Hawksmoor Fund Managers – Investment Philosophy and Process

HAWKSMOOR
FUND MANAGERS

"For all long-term investors there is only one objective: maximum total real return after taxes"
Sir John Templeton

Hawksmoor Fund Managers offer three multi-asset Funds, **Vanbrugh, Distribution** and **Global Opportunities.** Whilst seeking to deliver different objectives and risk profiles, each is managed in accordance with the same investment process and philosophy. One that has been honed and consistently applied since The Vanbrugh Fund was launched back in 2009.

Investment Philosophy

Sir John Templeton, a pioneering and contrarian investor, is one of our investment heroes. The simple truth captured in his observation that "For all long-term investors there is only one objective: maximum total real return after taxes" stands the test of time but is increasingly at odds with an asset management industry that is often preoccupied with less client centric outcomes. An obsession with benchmarks, peer group comparisons and volatility can obfuscate the woods from the trees and result in custodians of client capital forgetting the true goals of their underlying investors. Delivering positive returns over the medium term (at least 3 years) after the impact of all costs, charges and inflation is our raison d'etre and John Templeton's wise words our guiding star, informing every decision we make and from which all other aspects of our investment philosophy and process flow.

Circle of competence

Amongst Warren Buffett's litany of wise words, the following particularly resonates with us. "Everybody's got a different circle of competence. The important thing is not how big the circle is. The important thing is staying inside the circle". We don't believe that we have any edge in forecasting the future, particularly when it comes to hard to predict economic variables such as inflation, GDP growth or monetary policy. In fact, we think it's hard for any investor to make these sorts of predictions accurately and consistently and more difficult still to successfully monetise these views in financial markets. As a result, we refuse to operate within the confines of a top-down asset allocation framework and avoid making big macro bets. Doing so would stray beyond our circle of competence. Instead, we build our portfolios from the bottom up and spend most of our time seeking out attractive individual investment opportunities which we then look to combine within sensibly diversified portfolios. We also seek to add value by identifying talented and well incentivised fund managers who we think have a high probability of outperforming their peers.

Margin of safety investing

Because the future is uncertain and because no fund manager has a crystal ball or 100% hit rate, we like to invest with a margin of safety, which typically draws us towards investments that look cheap relative to their intrinsic value. Owning assets that have a margin of safety via valuation support, helps minimise downside in instances where the investment thesis does not play out as expected, whilst supporting upside in cases where it does. Identifying investments with positively asymmetric, or convex return profiles results in a 'heads I win, tails I don't lose too badly' dynamic. Investing with a margin of safety, combined with highly diversified portfolios that are not reliant on any one particular economic scenario playing out, forms the foundation of our long term returns as well as the backbone of our approach to risk management.

Unconstrained

Risk and return prospects in financial markets are not static but change over time which is why we are highly sceptical of modern portfolio construction theory and its dangerous reliance on backward looking, historic measures of risk, correlation and return. In contrast, whilst acknowledging that valuation can be a poor market timing tool, we believe that the price paid for an investment is the key determinant of future returns and a major driver of future risk. Accepting that the risk and return dynamics of individual asset classes are in a constant state of flux highlights the dangers of static asset allocation and benchmark aware multi-asset solutions and informs our preference for an unconstrained, valuation led approach.

Size matters – big is not always beautiful

Our Funds are capacity constrained reflecting the belief that running too much money, whilst positive for corporate revenues, comes at the detriment of investor returns. Managing large pools of capital makes funds less nimble and less well placed to react to changing market dynamics. Running too much money also shrinks one's investible universe, with a constrained hunting ground reducing the probability of identifying individual investments that can help contribute to the delivery of client objectives.

Investment Process

Broad Investment Universe

Our nimble size combined with our expertise in alternative assets and investment trusts results in an exciting, varied and incredibly broad opportunity set that goes well beyond traditional equity and bond markets. We make significant use of investment trusts which as fixed capital structures are the perfect vehicles for accessing less liquid alternative assets such as property, infrastructure, battery storage, shipping, private equity and music royalties. Many of these, particularly those in the real asset space, possess well defined cash flows, attractive return profiles and exhibit low economic sensitivity bringing valuable diversification benefits to a multi-asset portfolio and providing idiosyncratic return drivers which have particular appeal in environments characterised by expensive equity and bond markets. In addition, discount volatility and the inefficiencies of the investment trust sector presents abundant trading opportunities for active managers in this space. We also make extensive use of open-ended funds to access areas of public markets that are underrepresented in benchmarks including structured credit, emerging market debt, thematic funds and small-cap equities to name but a few.

Dynamic Management

Having an unconstrained, benchmark agnostic approach combined with our relatively small size provides the freedom to manage the Fund's exposure quickly in response to ever changing market conditions. Our portfolio construction is guided by valuations and opportunity as opposed to the weights in an arbitrary benchmark. We will zero weight expensive assets deemed incapable of delivering positive real returns, even if they are large constituents of global capital markets, and will take high conviction positions in more niche areas if warranted by relative return prospects. It is our strong belief that the best multi-asset funds should have the biggest investible universe and the flexibility to shift exposure to where the best opportunities lie at any given point of the cycle.

Fund Selection

Reflecting our bottom up, open-minded and research led approach, we engage in over 500 manager meetings each year which form a crucial component of the extensive due diligence we conduct on all our underlying funds, and which are also an invaluable source of idea generation. Our relatively small size presents us with a broader universe of both closed-ended and open-ended funds from which to select talented managers which contrasts with larger multi-asset fund of funds who are often constrained by liquidity and fund ownership issues. Empirical analysis supports the intuitive idea that managers running smaller pools of capital have a distinct advantage in terms of their capacity to generate alpha. This arises from their ability to construct portfolios that look very different to the index and the resulting potential to exploit valuation dispersion, as well as the liquidity advantage that smaller funds possess in terms of building and exiting positions as investment opportunities evolve. We are unashamed advocates of active management and seek to back talented managers at the helm of nimble, dynamically manged funds who, like ourselves, prioritise net performance over asset gathering.

Summary

- We have an unwavering focus on the client objective and the delivery of positive real returns
- An unconstrained, benchmark agnostic approach is the best way of pursuing this goal
- Having a broad investment universe beyond mainstream equities and bonds maximises the potential of identifying investments capable of contributing to the objective and enables true diversification. Expertise in alternatives and investment trusts is key in this respect
- Size is important in terms of broadening the opportunity set and retaining the ability to dynamically manage exposures as valuations and market conditions change. Our Funds are capacity constrained
- Good fund selection is predicated on hard work, an appreciation of the benefits of size in delivering alpha and an appreciation of the importance of cultural alignment

More information regarding the Hawksmoor Funds including performance track record and client outcomes can be found in our monthly factsheets and fund brochure:

- Funds Brochure
- MI Hawksmoor Vanbrugh Fund
- MI Hawksmoor Distribution Fund
- MI Hawksmoor Global Opportunities Fund