Goshawk
Asset Management

Goshawk Asset Management is a trading name of North Atlantic Investment Services Limited (FCA no. 969870) with company no. 13800256

Goshawk Global Balanced UCITS ETF

Introduction

"The ETF targets growing real wealth ahead of inflation after all costs. It invests principally in growth equities and is structured to reduce capital at risk. The aim is strong risk-adjusted returns."

- Alex Illingworth, Goshawk Asset Management

The Investor's Dilemma: grow your savings or protect them?

When investors think about their savings, some aim to grow them, others to protect their value. When economies are strong, equities can offer growth, but when slowdowns occur or inflation rises, markets become more volatile. Goshawk Global Balanced UCITS ETF (ROE) has the flexibility to succeed in a wide range of market conditions.

The ETF is an active fund that invests mainly in quality equities at reasonable valuations. Valuations matter; stocks that are overpriced tend to fall furthest in times of market turmoil. So, the equity element of the portfolio is globally diversified, allowing weightings to fall in more expensive markets and to rise in out-of-favour markets, reducing this valuation risk. This ETF also has the flexibility to hold bonds when equities are generally expensive and when bonds offer reasonable real returns.

The make-up of the equity portfolio in the ETF is very different from that you will find in global equity indices, which we believe have become top-heavy with so-called 'Magnificent Seven' stocks. We expect the ETF to be less volatile than the global index. It is likely to lag rising markets but outperform falling markets. In short, it should capture much, but not all, of the growth while protecting you from the worst of the falls in times of trouble. The Goshawk team has managed similar funds over the past ten and twenty years and found that, over time, this approach of trying to protect investors from the worst of market corrections delivers leading real returns after costs.

The maths behind this is simple. If you lose 50% of your portfolio's value, you have to achieve a 100% return on what is left just to get back to where you were. This is why Warren Buffett said, "The first rule of investment is don't lose. And the second rule of investment is don't forget the first rule." He added: "If you buy things for far below what they're worth and you buy a group of them you basically don't lose money." Over time, we believe this to be true.

Active equity management

It is commonly believed that very few active equity managers outperform the index after costs. The Goshawk Investment Team has a strong long-term record of achieving just that.

As active fund managers, we have delivered this performance by selecting high-quality companies and by avoiding overvalued stocks. The equity index contains several industries with histories of generating patchy returns and leaving investors disappointed – we tend to avoid these sectors. The index also, from time to time, contains companies that may be excellent, but which trade on excessive valuations. We can take profits from holdings that have soared in value and become expensive, reinvesting them in less fashionable areas which offer better value for money and more attractive growth potential.

Goshawk equity themes

The team identifies those sectors and regions with superior long-term growth potential. Currently the investments are mainly focussed on the following themes:

- Artificial intelligence and automation
- Digital services
- Entertainment
- Affordable healthcare
- Consumer brands
- Decarbonisation

Quality equities

The core of the ETF is a portfolio of quality equities. These are companies that have built a strong position in their sector and have a record of high profitability. They often generate a return on equity (ROE) that substantially exceeds bond yields and bank interest rates.

They have a strong market position, which gives them pricing power – the ability to raise prices during periods of higher inflation.

High profitability leads to a strong balance sheet (so low debt, which protects them from the risk of rising interest rates), and gives adaptability to varying economic conditions.

Their financial strength gives these resilient companies an advantage during periods of economic turbulence, enabling them to invest through downturns while competitors lack the funds to compete. Often, they emerge from these difficult periods stronger than ever while weaker competition falls by the wayside.

The Goshawk Team analyses companies across all global equity markets to identify those which show these quality characteristics. By comparing companies across the world, we establish a high benchmark for selecting stocks. We become less interested in how a company performs against its national peers, and more focussed on its global competitiveness. This helps us observe industry trends on a global scale to identify which sectors have a tailwind behind them, and which are facing headwinds.

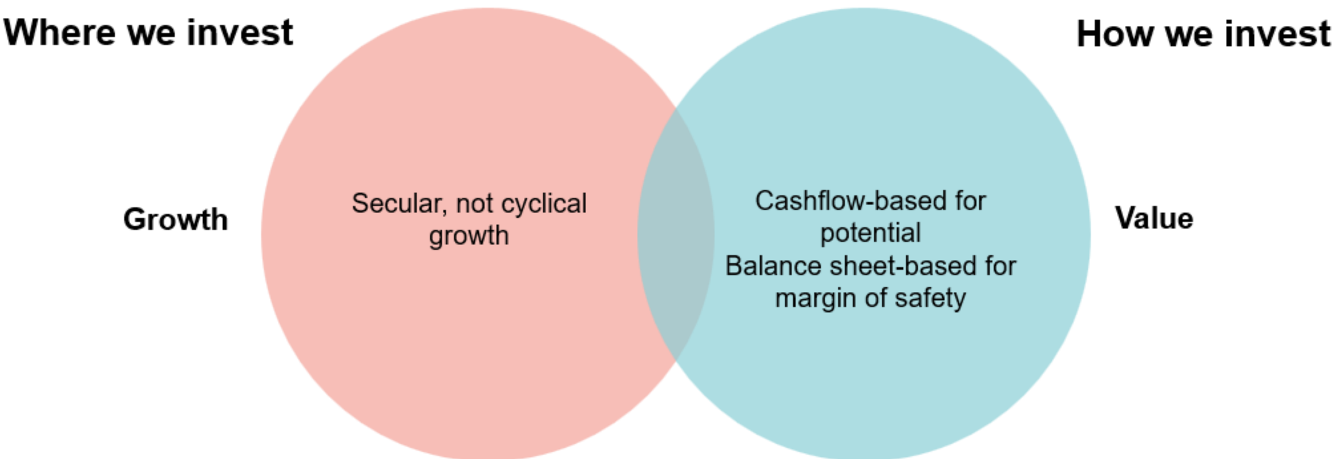
Equity Valuation

Once the quality companies have been identified, the team then assesses each stock's valuation, based on both its cash flows and its intrinsic value. This leads us to add to positions that offer the best value for money and to take profits in parts of the portfolio that seem more expensive given their growth prospects.

Over time, this bottom-up rebalancing of individual equity positions leads the portfolio away from sectors and regions that are too expensive and towards regions and sectors that offer better value for money.

This means that our portfolio can include a blend of so-called 'growth stocks' as well as 'value stocks'. We are pragmatic and nimble, eschewing labels.

We aim to grow clients' real wealth while maintaining capital protection in testing economic conditions.
We aim to deliver consistent performance, reduce volatility and protect the downside

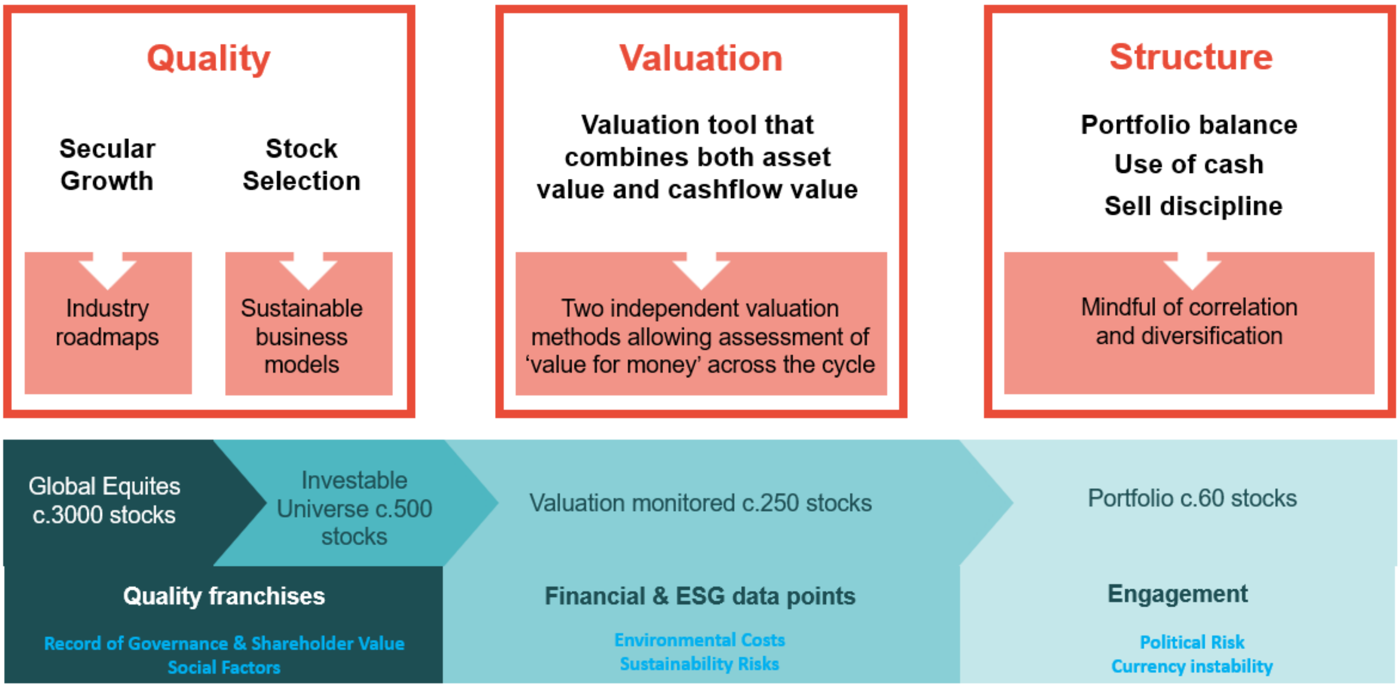


Portfolio balance to mitigate risk

The Goshawk ETF portfolio is built around a diverse portfolio of quality companies at reasonable valuations.

Although we have found that high-quality equities provide the best long-term investment returns, no equity should be owned when its valuation is excessive. Also, equity markets, like bond markets, tend to become overvalued when expectations on long-term inflation are low. In the case of bonds, low inflation makes any bond yield look attractive; in the case of equities, share prices can rise above levels that can be justified by the discounted value of their future cash flows.

For a decade after the 2008 financial crisis, bond yields and bank interest rates were below the inflation rate, so investors were bound to see the real value of their savings fall unless they took more risk. In recent years even short-term bonds (which carry lower risk) are offering yields above current levels of inflation. And therefore, these yields should not be overlooked when constructing a balanced investment portfolio.



The limitations of bonds

Bonds are generally considered a safer investment option than equities. However, they are only likely to deliver positive real returns if inflation proves to be lower than expected at the time of investment. This limitation can significantly impact long-term wealth accumulation.

By diversifying the ETF across the world's equity markets, we can reduce the valuation risk in individual equity markets and sectors. When equities in general seem to be expensive, the ETF will hold greater amounts of bonds and cash, especially when these offer positive returns after inflation. In this way we believe the portfolio offers attractive potential for capital gains while mitigating equity market risks from concentration and over-valuation.

The team

The Global Balanced ETF is actively managed by the expert, and hugely experienced, team at Goshawk Asset Management. We are a team of five fund managers with an average experience of 32 years – an unusual pool of talent to be working on a single product.

Portfolio characteristics

Weightings of the portfolio can be seen accurately at https://www.goshawkam.co.uk/funds/global-balance-fund-ucits-etf/ . This illustrates positioning of the fund.

Summary

The Goshawk Global Balanced ETF aims to increase investors' real wealth over the long term after all charges. The portfolio is built around a core of quality equities at reasonable valuations. Bonds provide balance – up to 25% of the fund can be allocated to bonds, cash or deep-value equities. This balance strikes the middle ground between capital preservation and growth and should deliver a consistency to returns. This is patient investing for patient investors. The team has decades of experience in managing similar funds that have achieved this objective. Finally, this is all now available in a simple ETF wrapper with total running costs of only 69bps.

For more information, please email info@goshawkam.com

Trading information

Exchange	Ticker	RIC	SEDOL	CCY	Listing Date
LSE	ROE LN	ROE.L	BJP4Y29	$	13/10/2020
LSE	ROES LN	ROES.L	BJP4Y18	£	13/10/2020
Xetra	ROE GY	ROEG.DE	BMW4W85	€	19/10/2020
Borsa Italiana	ROE IM	ROE.MI	BMW4W74	€	21/10/2020

Risks

Investors' capital is fully at risk and investors may not get back the amount originally invested.

The value of equities and equity-related securities can be affected by daily stock and currency market movements.

Exchange rate and interest rate fluctuations could have a negative or positive effect on returns.

Goshawk Asset Management manages global equity funds

Our aim is to grow our investors' wealth over time, ahead of inflation and after all costs. We believe that this is best achieved through global equities. Our portfolios are focussed, generally contain up to 60 stocks, and often hold contrarian positions.

Our team is one of the most experienced in London. The managers have many years' experience valuing stocks and balancing risk in the portfolio. The fund managers are substantial investors in the fund.

Goshawk is supported by Harwood Capital LLP, which also provides backing for the North Atlantic Smaller Companies, Odyssean, Rockwood Strategic, and Oryx Investment Trusts.

Active ETFs

Active exchange-traded funds look set to become a big part of portfolios in future years, as they can capture many of the best features of actively managed mutual funds, investment trusts and traditional, passive ETFs.

Historically, ETFs have tended to track an index and have enabled advisers to offer clients quick, easy and cheap passive access to a diversified portfolio of multiple investments. They are liquid and transparent.

Many advisers prefer the purely passive route today. However, given the extremely high levels of concentration in some indices – notably the S&P 500 and the MSCI All Country World Index – we believe the ETF structure should be greater utilised for Active Management.

The first active ETF was launched in the US in the late 2000s. Research from HANetf shows that actively-managed ETFs accounted for a record 25% of global ETF flows in the first half of last year. In Europe, active ETFs saw $5.9 billion in inflows over the same period, bringing AUM to $45 billion.

To date, active ETFs have tended to invest thematically: they might focus, for example, on artificial intelligence or biotechnology. They could be considered specialist niche products. Now the wider investment community is recognising their attractions.

There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader. Past performance is not indicative of future results. The value of your investment may go down as well as up, and you may not receive upon redemption the full amount of your original investment.

The Investment Manager is authorised and regulated by the Financial Conduct Authority and registered in England and Wales. Its registered office address is 6 Stratton Street, Mayfair, London W1J 8LD United Kingdom. Goshawk Asset Management is a trading name of North Atlantic Investment Services, a wholly owned subsidiary of Harwood Capital.