Multi Asset Universe DNA Icon Glossary

Hawksmoor Global Opportunities Fund

Scopic™ Research DNA approved

Multi Asset DNA Report

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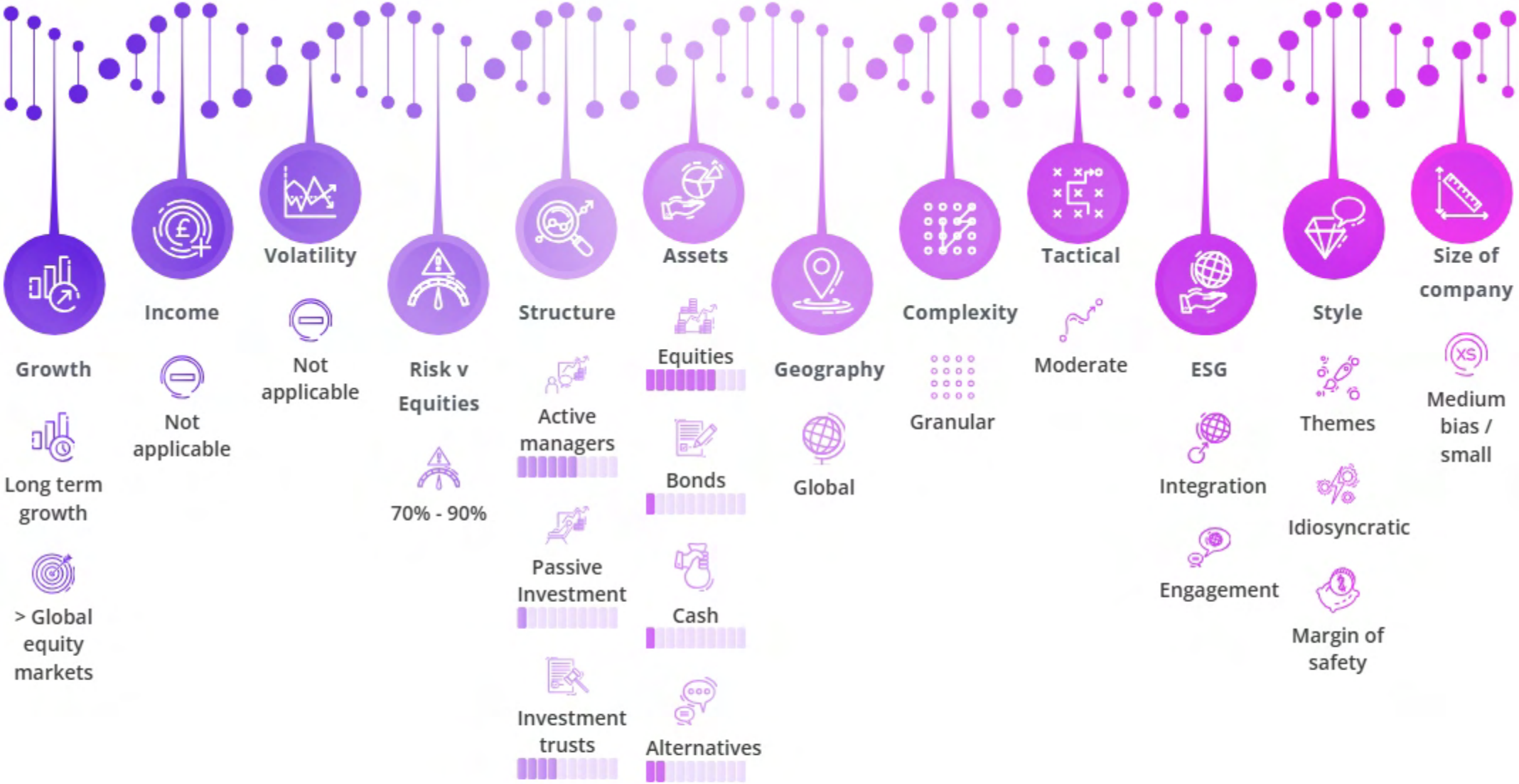

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The above depiction of the portfolio's DNA is based upon its embedded biases as identified by Scopic Research. It isn't meant to reflect the portfolio's current positioning, but rather what we might expect on average over the long term.

Opinion

Our review covers the period from 10-Jul-24 until 30-Jun-25.

The portfolio beat its peers by a comfortable margin over the whole of our annual review period, and although it did so having exhibited higher volatility, which is typical for this portfolio – it delivered far superior risk adjusted returns. This was despite a largely unchanged asset allocation positioning relative to the previous year. A change in market conditions that now proved more favourable to fundamentally based investors, good fund selection, and an increasingly high exposure to investment trusts – many of which were buoyed by corporate activity and narrowing discounts to their net asst values – all provided a significant tailwind behind the portfolio's return.

10-Jul-24 – 05-Aug-24 Risk off

Weak job numbers, concerns about the possibility of recession in the US, coupled with a dramatic increase in the yen following a surprise rise in Japanese interest rates and an unwinding of a well-used carry trade that had enabled hedge funds to borrow cheaply in yen to invest in other assets, results in tumbling equity markets worldwide – particularly amongst Japanese companies and US technology businesses.

The focus on a 'margin of safety' in valuation terms has tended to work well in risk-off market conditions – after all – more lowly valued investments arguably have less far to fall when markets tumble. The portfolio therefore held up extremely well in relative terms despite posting a small negative return as most markets tumbled.

Since launch, the portfolio's valuation discipline has steered it away from having a more meaningful exposure to US equities – prompted by the market's often rich valuations. US equities was one of the markets worst hit by the market upheaval and therefore a lower allocation helped. This also meant having a low exposure to the US dollar, which weakened relative to sterling and therefore failed to offer its 'usual' partial buffer against a deeper drawdown that many UK investors had come to expect. All of this proved beneficial during the sharp downturn.

The team's decision to add some protection for its Japanese equity exposure in the event of market turbulence by leaving the currency unhedged was also vindicated when the yen strengthened relative to sterling. Nevertheless, Japanese equities still detracted.

Positive returns from NinetyOne Gold together with investment trust, Tufton Oceanic, also helped.

05-Aug-24 – 23-Jan-25 Risk on

Revised US employment data. US inflation falls leading to larger than expected rate cut / surprise China stimulus package excites markets temporarily / Trump elected for second term leads to expectations of regulatory change, tax cuts, and tariffs on foreign imports.

We wouldn't expect the portfolio to perform well during a market phase like this one – and indeed it lagged quite significantly. The 'margin of safety' approach means that the portfolio is unlikely to be caught up in strong momentum driven themes – especially those dominated by a small cohort of stocks, which was increasingly the case during this period.

The low exposure to US assets also dragged, as did the increasingly high exposure to infrastructure and real estate investment trusts when their discounts to net asset values fell to depths last seen during the great financial crisis. Whilst the market viewed them as being sensitive to rising interest rates, and the investment trust cost disclosure regime continued to prove unhelpful (and in our view quite unwarranted), the team saw them as more being attractive than corporate bonds where yield spreads continued to look unappealing.

Nonetheless, as we'd expect given the team's approach, it continued to add to investment trust holdings, and although this proved painful in the short term, it turned out to be extremely beneficial later on. Sometimes, patience is required.

23-Jan-25 – 08-Apr-25 Risk off

US technology stocks are initially rattled by news of the success of China's DeepSeek in being able to deliver advanced AI solutions at a lower cost than its competitors. Markets then take fright as Trump announces the imposition of tariffs on foreign goods leading to concerns about the implications for global trade on the health of the global economy.

The portfolio ended this risk-off phase in the middle of the pack. Despite US equity holdings, Smead Value and De Lisle America, it still had relatively little exposure to US equities which were amongst the hardest hit. The newly introduced, Konwave Gold Equity also helped by posting a positive return.

Given the impact of tariff announcements on global trade, shares in shipping trusts, Tufton Oceanic and Taylor Maritime fell heavily. Investment trust holdings posted mixed results, but one could argue that this is typical, given their idiosyncratic and trust-specific return profiles.

In the meantime, the team continued to recycle open ended funds into investment trusts that traded on discounts but that had similar underlying portfolios. Interestingly, it also introduced Achilles at IPO, where the objective is to unlock value embedded in real assets investment trusts that trade on wide discounts.

08-Apr-25 – 30-Jun-25 Risk on

Stock markets rebound strongly after some of the tariffs imposed upon foreign goods entering the US are either lowered or paused. Stronger than expected earnings reports continue to support stocks – particularly US technology businesses – but the rally then broadens out to buoy other industry sectors and regions as the prospects for recession diminish. In the meantime, the US dollar continues to weaken.

Generally, we wouldn't expect the portfolio to perform as strongly as it did during this risk-on phase (its strongest period of performance since launch), but the combination of factors that had been clear headwinds in the past, now sharply reversed to become significant tailwinds.

Having added to investment trusts on wide discounts earlier in our review period, the portfolio now began to reap the benefits as these discounts narrowed. Several trust holdings were boosted by M&A activity. Urban Logistics REIT received a bid from LondonMetric Property, and shares in Downing Renewables & Infrastructure were boosted by a take-private bid. The performance from the narrowing of investment trust discounts has a tendency to be far more impactful than their weighting in the portfolio might suggest – and this period was case in point.

US equities posted some of the biggest gains of any geographical region in local currency terms, but the weakening US dollar blunted their overall return for UK based investors – as did the team's preference for value-style managers. Having more exposure to UK and smaller companies, as well as to other regions outside of the US, therefore helped.

Outcome

Key notes

- **Seeks to invest globally and thematically with a view to achieving greater returns than broader equity markets over the longer term.**
- **A key differentiator is the portfolio's potentially significant exposure to investment trusts – some of which exhibit idiosyncratic sources of risk and return.**

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.

A key differentiator is the portfolio's potentially significant exposure to investment trusts – some of which exhibit idiosyncratic sources of risk and return.

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

Income

Not applicable

Volatility

Not applicable

Target

> Global equity markets

Costs

Ongoing charges 1.55%

Transactional costs 0.01%

Total costs 1.56%

Investment Journey

Key notes

- The portfolio is likely to lag during periods of strong momentum-driven markets led by assets viewed by the team as being expensive and perform well when investors return to appreciating market fundamentals.
- The tail end of a strong bull market is likely to prove challenging in relative terms.
- The portfolio's chances of beating its passive counterparts is further elevated when we see periods of greater dispersion in the strength of share price returns between individual companies, and between different industrial sectors.
- Whilst a strong growth style environment is less likely to be supportive, the portfolio does still have significant exposure to structural growth themes.
- The contribution to the portfolio's overall performance from its investment trust holdings – both positive and negative – can be far greater than their combined weight in the portfolio.
- In the best-case scenario, there may also be times when idiosyncratic investment trust holdings contribute positively – even during poor market conditions.
- In the worst-case scenario, forced selling by other investment trust investors can exacerbate the depth of the portfolio's own drawdown during poor markets.
- However, investment trust shares can often rebound very strongly once a period of market stress passes. The lesson here is patience.
- We might expect occasional bouts of higher volatility relative to broader equity markets, and we should look for higher longer term returns to compensate for this.

Risks

Risk v Equities

70% – 90%

Counterparty Risk

Low High

Liquidity Risk

Low High

Suitability

Key notes

For someone who:

- **Would like to invest thematically, rather than solely in a traditional equity market portfolio.**
- **Is prepared to look through the portfolio's relatively high headline level of expenses and to appreciate that it invests in assets that are perceived to be trading below their intrinsic values – in particular, investment trusts trading at a discount to their net asset values. (The high expense v cheap assets conundrum).**
- **Is willing to invest substantially, although by no means exclusively, in investment trusts.**
- **Is prepared to accept that some of the investments held in their portfolio will involve an element of liquidity risk.**
- **Is prepared to accept the possibility of a higher level of volatility risk when compared to global equity markets.**
- **Would like a highly differentiated portfolio when compared to others in the same IA sector – and one that includes themes and idiosyncratic sources of risk and return that may perform differently from traditional markets.**
- **Finds a capacity constrained approach that focuses solely on performance appealing when compared to others that appear to prioritise growing assets under management.**
- **Is comfortable with the likely investment journey as described in this report.**

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 50%.
- Many of the portfolio's investment trusts have idiosyncratic return profiles that aren't necessarily correlated with traditional markets.
- 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 as well as, private equity, resources and commodities, single industry equity and single sector credit strategies, real assets – such as infrastructure and specialist REITS – royalties, energy storage, shipping, asset backed securities, specialist debt, and direct lending vehicles.
- Following the stress in markets in 2020 the team has gradually sought to exercise even greater precision over the nature of underlying asset exposures when executing investment ideas. As a result, strategic bond funds, funds that have more traditional global equity mandates, and absolute return strategies, are all likely to be employed more sparingly.

Details

Exposure is multi-asset with investments spread across equities, bonds, real assets, and cash. 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.

Access is almost exclusively by investing in third party active managers of onshore and offshore open-ended funds and investment trusts. The investment team is strongly supportive of active management and invests globally and overwhelmingly in high active share, high conviction, and often smaller sized funds.

Investment trusts are used to a far greater extent than in many peer group portfolios – with exposure of up to 50% or so of the portfolio's weight not uncommon when REITS are included. Many of the portfolio's investment trusts also have idiosyncratic return profiles that are not necessarily correlated with traditional markets.

Exchange traded funds (ETFs) are also in scope but the likelihood of using them is slim. Accessing physical gold via an exchange traded commodity fund (ETC) is perhaps the one likely exception to the complete avoidance of passives. Structured investments are also avoided.

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.

The minimum exposure to equities is 60%. Equities cover 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 also count as equities.

Exposure to real assets can be substantial at times and can cover a diverse range of specialist, single industry REITS, as well as commercial property, infrastructure and royalty trusts, energy storage and shipping. Open-ended property funds aren't permitted in a UCITS structured fund like this one.

Alternative investments outside of the real assets arena can also be wide ranging – and can include exposure to physical gold, and resources.

There's 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 isn't used tactically, and the tendency is to be near fully invested.

Following the stress in markets in 2020 the team has gradually sought to exercise even greater precision over the nature of underlying asset exposures when executing investment ideas. As a result, strategic bond funds, funds that have more traditional global equity mandates, and absolute return strategies, are all likely to be employed more sparingly.

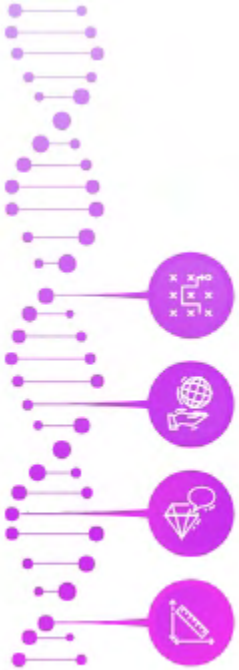
Finally, there is no requirement to hold a minimum percentage of the portfolio in GBP sterling.

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.
- The team pursues a less prescriptive and more flexible approach than some, with underlying fund selection arguably playing a much more significant role and with no macro views to inform decision making.
- The emphasis is firmly on identifying high active share managers, who run high conviction, concentrated portfolios that offer exposure to different sources of alpha.
- The team can be more tolerant of downside risk and temporary periods of underperformance when compared to some, with downside protection 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 typical capitalisation size of underlying equity holdings and the portfolio's prevailing investment style varies over time and is entirely driven by valuations.
- ESG considerations are integrated but performance and risk considerations outweigh them.
- 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 that is likely to become capacity constrained at some point.

Details



We have been researching the team since 2015 and are keen supporters.

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 driven by a combination of long-term thematic asset allocation and fund selection.

The idiosyncratic nature of some investment trust holdings has a strong bearing on the type of investment journey we might expect. Indeed, investment trusts can comprise a significant proportion of the portfolio's weight – typically up to 50% since launch.

Themes uncovered during meetings with external fund managers, together with access to external sources of economic research and the team's own analysis of market valuations, help to frame its views on individual regional equity markets, government and corporate bonds, property and commodity markets, private equity, currencies, and cash. Unlike some, decision making isn't informed by having macro views. Instead, the team simply seeks to identify assets that appear cheap relative to other asset classes and their own histories and that offer good prospects for returns above inflation. 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.

Whilst primary asset classes are held more strategically, tactical changes are greater at the regional equity and other sub asset class levels – where beta (market sensitivity) and duration (sensitivity to interest rates) can be adjusted to align with the team's broad 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 upon 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 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.

Having learned from seeing the stress in markets during the early part of 2020 at the start of the covid pandemic, the team now uses investment trusts that offer dedicated exposure to bonds more sparingly having become unhappy with the asymmetric nature of the downside to upside capture their returns delivered during that year. It also now prioritises trusts led by boards who are prepared to enact transparent, proactive policies to protect shareholders' interests via – for example – share buy-back programmes and tender offers. The team's belief is that this might help to limit the extent to which investment trust share discounts to net asset values widen – especially during periods of market stress. Governance plays a key part in the team's process.

Another evolution emanating from the covid period is that the team now exercises greater precision over sub-asset class exposures by investing in regional equity funds, rather than in more traditional globally oriented equity funds.

When considering ESG issues more widely, the team doesn't apply an automatic exclusion screen or a positive ESG inclusion filter when selecting investments. Instead, it favours fund managers who value their fund's performance characteristics over asset-gathering and their own personal enrichments. Underlying fund performance and performance risk considerations therefore outweigh pure ESG issues.

Unlike some, the team doesn't use third party ESG scores – preferring instead to carry out its own qualitative based ESG assessment. The method employed is less prescriptive than some, with the manner in which assessments are documented making it more difficult to measure the overall progress of ESG integration over time. Nonetheless, some thematic ESG impact funds are likely to be included provided they pass the team's existing performance, risk, margin of safety, and qualitative based criterion.

Overall, the emphasis is firmly on identifying high active share managers, who run high conviction, concentrated portfolios offering exposure to different sources of alpha. Typically, at least two funds are employed to articulate a single theme – thereby helping to dilute manager specific risk. The approach is less prescriptive and more flexible than some, with underlying fund selection arguably playing a much more significant role.

The idiosyncratic nature of some investment trust holdings, the larger allocation afforded to investments trusts generally, and to smaller sized, more nimble funds, all leads to a differentiated portfolio versus many peers. The preferred nature of the underlying investments also makes the overall strategy capacity constrained, and indeed this is also a factor that sets the portfolio apart from its more scalable peers, where the pressure to gather assets is sometimes arguably at odds with the desire to continue to grow longer term returns.

The typical capitalisation size of underlying equity holdings and the portfolio's prevailing investment style varies over time and is entirely driven by valuations.

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.

On balance, 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.

Investment Journey in detail

Details

The approach when allocating assets to themes is patient and longer term and potentially less tactically active when compared to some. These themes may take some time to play out. Performance is therefore likely to prove stronger when the team's identified themes find favour with investors.

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's therefore unlikely to keep pace during strong momentum-driven markets led by assets viewed by the team as being expensive – or during the tail end of a strong bull market. Nonetheless, we must remember that the portfolio does still offer significant exposure to long term structural growth themes, and these can sometimes appear to be expensive.

The emphasis on high active share, high conviction managers is likely to prove more beneficial when we see greater dispersion in the strength of share price returns between individual companies, and between different industrial sectors. These are the conditions under which skilful active managers have the best opportunities to beat their passive counterparts.

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. Their contribution to overall performance – both positive and negative – can be far greater than their combined weight in the portfolio. This sets it apart from others that don't have this type of exposure.

In the worst-case scenario, because the investor base for some investment trusts is relatively narrow, if these investors wish to sell, perhaps to realise cash to fund redemptions elsewhere in their portfolios, then this can exacerbate the depth of the portfolio's own drawdown during poor markets, despite the 'margin of safety' identified by the team. However, shares in these types of investment can often rebound strongly once a period of market stress passes. The lesson here is that we need to remain patient and wait for the rebound.

In the best-case scenario, there may also be times when some of the portfolio's more idiosyncratic investment trust holdings contribute a positive return and therefore help to limit the extent of the portfolio's drawdown even during poor market conditions.

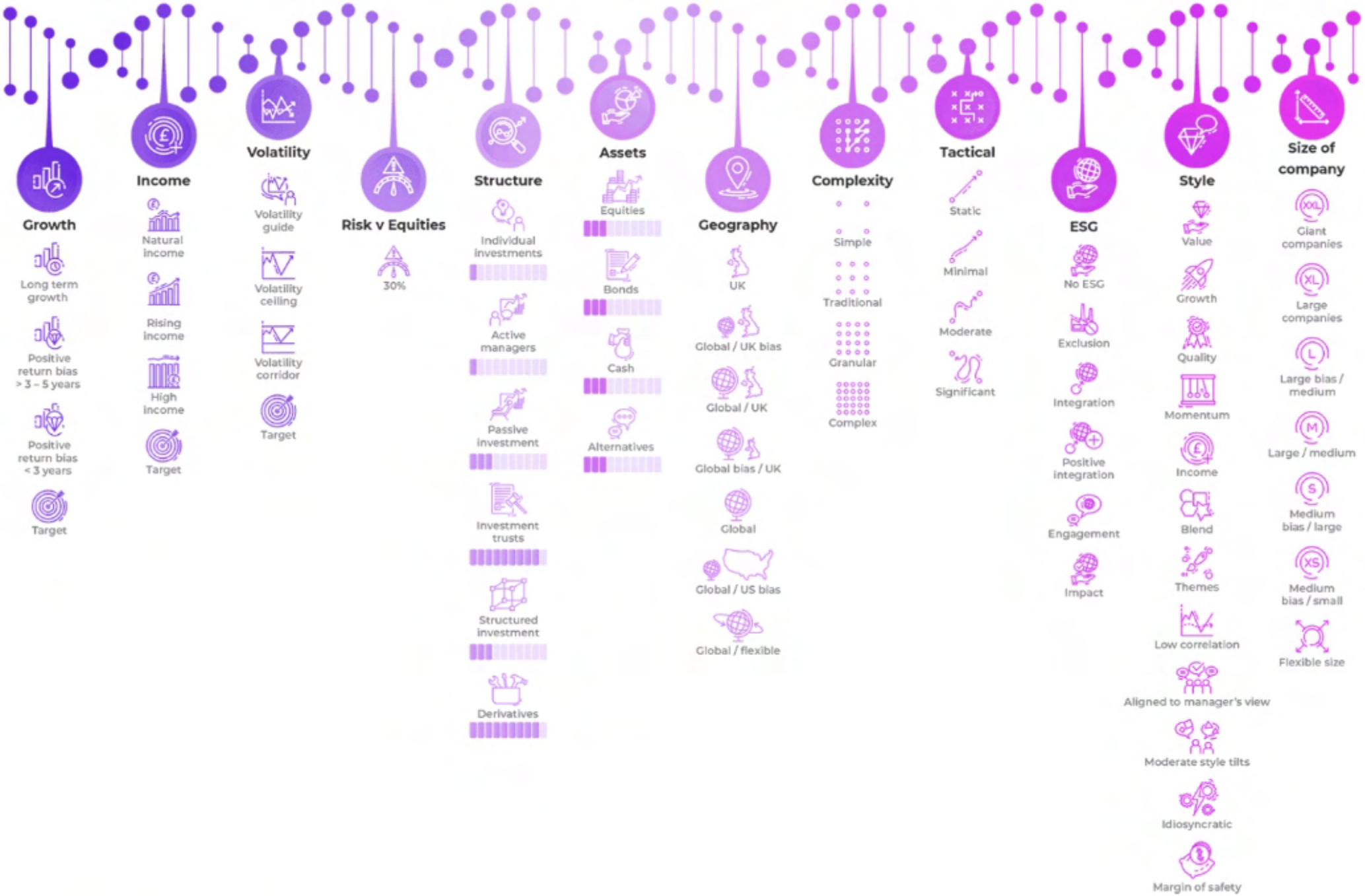
When it comes to investment style, sources of alpha are blended, and the approach is heavily valuation driven, which can periodically favour either value or the growth style of investing.

Taking all of the above into account, we might expect bouts of high volatility, and we should therefore look for higher longer term returns to compensate for this. Investors should therefore adopt a longer term, more patient view.

Finally, we should remember that currency is also a source of risk and return. In relation to those peers that generally have greater exposure to GBP sterling, the portfolio's overseas assets bias may prove a tailwind to its return – at least 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.



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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.

Scopic Research carries out fact tests to help ensure the accuracy of our reports, but this doesn't guarantee accuracy.

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