Hawksmoor Global Opportunities Fund

Multi Asset Universe DNA Icon Glossary

Multi Asset DNA Report

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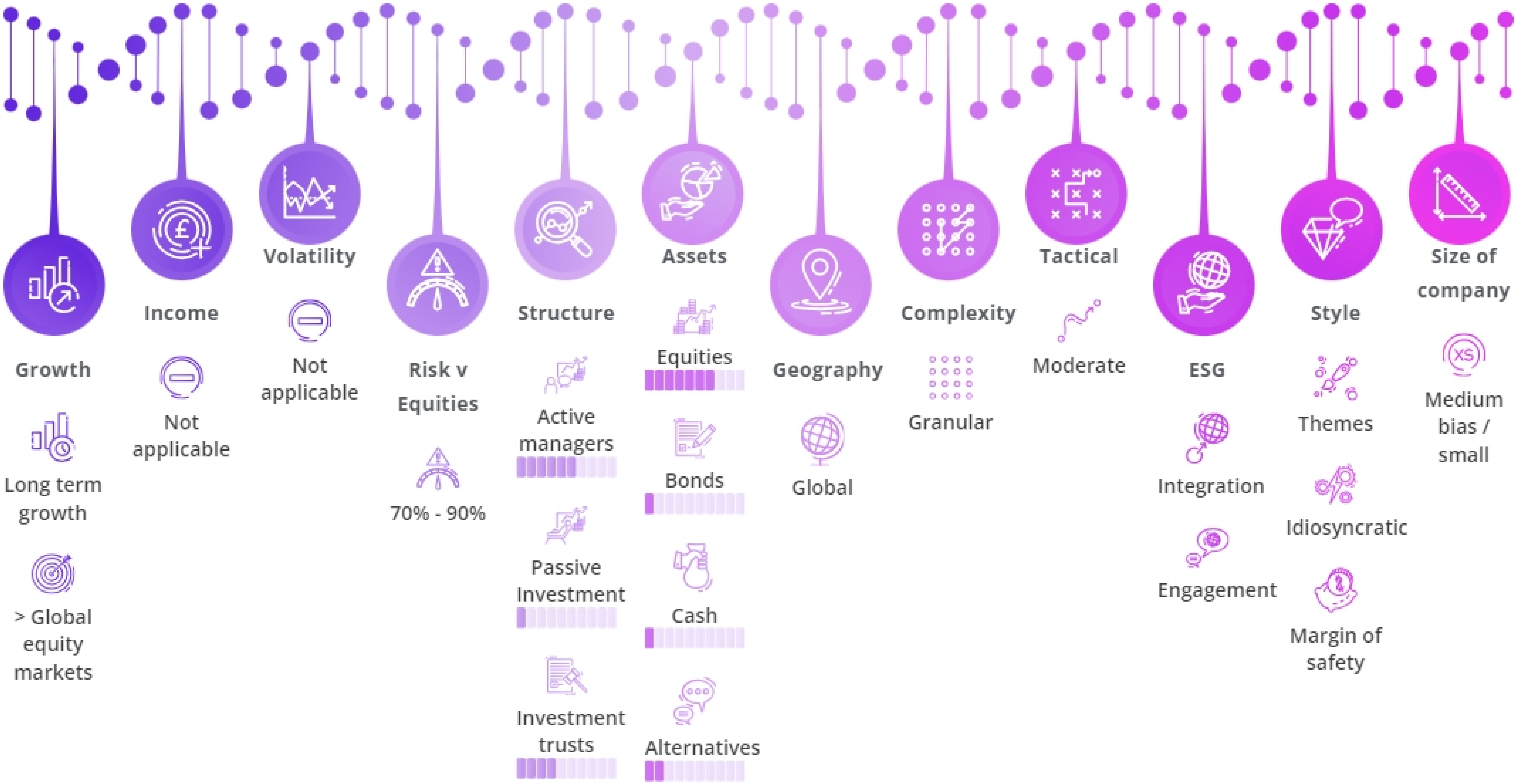


The above depiction of the portfolio's DNA is based upon its embedded biases as identified by Scopic Research. It isn't meant to reflect the portfolio's current positioning, but rather what we might expect on average over the long term.

Outcome

Key notes

- **Seeks to invest globally and thematically with a view to achieving greater returns than broader equity markets.**

Details

This is a globally oriented multi-asset portfolio managed by experienced investment trust and open-ended fund specialists. The aim is to deliver returns in excess of those from broader equity markets.

The perspective is global and thematic and although the portfolio managers are conscious of valuation risks, they can be tolerant of downside risk in the short term.

Whilst equities will always comprise more than 60% of the portfolio's weight, asset allocation decisions are otherwise unconstrained. There is no benchmark or prescriptive portfolio construction framework.

The time horizon for achieving the strategy is over a minimum of rolling 5 year periods.

Targets

Growth

Long term growth

Target

> Global equity markets

Income

Not applicable

Volatility

Not applicable

Costs

Ongoing charges 2.21%

Transactional costs 0.21%

Total costs 2.42%

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

- Themes may take some time to play out and exposure to developing market equities in particular can be high at times. Performance is likely to be strong when these factors are in favour.
- 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.
- The portfolio may lag initially following market inflection points. Thereafter, as the new phase in the cycle becomes more apparent, performance can prove particularly strong.
- 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.

Risks

Risk v Equities

70% – 90%

Counterparty Risk

Liquidity Risk

Suitability

Key notes

For investors who:

- **Would like to invest thematically, rather than solely in a traditional equity market portfolio.**
- **Are prepared to invest mainly in medium sized companies.**
- **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.**
- **Are willing to accept the possibility of a higher level of volatility between market inflection points when compared to global equity markets.**
- **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.**
- **Offers substantial exposure to investment trusts – although by no means exclusively so – 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, absolute return strategies, 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.

The minimum exposure to equities is 60% and this covers traditional regional equity markets, 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.

Alternative investments outside of the real assets arena can be wide ranging – including absolute return strategies, exposure to physical gold, and resources.

There is no minimum requirement for exposure to cash and bonds but in any case, the allocation is likely to be quite small. When employed, bonds can comprise any part of the debt spectrum – including specialist direct lending and single industry sector credit. Cash is not employed tactically, and the tendency is to be near fully invested.

There is also no requirement to hold a minimum percentage of the portfolio in 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'.
- Equity holdings exhibit a bias towards medium sized companies. Most peers invest chiefly in larger companies. Investment styles are blended.
- 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 asset allocation is unconstrained, with strong emphasis placed on investing in a series of longer-term interwoven investment themes. The investment style is therefore predominantly long term and strategic – supplemented by tactical asset allocation mainly at the sub asset class and underlying fund levels so as not to disturb exposure to long term themes. No attempt is made to time markets and the team is more tolerant of downside risk and temporary periods of underperformance when compared to some. Exposure to active share managers is strongly emphasised – with performance being driven by a combination of long-term thematic asset allocation and fund selection. Although investment styles are blended, the idiosyncratic nature of some investment trust holdings has a strong bearing on the type of investment journey we might expect.

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.

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, absolute return strategies, 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 is not used tactically, the general tendency is to be near fully invested and derivatives, which might otherwise be used to manage downside risk, are not 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'.

Holdings span regionally specific funds – with emphasis placed upon Asia, Japan, and emerging markets – 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 high active share managers, who run high conviction, concentrated portfolios that offer exposure to different sources of alpha. Investment styles are then blended – typically with at least two funds 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 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 approach to allocating assets to themes is patient and longer term and potentially less tactical when compared to some. These themes may take some time to play out and the consequent exposure to developing market equities can be high at times. Performance is likely to be strong when these factors are in favour with investors.

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 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.

The emphasis on high active share, high conviction managers, leads to a blend of predominantly medium sized companies within the portfolio's 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.

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.

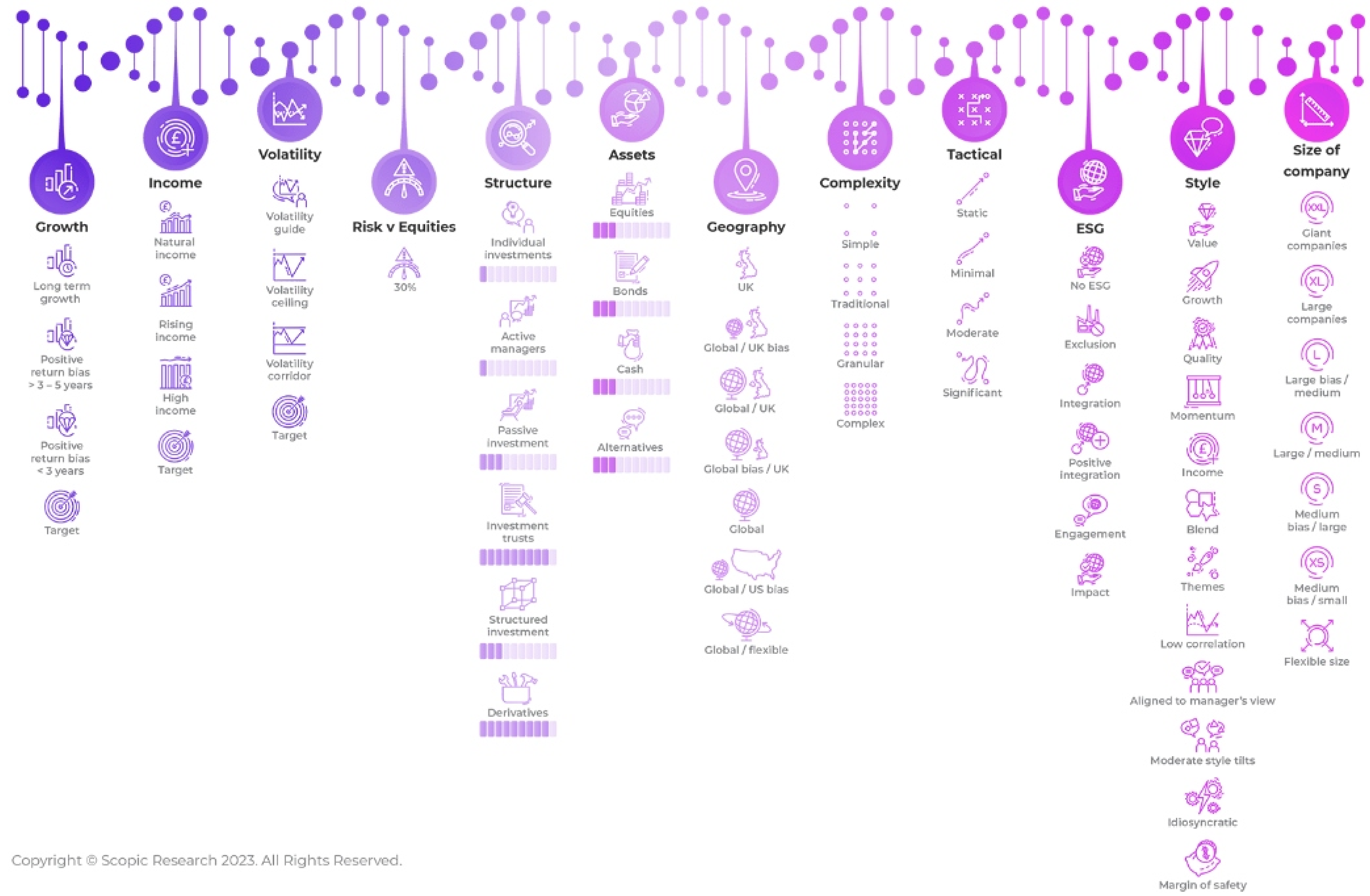
The investor base for some investment trusts is relatively narrow. In the event that these investors wish to sell, perhaps to realise cash to fund redemptions elsewhere in their portfolios during periods of market stress, then this can exacerbate the depth of drawdowns, despite the 'margin of safety' 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.

Taking all of the above into account, we might expect higher volatility between individual market inflection points when compared to broader equity markets and we should look for higher longer term returns to compensate for this. As a result, investors will need to adopt a longer term, more patient view.

Finally, in relation to those peers with greater exposure to GBP sterling, the bias towards holding overseas assets may prove a tailwind to returns in relative terms when GBP sterling weakens and conversely a headwind when it strengthens against other currencies.

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
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Global / UK bias
Global / UK
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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 depiction of the portfolio's unique DNA is based upon the portfolio's embedded biases as identified by Scopic Research. The DNA isn't meant to reflect the portfolio's current positioning, but rather what we might expect on average over the long term.

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.

The depiction of the DNA and the likely investment journey text in this report constitutes the best efforts of Scopic Research to guide intermediaries on what they might expect from a portfolio's performance in broad relative terms under different market conditions. However, it isn't a prediction of the strength of performance and can't be guaranteed.

The key notes shown in the suitability section of the report are merely for professional intermediaries to consider alongside other factors. They are not personalised and client suitability rests solely with the professional intermediary.

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