

# LWM

## Consultants Ltd.

*Investors in Values*



### **LWM CAUTIOUS GROWTH PORTFOLIO**

***(Overview of portfolio – overweight / underweight positions)***

The portfolio aims to provide growth potential but adopts a more risk / reward strategy when compared to the defensive portfolio. The largest overweight is in UK equities and underweight is in fixed interest and Japan.

Generally we favour emerging market debt and equities. Research by Baillie Gifford indicates that emerging market debt has volatility of 9.5% against 10.1% for global bonds. 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 reduced exposure to UK bonds and adopted a strategic bond strategy mixed with emerging market debt. We continue to hold the majority of assets within this sector in the Standard Life GARS Fund which provides bond like volatility with the potential for equity type returns.

We have taken an underweight position in fixed interest, Japan and emerging markets but only by around 1% and 3% in each sector. Although we have an underweight in fixed interest we have an overweight in UK Equities where we have a 5% holding in the Schroder Income Maximiser Fund. This fund effectively offers bond like volatility and yield but equity type returns and we believe this works well within this portfolio.

Across all the portfolios we have reduced exposure to Japan. Japan is an enigma; GLG recently soft closed its Japanese fund and although some fund managers 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.

The table below shows our underweight, overweight and equal weightings against the Towers Watson position weightings.

|                              | Towers Watson Weightings | LWM Portfolio Weightings | Difference (+ / -) |
|------------------------------|--------------------------|--------------------------|--------------------|
| Fixed Interest               | 46%                      | 43%                      | -3%                |
| Property                     | 15%                      | 15%                      | 0%                 |
| UK Equities                  | 7%                       | 12%                      | +5%                |
| US Equities                  | 6%                       | 7%                       | +1%                |
| European Equities            | 6%                       | 7%                       | +1%                |
| Japanese Equities            | 5%                       | 2%                       | +3%                |
| Asia Pacific Equities        | 5%                       | 5%                       | 0%                 |
| Emerging Markets             | 5%                       | 3%                       | -2%                |
| Global / Specialist Equities | 5%                       | 6%                       | +1%                |
|                              | 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 17.57%. 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 Cautious Growth Portfolio | 9.35%      | 3.71% | 1.08% |

In summary the main overweight for the portfolio is UK equities however the additional exposure within this sector provides bond like volatility and yields and overall the overweight / underweight positions did not impact on the volatility of 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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