

# LWM

## Consultants Ltd.

*Investors in Values*



### **LWM ADVENTUROUS GROWTH PORTFOLIO** *(Overview of portfolio – overweight / underweight positions)*

The portfolio aims to provide growth potential but adopts the largest risk / reward strategy. In doing this the fund is weighted towards equities and has a much smaller holding in fixed interest investments (this is only 5%). The largest overweight is global equities and largest underweight is property.

Generally we favour emerging market equities. Research by Baillie Gifford indicates that UK equities have volatility around 21.1% compared to 23.7% for emerging market equities. The point being that actually there is very little difference in volatility between the developed world and the emerging markets.

The International Monetary Fund (IMF) recently indicated that global emerging markets make up around 13% of the global equity market. They expect this to increase to 40% in the foreseeable future.

Within the fixed interest / money markets sector we have no direct exposure to UK bonds. We hold assets in the Standard Life GARS Fund which provides bond like volatility with the potential for equity type returns but use no other fixed interest instruments (this is only 5% of the overall portfolio).

We have a reduced exposure to property as although this can act as a strong underpin for keeping volatility under control it can have a negative drag on performance especially where we are adopting a greater risk / reward strategy.

We have taken an underweight position in fixed interest, property, Japan and UK equities but only by around 1% and 10% in each sector.

Across all the portfolios we have reduced exposure to Japan. Japan is an enigma, GLG recently soft closed its Japanese fund and although a number of fund manager's talk about a

corner being turned there is no clear evidence that this is the case. We have therefore reduced exposure to Japan and will review this next year.

Within emerging markets we have diversified exposure and reduced risk because many fund managers even within a UK fund will have indirect exposure to emerging markets. So for example the companies they invest in may derive a large proportion of their profits from emerging markets. This is reflected in our overexposure to global equities where in many cases funds have both direct and indirect exposure to emerging markets. Also within the global sector we can diversify into more specialist areas like natural resources, global basis and infrastructure which have a global theme.

	Towers Watson Weightings	LWM Portfolio Weightings	Difference (+ / -)
Fixed Interest	7%	5%	-2%
Property	15%	5%	-10%
UK Equities	18%	17%	-1%
US Equities	12%	14%	+2%
European Equities	12%	14%	+2%
Japanese Equities	9%	4%	-5%
Asia Pacific Equities	9%	10%	+1%
Emerging Markets	9%	9%	0%
Global / Specialist Equities	9%	22%	+13%
	100%	100%	

We run the portfolio against volatility measures which indicate the maximum swing between loss and gain. Based on the risk rating of this fund this would be at a level of 31.86%. We also use two other measures, alpha and beta. The alpha measures the underperformance and over performance of the portfolio against the benchmark, so if the figure is 4% the fund has outperformed the index by 4%. The beta shows how volatile the fund is in comparison to the outperformance so a figure close to 1% means the fund will move closely in line with the benchmark.

When we construct the portfolio we cannot look into the future and therefore can only look at the past. However, this does give us an indication as to how the portfolio may perform.

	Volatility	Alpha	Beta
LWM Adventurous Growth Portfolio	15.66%	5.08%	1.16%

In summary the main overweight for the portfolio is global equities and in the main this has been taken from Japan and Property. Global equities provide a broader exposure to the global market and within this sector we are able to utilise both global and more specialist funds without over risking the portfolio.

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. LWM only invests in UK based investments although some funds / assets may have overseas holdings, the performance of funds / assets where some holdings are denominated in foreign currencies will also be subject to variations in currency rates.

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Registered in England & Wales under Company Number 07408315  
Registered Office: St John's Court Whiteladies Road Bristol BS8 2QY