HAWKSMOOR
FUND MANAGERS

MI HAWKSMOOR DISTRIBUTION FUND

QUARTERLY REPORT
Q3 2023

For investors who are looking to receive an attractive level of income, above that of a composite index of financial assets, whilst achieving capital growth on their investments over the medium to long term.

KEY POINTS THIS QUARTER

- Distribution returned +0.6%, outperforming the sector return of -0.2%
- We introduced five new holdings, and exited one position
- Equities exposure was increased
- Precious metal exposure was reduced

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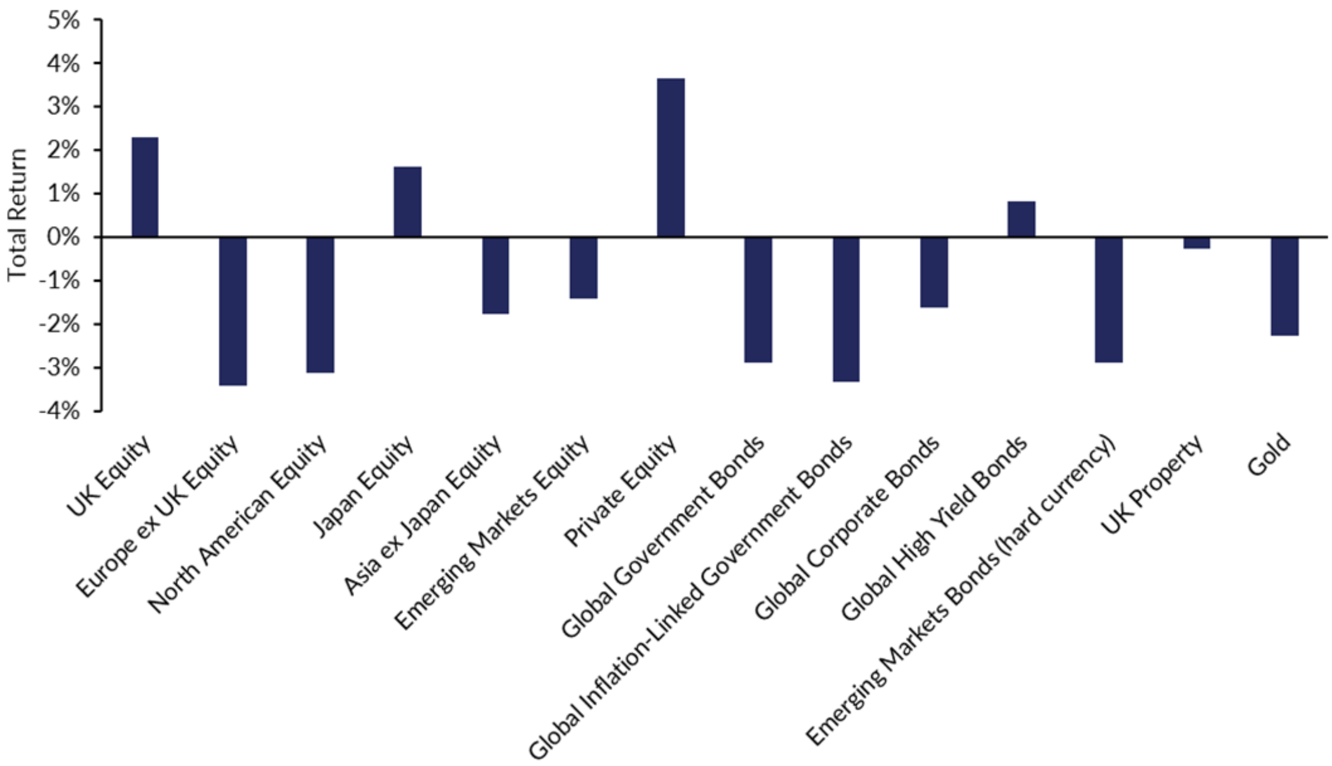
QUARTERLY MARKET PERFORMANCE



- Real and nominal government bond yields rose sharply during the quarter, most notably in the US. The US 10 year nominal yield rose from 3.8% to 4.6%, and the US 10 year real yield from 1.6% to 2.2%. This resulted in capital declines for most fixed income sectors and also gold (real yields represent the opportunity cost of holding gold, and there is typically an inverse relationship between real yields and the gold price).
- Higher bond yields in the US put pressure on US equities, which fell 3%. Most other equity markets fell too amid choppy summer trading.
- UK bond yields were flat during the quarter, helping UK equities to be among the best performing equity markets alongside Japan, with both markets delivering positive returns.

Data: UK Equity - MSCI United Kingdom All Cap; Europe ex UK Equity - MSCI Europe ex UK; North American Equity - MSCI North America; Japan Equity - MSCI Japan; Asia ex Japan Equity - MSCI AC Asia Pacific ex Japan; Emerging Markets Equity - MSCI Emerging Markets; Private Equity - IT Private Equity; Global Government Bonds - ICE BofA Global Government; Global Inflation-Linked Government Bonds - ICE BofA Global Inflation-Linked Government; Global Corporate Bonds - ICE BofA Global Government; Global High Yield Bonds - ICE BofA Global High Yield; Emerging Markets Bonds (hard currency) - ICE BofA US Emerging Markets External Sovereign; UK Property - IA UK Direct Property; Gold - WisdomTree Physical Gold USD.

Source: FE fundinfo local currency, 30/06/2023 to 30/09/2023. See MSCI and ICE disclaimers on final page.

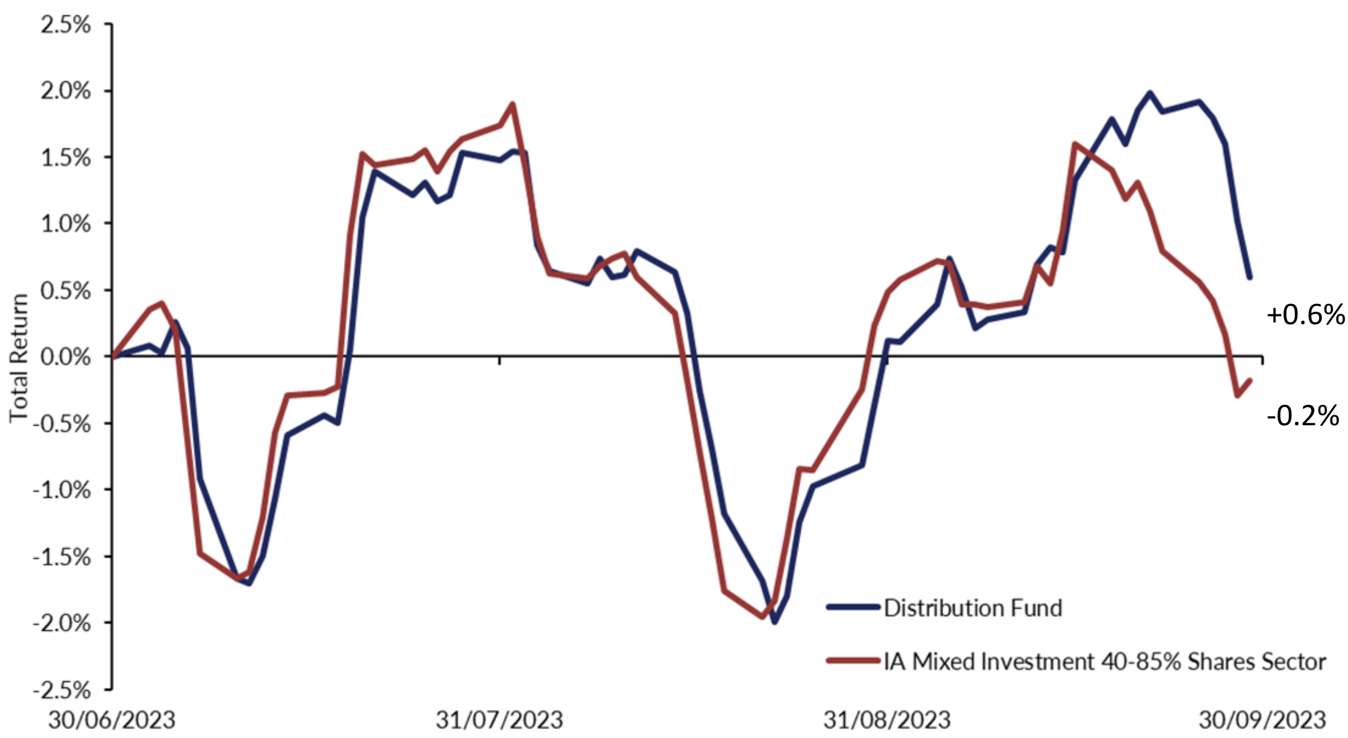
QUARTERLY FUND PERFORMANCE

Largest contributors:

- Man GLG Income +0.39%
- VT De Lisle America +0.32%
- ICG Enterprise Trust +0.20%

Largest detractors:

- Digital 9 Infrastructure −0.28%
- Phoenix Spree Deutschland −0.18%
- Allianz Index-Linked Gilt −0.16%

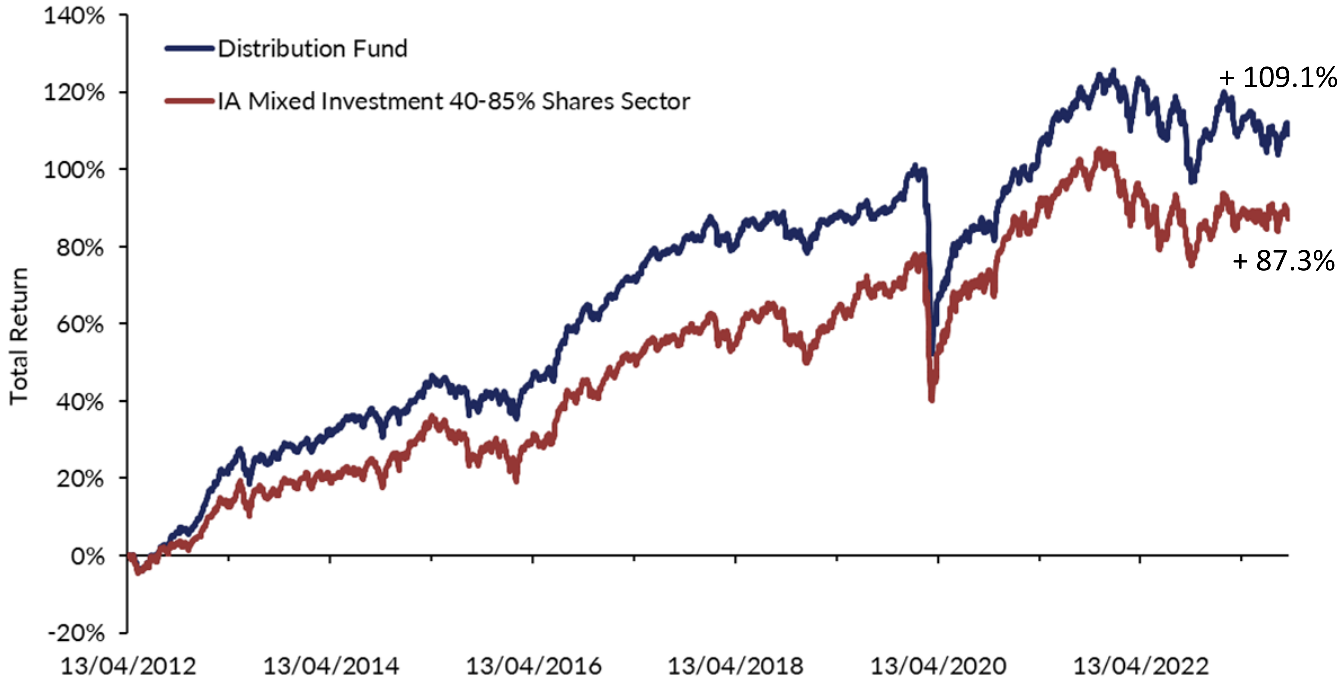


- VT De Lisle America bucked the trend of falling US equities, as its differentiated small cap value focus came into favour during the quarter with the fund rising around 8%.
- Man GLG Income rose against a positive backdrop for UK equities.
- Higher real yields resulted in negative performance from Allianz Index-Linked Gilt.
- Digital infrastructure trusts were weak. Digital 9 Infrastructure released a poor trading update including a surprise dividend suspension which saw the shares sharply lower as the trust continues work on selling an asset to free up capital to repay debt.
- Phoenix Spree Deutschland drifted lower on no specific news during the quarter.

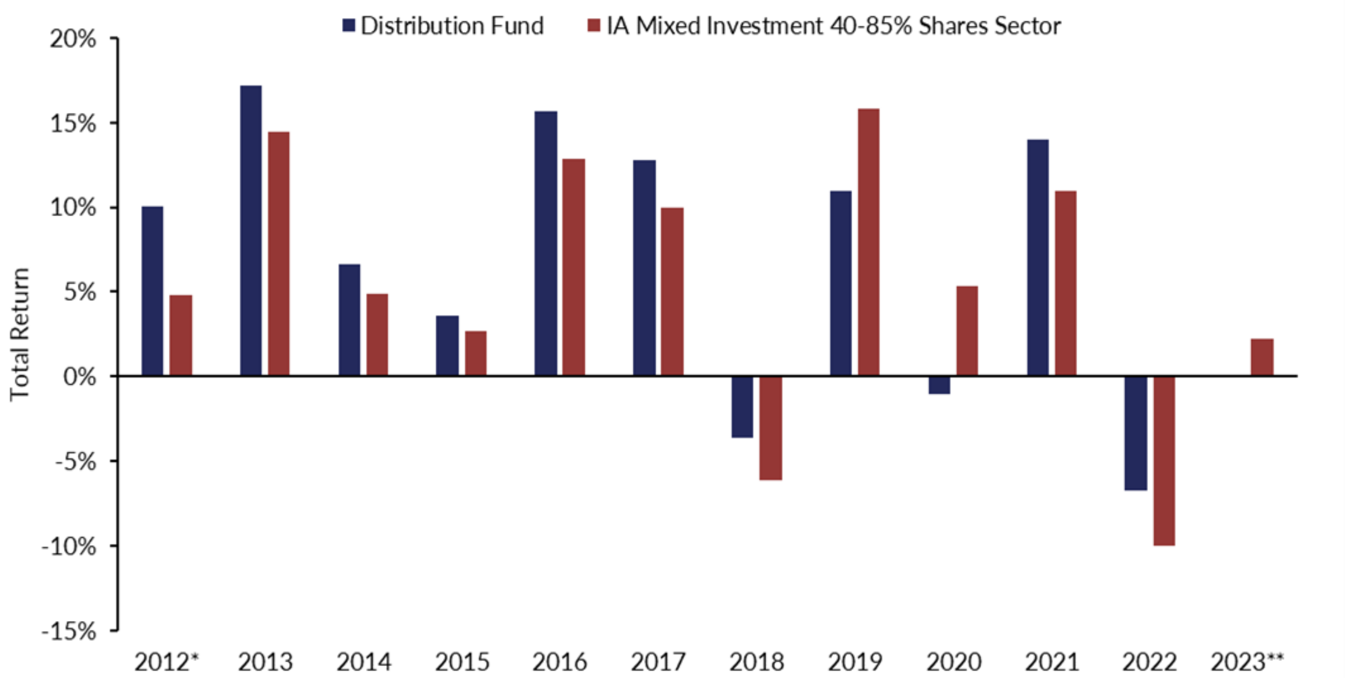
Source: FE fundinfo and internal, 30/06/2023 to 30/09/2023, must be held for entire period and uses month end weighting (text). FE fundinfo, 30/06/2023 to 30/09/2023 (chart).

SINCE LAUNCH FUND PERFORMANCE

Cumulative performance

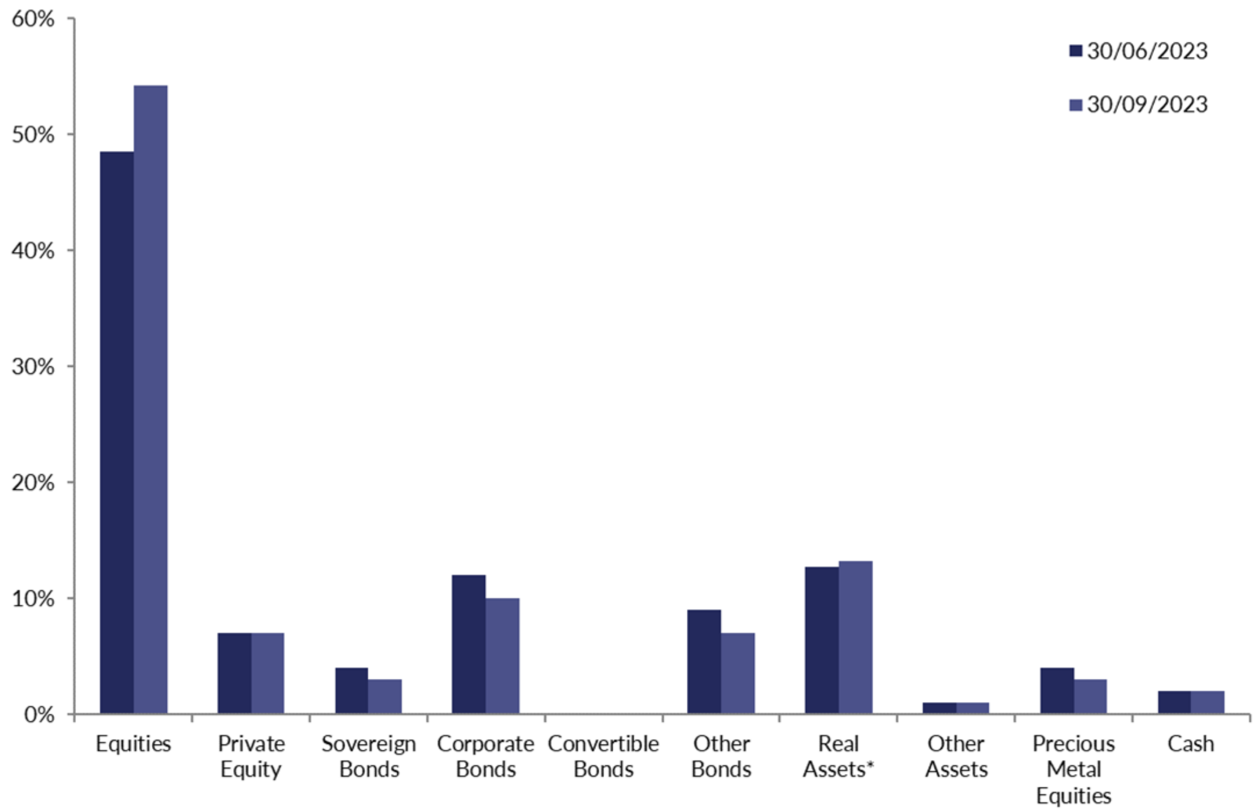


Discrete calendar year performance



Source: FE fundinfo, 13/04/2012 to 30/09/2023 (top). *From launch on 13/04/2012 **to 30/09/2023 (bottom).

ACTIVITY



This chart calculates the asset breakdown on a look through basis of the underlying holdings, therefore there may be differences in the breakdown shown here and on page 7.

Purchases:

- Arcus Japan
- Artemis UK Select
- Bluebox Global Technology
- Chikara Indian Subcontinent
- Strategic Equity Capital

Disposals:

- FP Octopus UK Multi Cap Income

Summary:

During the quarter we increased exposure to Japanese equities with the introduction of Arcus Japan. Despite the strong performance of the Japanese equity market this year, the valuation of the fund remains extremely compelling, and the fund complements our small cap bias within Japanese equities given the mid to large cap focus. We introduced a position in BlueBox Global Technology. We have followed the fund for several years and believe the differentiated focus on technology enablers sets the fund up well to perform well over the long term and generate significant alpha through the market cycle. FP Octopus UK Multi Cap Income was sold, as we concentrated UK exposure into higher conviction ideas (Gresham House UK Multi Cap Income and Man GLG Income) and introduced new positions in Artemis UK Select and Strategic Equity Capital. Chikara Indian Subcontinent was added with the portfolio having substantially de-rated in recent years.

Source: Internal, 30/09/2023, *including Precious Metal Bullion.

HOLDINGS

<u>Equities 64%</u>
Aberforth Split Level Income
Aberforth UK Small Companies
Arcus Japan
Artemis UK Select
BlueBox Global Technology
Chikara Indian Subcontinent
Chrysalis Investments
CIM Dividend Income
CT Private Equity Trust
Federated Hermes Asia ex Japan Equity
ICG Enterprise Trust
Jupiter Gold & Silver
Jupiter Japan Income
M&G Japan Smaller Companies
Man GLG Income
Ninety One Global Gold
Oakley Capital Investments
Pacific North of South EM Income Opportunities
Polar Capital Japan Value
Prusik Asian Equity Income
Schroder Capital Global Innovation Trust
Strategic Equity Capital
VT De Lisle America
VT Downing Small & Mid Cap Income
VT Teviot UK Smaller Companies
WS Gresham House UK Multi Cap Income

<u>Cash 2%</u>

<u>Bonds 21%</u>
Allianz Index-Linked Gilt
Artemis Corporate Bond
BioPharma Credit
Close Sustainable Select Fixed Income
Man GLG High Yield Opportunities
Man GLG Sterling Corporate Bond
Morgan Stanley Emerging Markets Debt Opportunities
RM Infrastructure Income
Schroder Strategic Credit
TwentyFour Income
TwentyFour Monument Bond

<u>Real Assets 13%</u>
Alternative Income REIT
Cordiant Digital Infrastructure
Digital 9 Infrastructure
Greencoat UK Wind
Gresham House Energy Storage
Harmony Energy Income
Hipgnosis Songs
Life Science REIT
LXi REIT
Phoenix Spree Deutschland
Taylor Maritime
Tufton Oceanic Assets

OUTLOOK

Our equities exposure is highly differentiated compared to passive index options and many other actively managed funds. We have very little exposure to large cap US equities which trade on close to all-time high valuations and therefore offer close to all-time low prospective returns. Instead, our exposure is focused on attractively valued portfolios managed by experienced, highly active fund managers able to take advantage of huge valuation dispersion to build portfolios with attractive return prospects without having to take on significant balance sheet or cyclical risks. Areas where we identify excellent opportunities include UK equities (across the market cap spectrum), which trade at historically low valuations. Japanese equities, where corporate governance improvements are helping to unlock the significant value in the market and with the potential benefits of the yen exposure (which is historically cheap vs other currencies) in weaker market conditions. Many areas of Asian and emerging market equities are also historically cheap, offering very high starting yields (6-10%) underpinning future return prospects.

Our bond exposure is biased towards higher quality credit and government bonds as we believe credit spreads in high yield bonds are not compensating investors for rising default risk. We are able to get access to actively managed funds offering significant yield pick up versus passive bond options, with yield to maturities ranging from 7.5% for AA rated RMBS to over 10% for BBB rated sterling corporate bonds. For context, over the very long term equities tend to do 7-8% annualised nominal returns. We can now get that from investment grade bonds. We have been increasing exposure to inflation linked government bonds which we would expect to perform well should the economic outlook darken, bringing significant portfolio diversification benefits. The shift higher in real yields from the deeply negative levels that have prevailed over the last decade means it's possible to harvest a positive return on these hedges for the first time in years.

Our investment trust exposure is skewed towards deeply discounted alternative assets such as digital infrastructure, shipping, private equity and song royalties where engagement and corporate events are key to realising value over the coming 12-18 months. The weighted average discount in the portfolios is 28%, far wider than the trust sector as a whole at 17%.

Source: Internal, 30/09/2023. Each fund has been allocated to an asset class for this breakdown, therefore there may be differences in the breakdown shown here and on the asset breakdown chart on page 6.

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IMPORTANT INFORMATION

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