MODEL PORTFOLIO SERVICE

30th April 2018

HAWKSMOOR
FUND MANAGERS

COMMENTARY

April was a strong month in absolute terms for our Model Portfolio Service, with each Model delivering positive returns. On a relative basis returns were more mixed, with our lower risk Models unsurprisingly underperforming amid a sharply rising market, and our higher risk Models, along with our Distribution Model, outperforming their respective IA Sector benchmarks. This positive performance was set against a strong market backdrop, with the majority of asset classes delivering attractive returns in sterling terms. To highlight just how strong returns were over the month, only two funds held across our Model range delivered negative returns. The best performing asset class was UK equities, followed by US and European equities. The worst performing asset class was emerging market bonds. However, the fund we use to get exposure to emerging market debt across our Models, M&G Emerging Markets Bond, delivered positive returns. All of the Model's benefited from their allocations to gold equities and property. Old Mutual Gold & Silver was up +7.0%, whilst F&C Property Growth & Income rose +3.2%.

Against this positive market backdrop, **Defensive** (+0.8%) lagged its benchmark, the IA Mixed Investment 0-35% Shares Sector, return of +1.2%. Despite this, fund selection was excellent with five funds performing in the top quartile of their respective sectors. Our Defensive Model has a significant allocation (37.5%) to absolute return funds which on the whole performed well, though these are funds that will lag a strong rising market but offer greater defensive characteristics during more difficult market conditions, like those experienced in March.

Our **Cautious** Model's return of +1.7% also fell behind its sector, the IA Mixed Investment 20-60% Shares Sector, return of +2.2%. Like our Defensive Model, fund selection was very good with five performing in the top quartile and only one in the bottom quartile. Whilst having exposure to UK equities through Man GLG Undervalued Assets (+6.6%) was positive, the holding in Old Mutual Global Equity Absolute Return (-1.0%) dragged on performance.

Balanced returned +2.9% versus +3.2% for the IA Mixed Investment 40-85% Shares Sector. Our Balanced Model benefited from having greater exposure to UK equities, particularly through holding JO Hambro UK Dynamic (+7.4%), the best performing fund across our Model range during April. Each fund held delivered positive returns over the month, which also occurred for both our Growth and Aggressive Models.

Growth was the best performing Model across our range in April, returning +3.5% versus +3.0% for the IA Flexible Investment Sector. Fund selection was slightly more mixed, with four top quartile funds and three bottom quartile. Strong returns were driven by our Model's UK equity exposure. The three UK equity funds held, Man GLG UK Undervalued Assets (+6.6%), Old Mutual UK Smaller Companies (+4.6%) and JO Hambro UK Dynamic (+7.4%), make up 16% of Growth, yet between them contributed nearly a third of the Model's returns during April. Although on the surface it may be slightly unusual that our **Aggressive** Model (+3.2% versus +3.0% for the IA Flexible Investment Sector) underperformed our Growth Model during such a strong month for financial markets, this is explained by Growth having a higher allocation to UK equities, with Aggressive instead having greater exposure to Asian and emerging market equities where returns were not quite as impressive.

Our **Distribution** Model returned +3.4% versus +3.2% for the IA Mixed Investment 40-85% Shares Sector. Following changes during the month, outlined on the factsheet, Distribution now has 20% exposure to UK equity income funds through BlackRock UK Income (+6.3%) and Man GLG UK Income (+6.7%) which are both 10% positions. In addition, Schroder Global Equity Income (+6.8%), an 8% position, was the best performing fund in the IA Global sector. The fund was a beneficiary of its 30% allocation to UK equities.

In April it was announced that Arsene Wenger was to step down as manager of Arsenal Football Club after 22 years in the job. As well as being one of the most successful and influential football managers in the history of professional football, Wenger is also one of the most erudite. He once expressed his thoughts on the short-termism of many football fans who find it difficult to accept anything other than perpetual success when he said "If you eat caviar every day, it is difficult to return to sausages." We believe investors can benefit from considering the application of Wenger's words to the current investment environment in which a decade of rock-bottom interest rates, quantitative easing and the absence of recessions has spoiled many investors, who have become used to unsustainably high returns from most financial assets. Looking ahead, investment success will require being realistic, appreciating that on the whole financial markets will be delivering more sausages than caviar.

Source: FE Analytics. All information is at 30/04/2018 unless otherwise stated. Data sourced from Financial Express (total return, bid to bid, excluding fund rebates and excluding fees applied by the platform and adviser, but including Hawksmoor's fees without the VAT).

RATINGS/AWARDS

PLATFORM AVAILABILITY

The Model Portfolios are available on the following platforms:

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