

# LWM

## Consultants Ltd.

*Investors in Values*



### LWM DEFENSIVE GROWTH PORTFOLIO RE-BALANCE 30 JUNE 2012

#### Summary

2011 was a challenging year for equities and many of the underlying problems from 2011 remain. One fund manager recently suggested that the time of normality will only return when the markets don't get spooked by the announcement that there will be no more quantitative easing.

Within this market our focus remains to protect and grow your wealth, this does not mean that there won't be periods when assets fall but in the long term we aim to deliver good solid positive growth.



Our service to you includes providing you with detailed information on the portfolios - each quarter our website will include updated performance data and our investment committee report (this covers our view of the markets and any potential areas we need to monitor). You will also find notes from meetings we have with fund managers.

We are keen not to overload you with information; in the last review we gave a brief summary of each fund in the portfolio. The feedback we had was that what would help you more would be a summary showing the new funds and the old funds and then a brief summary of the changes.

In this document we have provided a summary of the risk of the portfolio and a summary of the key changes to the portfolio. If you require any additional information then please let us know.

## Risk and benchmark performance of fund:

A defensive investor recognises that investment values will change but that they would feel very uncomfortable if investments rose and fell in value very rapidly. The portfolio we have constructed reflects this and has a low to medium risk score of 3 out of 10.

Risk (maximum 10)	Score	Upper return	Average return	Lower return
3		19.19%	5.19%	-8.81%

Please read important notes at the end of this document.

## Key changes to the portfolio

In this section we review changes to the portfolios. Some sectors like property have had no changes to the holdings. We have reviewed these sectors and our analysis indicates the current holdings should remain.

### Fixed Interest



One sector we believe is attractive is emerging market debt where there is greater potential for profits than in developed markets. This is driven by the low interest environment faced by most of the developed countries which stifles potential returns. In emerging markets for bonds interest rates are higher and therefore there is greater potential for asset rises as lower inflation brings lower interest

rates.

We have therefore reduced exposure to developed market debt and increased exposure to emerging market debt. In researching this we found the volatility to be lower for emerging market debt than developed debt. So with this change we are lowering volatility and opening up the potential for greater growth going forward.

We are recommending Threadneedle Emerging Market Bond Fund and Baillie Gifford Emerging Markets Bond Fund. We have recently posted a review of the Baillie Gifford Fund onto the website after meeting the fund manager and we believe this fund and the Threadneedle Fund offer a good blend.

We have removed the Baring Global Absolute Fund as this has failed to perform although its inclusion was to protect against a rising inflation rate which did not occur. We retain

exposure to the Standard Life GARS Fund which has continued to deliver and provides an excellent foundation stone for the portfolios. We have increased the holding in the Standard Life Fund to act as an underpin to the portfolio.

### UK Equity

We have made some minor tweaks to the percentage holdings to readjust the risk profile of the portfolio.

The main change is the removal of the Edinburgh Investment Trust which has been replaced by the Standard Life UK Equity Income Unconstrained Income Fund. We have met the fund manager of the Standard Life fund and a review is on our website, we like this fund because it seeks income from not only the FTSE 100 but also outside of this so from the FTSE 250 and 350 which can drive better returns and ensures this is not a quasi-tracker fund.

The Edinburgh fund has performed extremely well over the past two years, it was purchased initially at a 10% discount to net asset value and now stands at a premium.

### US Equities

In reviewing the US Equity Sector we opted for a large cap fund to sit alongside the GAM and Baillie Gifford Funds – the Allianz RCM US Equity Fund. The Allianz RCM US Equity Fund has a stable management team and is well respected within the sector. We believe its style will blend well with the two other funds, which are more focused on the mid to small cap markets.

### European Equities

We have tweaked some of the holdings to reduce the risk on the portfolio; this has meant removing the Ignis Argonaut European Alpha Fund which we felt was too volatile for the portfolio. In its place we have introduced the Liontrust European Growth Fund. The Liontrust European Growth Fund has an excellent long term track record and provides a good balance to the Neptune Fund.

### Japan and Far East

Towards the end of 2011 GLG closed their highly successful Core Alpha Fund to new business.

The Japanese market is very difficult to analyse. The markets look cheap on the conventional metrics but Japan has many unique elements both culturally and financially and remains an enigma to most.

We have made a call to reduce our exposure to Japan significantly and added to our weightings in the Far East where we believe there is greater potential and



spread to achieve long-term returns.

We will continue to monitor this and potentially we could remove Japan as a holding and just hold assets in the Far East and / or Emerging Markets. To replace GLG we have turned to two excellent funds – Fidelity Japan Smaller Companies Fund and Schroder Tokyo Fund. Both funds are well established and respected.

## **Conclusion**

We have back-tested this new portfolio and feel that this provides a good basis for the next twelve months to deliver long-term performance. We will continue to monitor the funds and provide you with updates. We will be meeting with fund managers from Neptune, M&G, L&G, Schroders and JP Morgan over the coming months and will be posting updates as we have these.

## **Special notes**

### **Risk**

The risk score is to provide a guide; risk is set between 0 and 10. The higher the number the higher the risk, so for example ten is the highest level of risk and zero is minimal i.e. cash. The upper return is the expected upper maximum return for the given level of risk. The average of all returns is the possible returns within a risk level over one year. The lower level return is the lowest expected level of return. These are not guaranteed but provide a benchmark to measure performance of the portfolio.

The Defensive Growth Portfolio has been given a rating of 3 out of 10 and aims to achieve annual average returns of around 5.19%, with a downside risk of -8.81% and upside growth potential of 19.19%. Although these returns are not guaranteed the investment committee will look to select assets which work within these boundaries.

### **Performance**

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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