

LWM

Consultants Ltd.
Investors in Values



LWM CAUTIOUS INCOME PORTFOLIO *(Overview of portfolio – overweight / underweight positions)*

The portfolio aims to provide both income and growth potential. The largest overweight is in global equities and we are underweight (or nil weighting) across all other equity sectors. In reality the largest holdings – Scottish Mortgage, M&G Global Dividends and 3i Infrastructure – have global exposure so indirectly the fund does have exposure to Europe, US etc.

Deploying sensible risk management is crucial to the selection of assets and deployment of risk. By taking an overweight position in global equities we have diversified exposure and reduced risk because the funds have exposure across global markets.

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 a direct position of 3% in emerging markets. However, within the global sector there is both direct and indirect exposure to emerging markets. So for example the Scottish

Mortgage Investment Trust currently has around 10% in emerging markets. Taking this approach means we have diversified exposure and reduced risk.

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%	10%	+3%
US Equities	6%	0%	-6%
European Equities	6%	0%	-6%
Japanese Equities	5%	0%	-5%
Asia Pacific Equities	5%	4%	-1%
Emerging Markets	5%	3%	-2%
Global / Specialist Equities	5%	25%	+20%
	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 Income Portfolio	8.42%	4.14%	1.03%

In summary the main overweight for the portfolio is global equities however this indirectly still provides exposure across all global sectors which we believe reduces risk and volatility to a portfolio which ultimately is looking to deliver income through growth and dividends.

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.

LWM Consultants Ltd is an appointed representative of Sense Network Limited, which is authorised and regulated by the Financial Services Authority.

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