele for over 20. Karen is the newcomer having only been part of the team for 8 years! We know our client's and keep in regular contact being on Christian name terms with most. I believe we are seen as trusted and as having integrity.

What are you looking forward to in the upcoming year?

Karen: I'm looking forward to the Hawksmoor Summer Party, it will be lovely to see everyone from Exeter again after our induction last year. Outside of work I have some big birthdays coming up in the family next year, my daughters turn 18 and 21, and I may also celebrate a large birthday.

Adele: I'm looking forward to reconnecting with existing clients and bringing new ones on board, making the most of every opportunity to grow and develop our new office in Worcester to make it the success we know it can be.

What is the best advice you've ever received?

Karen: Things change.

Adele: Accept what you can't change.

Adam: Don't hit the 'send' button until you've slept on it! Be honest and acknowledge you don't know everything.

How do you recharge your batteries outside of work?

Karen: We have a rather weighty and very costly Blue Merle Collie called Skye at home. Despite coming from a sheep dog training farm there is no way she would have survived farm life. So far she has had a cruciate ligament replacement and is on life long meds for epilepsy. Despite all this she is such a fuss pot and loves going for walks.

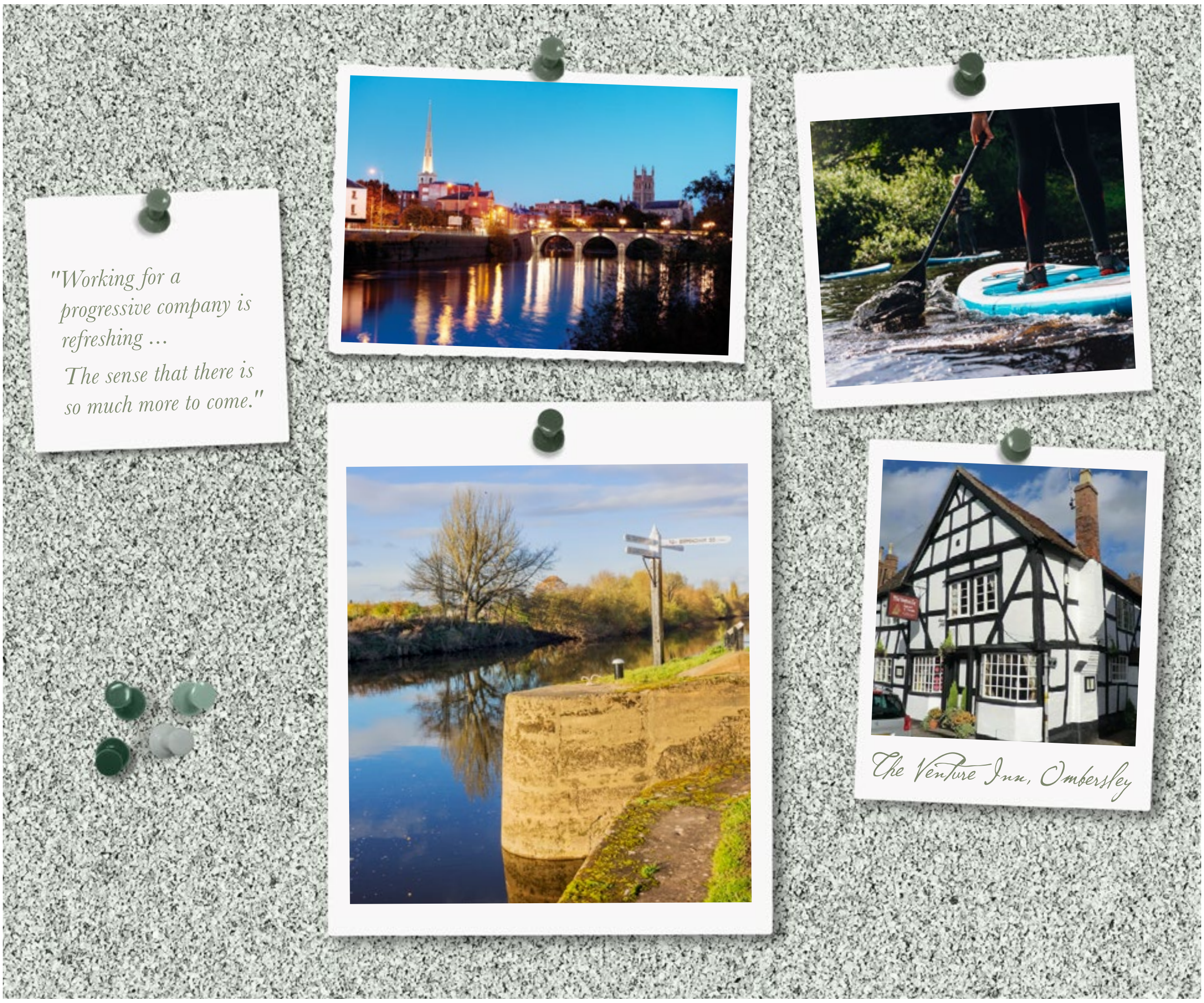
Adam: Watching or playing sport. Sitting on my vintage tractor towing various machinery. Visiting Abersoch where you will find me playing golf, paddleboarding (spending most of my time in the sea) or on my boat.

SPOTLIGHT ON...
WORCESTER

Great place to eat or drink:
The Venture Inn, Ombersley.

Favourite outdoor space:
Walks along the banks of the River Severn.

Hidden gem:
The Quayside (Stourport on Severn) - Thursday and Fridays only.



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