# Hawksmoor Distribution Fund

Multi Asset Universe DNA Icon Glossary

## Multi Asset DNA Report

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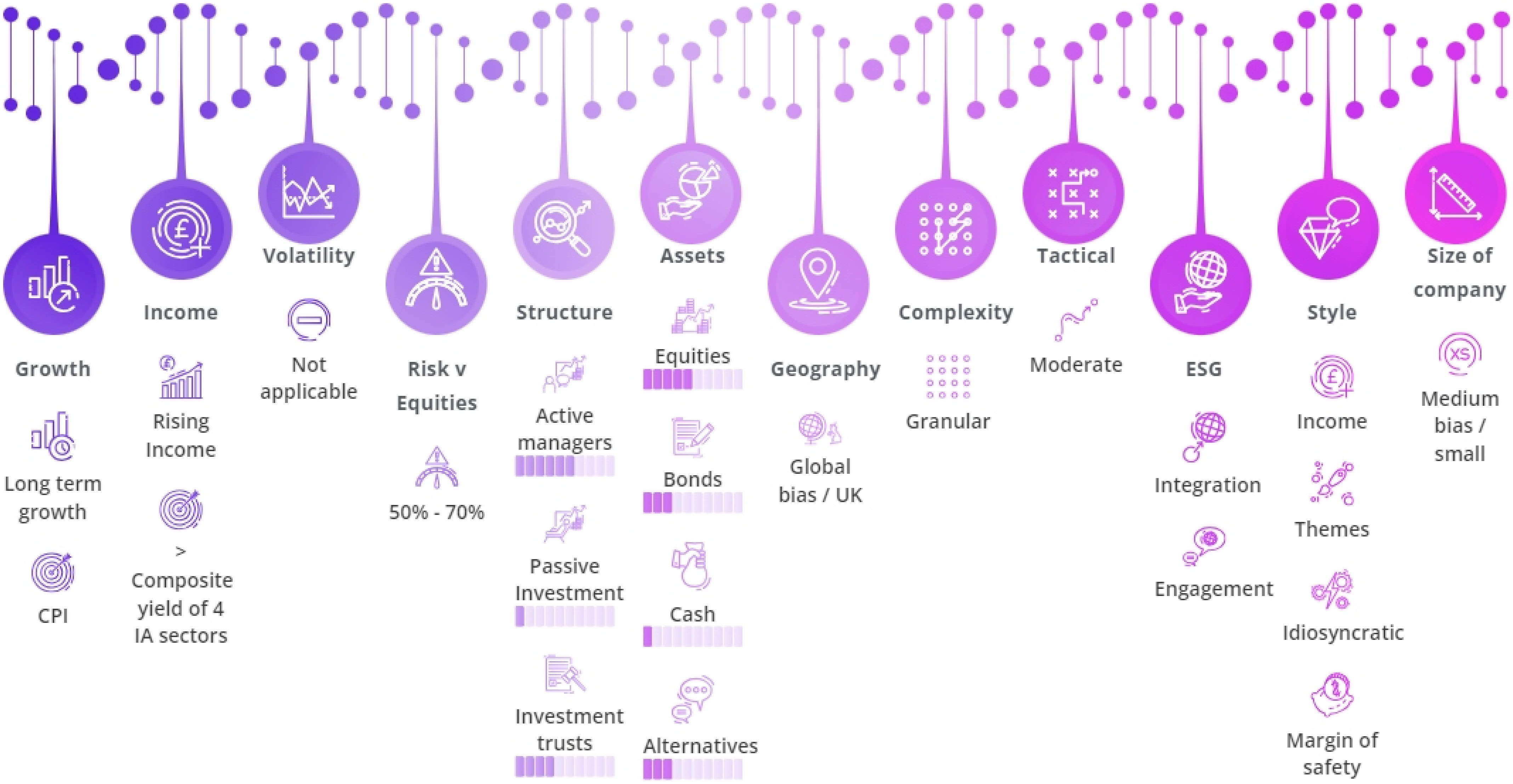

Growth
Long term growth
CPI
Income
Rising Income
> Composite yield of 4 IA sectors
Volatility
Not applicable
Risk v Equities
50% - 70%
Structure
Active managers
Passive Investment
Investment trusts
Assets
Equities
Bonds
Cash
Alternatives
Geography
Global bias / UK
Complexity
Granular
Tactical
Moderate
ESG
Integration
Engagement
Style
Income
Themes
Idiosyncratic
Margin of safety
Size of company
Medium bias / small

The above depiction of the portfolio’s DNA is based upon its embedded biases as identified by Scopic Research. It isn’t meant to reflect the portfolio’s current positioning, but rather what we might expect on average over the long term.

# Outcome

## Key notes

- Seeks to protect investors' income and capital from the effects of inflation.
- One of relatively few 'rising income' strategy portfolios to reside in the IA Mixed Investment 40% – 85% shares sector.
- Income distributions are expected to rise over time for existing investors and are paid quarterly.

## Details

This is a global multi-asset income portfolio managed by experienced investment trust and open-ended fund specialists and one of only a few portfolios that follow this strategy to reside in the IA Mixed Investment 40% – 85% shares sector.

The aim is to deliver a quarterly income stream that rises over the long term for existing investors, whilst at the same time to increase the portfolio's capital base above the rate of the UK Consumer Prices Index (CPI). In effect, to protect investors' capital and income from the effects of inflation.

The starting income yield is targeted to exceed the average yield from a composite of assets calculated as 20% of the yield from each of the following IA sectors: UK Equity Income, Global Equity Income, UK Direct Property, Strategic Bond, and Money Market.

Unlike some, income is paid naturally from the underlying assets and distribution payments are not equalised during a single accounting year period.

The time horizon for achieving the strategy is over 3 to 5 year rolling periods.

## Targets

### Growth

Long term growth

Target

**CPI**

### Income

Rising Income

Target

**> Composite yield of 4 IA sectors**

### Volatility

Not applicable

## Costs

**Ongoing charges 1.94%**

**Transactional costs 0.25%**

**Total costs 2.19%**

Hawksmoor portfolio costs may appear high, but we strongly believe this merits closer examination. Please therefore consider below:

Investment trusts are used to a far greater extent in Hawksmoor portfolios than by many peers – with exposure of up to 40% or so not uncommon when REITS are included. With effect from 2022 guidance from the Investment Association (IA) states that charges incurred by investment trusts should now be included in a fund of fund's OCF. Therefore, the OCF for a fund of fund that invests in investment trusts now appears larger than previously.

We note that some of the investment trusts that Hawksmoor invests in may have very similar business models to operating companies that aren't constituted as investment trusts and where charges incurred in running them don't have to be disclosed. One might argue that this isn't a level playing field.

In addition, the charges incurred by investment trusts must be calculated as a percentage of the net asset value (the value of a trust's underlying assets) and not the share price. This means that charges appear larger when a trust's shares trade at a discount to its net asset value. Many of the investment trusts that Hawksmoor invests in are likely to trade at a discount and indeed this may add to the appeal of investing in them in the first place.

Finally, some peers who also invest in investment trusts currently interpret the IA guidance differently and don't always fully disclose the associated charges – potentially making their portfolios' OCFs appear smaller by comparison. We would argue that it's always better to be transparent.

# Investment Journey

## Key notes

- Exposure to high active share managers improves the chances of outperforming larger capitalised as well as predominately passive-invested peers when investment fundamentals are recognised by investors.
- Conversely, when investment fundamentals are dismissed by investors during falling markets, assets viewed by the team as being cheap, may temporarily become cheaper still.
- The search for a ‘margin of safety’ in choosing investments means that the portfolio is likely to lag during periods of strong momentum-driven markets led by assets viewed by the team as being expensive.
- More likely to outperform income distributing peers that reside in the IA Mixed Investment 20% – 60% Shares sector during more optimistic equity markets and to underperform them when cash and bonds beat equities.
- Total returns are likely to be buoyed when investors favour income and value strategies, although other factors may override this.
- Income distributions are expected to rise over the longer term for existing investors.
- Some investment trust holdings have idiosyncratic drivers of returns. These holdings play an important role in determining the portfolio’s own investment journey and are unlikely to perform in line with traditional equity and bond markets.
- The chances of outperforming more traditional mixed asset peers is likely to improve during periods when the returns from idiosyncratic investment trust exposures outperform those from traditional bond markets.

## Risks

### Risk v Equities

50% – 70%

### Counterparty Risk

Low High

### Liquidity Risk

Low High

# Suitability

## Key notes

**For investors who:**

- **Would like the potential for a rising stream of income over the longer term.**
- **Do not rely on a predictable level of income.**
- **Are prepared to look through the portfolio’s relatively high headline expenses and to appreciate that investments are made in assets perceived to be trading below their intrinsic value – in particular, investment trusts trading at a discount to their net asset values. (The high expense v cheap assets conundrum).**
- **Are willing to invest substantially, although by no means exclusively, in investment trusts.**
- **Are willing to have substantial exposure to less-traditional equity and bond-type investments.**
- **Are willing to accept some liquidity risk and have a patient attitude towards investing.**
- **Would like a differentiated portfolio.**

These are only potential suitability suggestions for financial intermediaries to consider alongside other factors. They are not personalised and sole responsibility for client suitability rests with the financial intermediary.

# Investment Scope

## Key notes

- Invests globally and overwhelmingly in high active share, high conviction, often smaller sized funds.
- Demonstrates a strong bias towards income generating investments.
- Offers substantial exposure to investment trusts – although by no means exclusively – at times up to 40% or so.
- The breadth of asset classes and sub asset classes used is broad and the investment palette is more granular than some.
- Underlying fund exposures can include more traditional equity and bond markets, private equity, resources and commodities, single industry equity and single sector credit strategies, real assets – such as infrastructure and specialist REITS – royalties, energy storage, asset backed securities, specialist debt, and direct lending vehicles.

## Details

Exposure is multi-asset with investments across equities, bonds, real assets, and cash, accessed almost exclusively using third party active managers in onshore and offshore open-ended funds and investment trusts.

Investment trusts are used to a far greater extent than in many peer group portfolios – with exposure of 40% or more of the portfolio's weight not uncommon when REITS are included. Geared trusts can also be used.

Exchange traded funds (ETFs) are also in scope but the likelihood of using them is slim. Instead, accessing physical gold via an exchange traded commodity fund (ETC) is more likely when deemed appropriate.

Derivatives are permitted for efficient portfolio management (EPM) purposes, but in practice they are not employed – with the team preferring to offer a more straightforward portfolio. FX forward contracts aren't used either although strong currency views are occasionally expressed by investing in funds with hedged share classes.

Open-ended property funds aren't permitted in a UCITS structured fund like this one. Structured investments are also avoided.

The breadth of asset classes and sub asset classes used is broad and the investment palette is more granular than some. That said, this is not a particularly complex portfolio. Overall, there's a strong bias towards income generating investments.

Equity exposure can vary between 40% and 85% and covers traditional regional equity market exposures, as well as single country, smaller company and global industry specific funds. Commodity related equity funds, private equity and global convertible bond funds are also all classified within equities.

Real assets exposure can be substantial when compared to some more traditional peers, and this can include a diverse range of specialist, single industry REITS, as well as commercial property, infrastructure and royalty trusts and other income bearing strategies such as asset backed securities.

There is no minimum requirement for exposure to cash and bonds given that the portfolio resides in the IA Mixed Investment 40% – 85% shares sector. Here holdings can include all parts of the debt spectrum, as well as specialist direct lending, single industry sector credit and other bond strategies. Cash is not employed tactically, and the tendency is to be near fully invested.

Although Investment Association rules dictate that at least 50% of the portfolio must held in established market currencies (US Dollar, Sterling & Euro) the team imposes its own minimum 50% exposure to GBP sterling.

# Approach

## Key notes

- The approach is predominantly long term and strategic – based upon a series of interwoven investment themes – and supplemented by tactical asset allocation mainly at the underlying fund and sub asset class levels.
- Pursues a less prescriptive and more flexible approach than some, with underlying fund selection arguably playing a more significant role.
- The team can be more tolerant of downside risk and temporary periods of underperformance when compared to some.
- Downside protection is more dependent upon identifying lowly valued asset classes and themes and exploiting pricing anomalies and corporate activity in investment trusts – to provide a 'margin of safety'.
- The income yield objective being linked to a composite of five IA income-oriented sectors means that so far there has been no need to sacrifice the income yield objective to defend capital.
- No absolute requirement to invest in bonds and cash and the preference to date has instead led to greater exposure being awarded to equities and alternative-type assets.
- Equity holdings exhibit a mix of larger and medium sized companies.
- Investment styles are blended but we note a bias towards value and income.
- The idiosyncratic nature of some investment trust holdings, the larger allocation afforded to investments trusts generally, and greater exposure to smaller sized, more nimble funds, all leads to a differentiated portfolio.

## Details

The perspective is global and longer term, whilst still being conscious of downside risk. There is no benchmark to guide asset allocation decisions and asset classes can be varied within the parameters set by IA Mixed Investment 40% – 85% Shares sector limits. The approach is predominantly long term and strategic – based upon a series of interwoven investment themes and supplemented by tactical asset allocation mainly at the underlying fund and sub asset class levels. Exposure to active managers is strongly emphasised with performance being driven by a combination of asset allocation and fund selection. The investment style typically shows a bias towards value and although there are times when style exposures can become more blended, the idiosyncratic nature of some investment trust holdings also has a strong bearing on the type of investment journey we might expect.

Residing in the IA Mixed Investment 40% – 85% Shares sector is a key differentiator since most income distributing peers sit in the IA Mixed Investment 20% – 60% Shares sector. Consequently, there is no absolute requirement to invest in bonds and cash and the co-managers' preferences to date has instead led to greater exposure being awarded to equities and alternative-type assets by comparison – although we concede that this might not always be the case. In further contrast to many income distributing peers, investment trusts can comprise a significant proportion of the portfolio's weight – typically up to 40% since launch – and their use isn't simply confined to accessing less-liquid strategies as is the case with others.

The income yield objective being linked to a composite of five IA income-oriented sectors rather than expressed as a fixed percentage yield target, means that so far there has been no need to sacrifice the income yield objective to defend capital.

Themes uncovered during meetings with external fund managers, together with access to external sources of economic research such as; Absolute Return Strategy, Pantheon Macro-Economics and the Fred Hickey Newsletter, and the team's analysis of market valuations, help to frame views on; individual regional equity markets, government and corporate bonds, property and commodity markets, private equity, currencies and cash. Findings are then summarised in a quarterly asset allocation document that forms the starting point for all strategic asset allocation decisions. The result is an interweaving of longer-term themes to form a strategic top-down core of open ended and closed ended funds, but with closed ended funds also used for less liquid asset classes, like property, infrastructure, peer to peer lending, specialist debt, royalties, emerging market equities and private equity. Within the strategic core, regional equity markets can be zero weighted, no single theme tends to dominate, turnover is low, and changes tend to be implemented incrementally over time.

The strategic core is then overlaid with tactical positions from a bottom-up perspective that seek to exploit shorter term inefficiencies in investment trust pricing – where a catalyst for change has been identified. For example, special situations involving corporate activity such as share buy backs and wind ups that might lead to a narrowing in a trust's discount to its net asset value. Here patterns of return tend to be idiosyncratic and less dependent upon the direction of traditional markets.

Primary asset classes are therefore held more strategically, and tactical activity is greater at the regional and sub asset class levels, with (market sensitivity) beta also being adjusted at the underlying fund level to match with the team's market outlook.

As befits the patient, longer term approach within the strategic core, cash isn't used tactically, the general tendency is to be near fully invested and derivatives, which might otherwise be used to manage downside risk, aren't employed. Consequently, downside protection is more dependent on identifying lowly valued asset classes and themes and exploiting pricing anomalies and corporate activity in investment trusts – to provide a 'margin of safety' – and by incorporating absolute return, less well correlated and lower beta strategies at times of market stress.

Holdings span both regionally specific as well as global and single industry sector funds. Single country emerging market exposure is also evident. There is no waterfront research coverage of the funds' universe and fund selection is overwhelmingly qualitative-based – leveraging from meetings with fund managers the majority of whom tend to be UK based. Rather than being used as a screening or filtering tool, quantitative analysis is largely used for understanding patterns of performance and for scenario modelling by testing a fund's potential contribution to returns in falling market conditions prior to including it in the portfolio. To help diversify sources of risk during times of market stress, correlation analysis is also used to identify combinations of less well correlated holdings.

Overall, the emphasis is firmly on identifying active managers who offer exposure to different sources of alpha. Investment styles are then blended – although on balance we note a bias towards value and income styles. Typically, at least two funds are employed to articulate a single theme – thereby helping to dilute manager specific risk.

On balance, we note a preference for smaller, more nimble funds and for avoiding larger, potentially more illiquid ones. This chimes with the portfolio's own bias towards a mix of larger and medium sized underlying companies within its equity holdings and contrasts with the larger capitalisation bias we generally see elsewhere.

Holdings are subsequently combined in a portfolio of between 40 and 50 positions with a maximum weight each of 10% and up to 20% in a single fund group. Unlike some, there are no specified target weights and holding weights are therefore not rebalanced automatically – with the team preferring to retain control over position sizes and the ability to add positive inflows to preferred themes.

The approach is patient – with temporary periods of underperformance tolerated, provided the reasons for it are understood and the rationale for maintaining exposure remains intact. Top slicing is then used to lower exposure to more potentially more volatile holdings as market valuations become richer – potentially limiting the extent of drawdown in the next downturn.

Overall, the approach is less prescriptive and more flexible than some, with underlying fund selection arguably playing a more significant role. The idiosyncratic nature of some investment trust holdings, the larger allocation afforded to investments trusts generally, and greater exposure to smaller sized, more nimble funds, all leads to a differentiated portfolio versus many peers. We expect this to be reflected in the investment journey relative to those peers seeking to achieve similar outcomes.

# Investment Journey in detail

## Details

The contrarian approach and search for a 'margin of safety' in choosing investments means that the portfolio is likely to lag during periods when investors dismiss the investment fundamentals the team relies upon to help formulate its decisions. It is therefore unlikely to keep pace during strong momentum-driven markets led by assets viewed by the team as being expensive – for example, in recent times – low yielding growth stocks and sovereign bonds, and in falling markets when assets viewed by the team as being cheap temporarily become even cheaper.

Downside protection is more dependent upon portfolio diversification, the inclusion of less well correlated assets and the embedded 'margin of safety' sought in holdings. As we explain later, the idiosyncratic nature of some investment trust holdings also helps in this respect.

The emphasis on high active share, high conviction managers, leads to an underlying investment mix of larger and medium sized companies within the portfolio's equity fund holdings. Such holdings are likely to improve the chances of outperforming larger capitalised as well as predominately passive-invested peers when market fundamentals are recognised by investors.

Holdings in investment trusts, many of which have idiosyncratic performance drivers linked to corporate activity at the trust level and industry-specific themes at the asset class level, play an important part in delivering the portfolio's performance. This sets it apart from others that don't have this type of exposure. There are times when some of these holdings can contribute positively during poor market conditions, and negatively during more optimistic conditions – and vice versa. The result is a differentiated portfolio versus many in the wider peer group.

The portfolio doesn't invest exclusively in investment trusts – far from it – but it is these investments that help to differentiate the portfolio. The chances of outperforming more traditional mixed asset peers is likely to improve during periods when the returns from idiosyncratic investment trust exposures outperform those from traditional bond markets.

Investors in investment trusts tend to delay their reactions to sudden market movements when it comes to changing their appetites for their shares. This has the potential to cause the portfolio's performance to lag initially following market inflection points – with the degree to which this occurs depending upon the extent to which investment trusts are held at the time. Thereafter, as the new phase in the cycle becomes more apparent, performance can prove particularly strong.

The investor base for some investment trusts is relatively narrow. In the event that these investors wish to sell, perhaps to realise cash to fund redemptions elsewhere in their portfolios during periods of market stress, then this can exacerbate the depth of drawdowns, despite the 'margin of safety' identified by the team. That said, depending upon the market backdrop, some investment trusts may not always be easy to sell. All things being equal, however, shares in these investments can rebound strongly once the period of market stress passes.

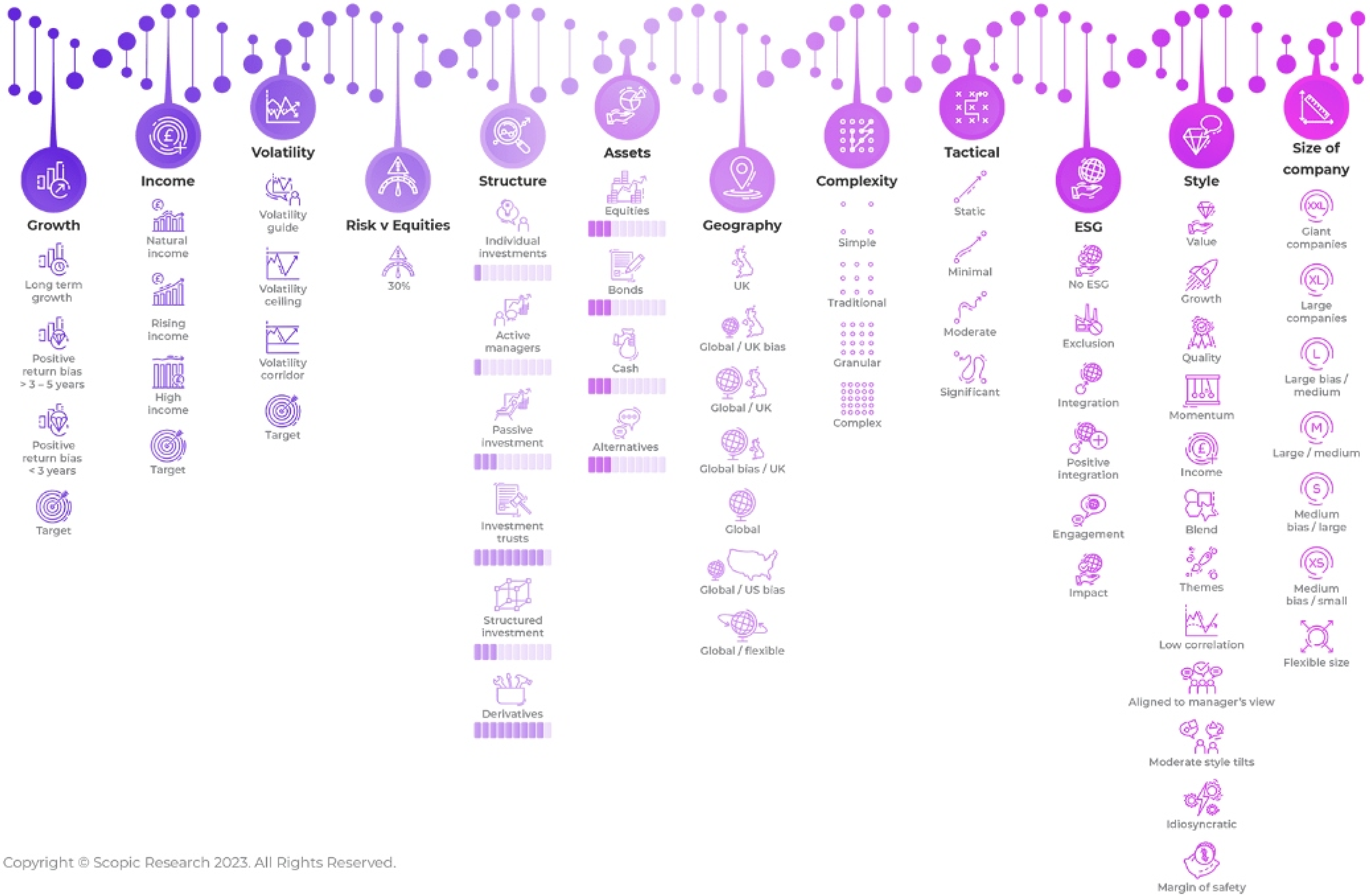
Residing in the IA Mixed Investment 40%-85% Shares sector means that the portfolio isn't compelled to invest in bonds and cash and is likely to have a higher allocation to equities when compared to those income distributing peers that mainly sit in the IA Mixed Investment 20%-60% Shares sector. Consequently, the portfolio is more likely to underperform these peers when cash and bonds beat equities and to outperform during more optimistic equity market conditions.

Having greater exposure to equities and growth assets, as opposed to fixed income assets, also improves the prospect of growing the income stream, rather than delivering a stable or variable income over time.

Finally, relative to others in the same IA sector, and in addition to the factors already mentioned above, the portfolio is likely to benefit from a tailwind to returns when investors strongly favour income strategies and value styles.

# Multi Asset Universe DNA

This represents the full pallet of DNA options for portfolios in the multi asset universe.


Growth
Long term growth
Positive return bias > 3 – 5 years
Positive return bias < 3 years
Target
Income
Natural income
Rising income
High income
Target
Volatility
Volatility guide
Volatility ceiling
Volatility corridor
Target
Risk v Equities
30%
Structure
Individual investments
Active managers
Passive investment
Investment trusts
Structured investment
Derivatives
Assets
Equities
Bonds
Cash
Alternatives
Geography
UK
Global / UK bias
Global / UK
Global bias / UK
Global
Global / US bias
Global / flexible
Complexity
Simple
Traditional
Granular
Complex
Tactical
Static
Minimal
Moderate
Significant
ESG
No ESG
Exclusion
Integration
Positive integration
Engagement
Impact
Style
Value
Growth
Quality
Momentum
Income
Blend
Themes
Low correlation
Aligned to manager's view
Moderate style tilts
Idiosyncratic
Margin of safety
Size of company
Giant companies
Large companies
Large bias / medium
Large / medium
Medium bias / large
Medium bias / small
Flexible size
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The DNA can have implications for client suitability and the likely investment journey. However, users of the report should be aware that portfolio managers can sometimes seek to negate or reduce the impact of embedded biases. If this happens then performance can be different from what we might otherwise expect.

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