LWM

Consultants Ltd.

Investors in Values

LWM DEFENSIVE GROWTH PORTFOLIO

(Overview of portfolio – overweight / underweight positions)

The “holy grail” would be to provide good positive returns with no losses and no risk. Sadly this is not possible however the portfolio aims to protect the capital as much as possible whilst providing the potential for long term growth.

Deploying sensible risk management is crucial to the selection of assets and deployment of risk. Within the fixed interest / money markets part of the portfolio we have taken a 5% overweight position to reduce the volatility and risk within the portfolio.

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.

This approach has seen us take an underweight position in Japan, Asia Pacific, Emerging Markets and Global Smaller Companies equities but only by around 1% and 2% in each sector. 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	54%	59%	+5%
Property	15%	15%	0%
UK Equities	5%	6%	+1%
US Equities	5%	5%	0%
European Equities	5%	5%	0%
Japanese Equities	4%	2%	-2%
Asia Pacific Equities	4%	3%	-1%
Emerging Markets	4%	2%	-2%
Global / Specialist Equities	4%	3%	-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 14.00%. 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 Defensive Growth Portfolio	7.32%	3.53%	0.95%

In summary the main overweight for the portfolio is fixed interest however we believe this is the correct position to take to reduce the volatility within the portfolio but still provide the potential for growth.

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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