

# WAVERTON

INVESTMENT MANAGEMENT

## WAVERTON PLATFORM PORTFOLIO SERVICE DEFENSIVE PORTFOLIO

31ST JANUARY 2019

### OBJECTIVES

#### PORTFOLIO OBJECTIVE

The Waverton Defensive Portfolio is intended for investors with a low/medium attitude to risk and a minimum time horizon of 4 years. The portfolio seeks a longer-term return of 2.0% above inflation measured by the Consumer Price Index (CPI).

PORTFOLIO TYPE	INDICATIVE RETURN: CPI+	Expected Risk
Growth	3.5%	High
Balanced	3.0%	Medium
Cautious	2.5%	
Defensive	2.0%	Low
Conservative	1.5%	

#### PORTFOLIO OVERVIEW

The portfolio seeks to provide a diversified interest in a variety of asset classes and the realistic prospect of capital growth and income over the longer term within acceptable risk parameters. Importantly, we expect little correlation between equities, bonds and selected alternative asset classes so the portfolio should provide some degree of protection during periods of equity market weakness.

The portfolio is invested through a mix of five specialist Waverton funds: Sterling Bond Fund, Global Core Equity Fund, Tactical Equity Fund, Absolute Return Fund and the Real Assets Fund.

#### THIRD PARTY RISK PROFILES



### PERFORMANCE

#### PERFORMANCE (NET OF FEES) TO 31ST JANUARY 2019

Period	YTD	2018	2017	2016	2015	2014	2013	Since Inception (31.12.11)
Portfolio (%)	1.1	-3.4	6.6	6.5	2.3	3.9	10.4	39.5
CPI+ Indicative Return* (%)	0.2	4.4	5.2	4.1	3.2	3.5	5.1	36.4

#### STANDARDISED PERFORMANCE

Period 1 year to	31/01/2019	31/01/2018	31/01/2017	31/01/2016	31/01/2015
Portfolio (%)	-2.5	5.6	10.9	-2.3	7.5

Performance displayed is the Waverton Defensive Portfolio available through third party platforms. The portfolio is invested through a mix of four Waverton Funds: Sterling Bond, Global Core Equity, Tactical Equity & Alternatives. The Waverton Global Core Equity funded was introduced in Q4 16. Performance is shown net of fees. Fee of 0.5% per annum to 31st March 2014 and 0.4% per annum thereafter.

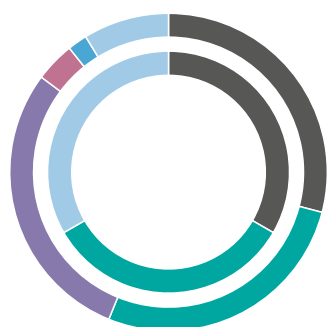
\*The CPI+ Indicative Return was CPI+3.0% until 31st December 2016 and CPI+2.0% thereafter to reflect our current return expectations.

**Risk Warning:** Past performance is no guarantee of future results and the value of such investments and their strategies may fall as well as rise, you may not get back your initial investment, capital security is not guaranteed.

Source: Waverton, Bloomberg, & Morningstar.

### ASSET ALLOCATION

#### CURRENT ASSET ALLOCATION



Asset	Strategic Weight (Inner)	Tactical (Outer)
Fixed Income	33.3%	29.1%
Equities	33.3%	27.1%
Absolute Rtn	0.0%	29.1%
Real Assets	0.0%	4.1%
Hedging	0.0%	2.0%
Cash	33.3%	8.7%

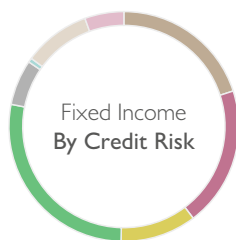
#### PORTFOLIO ASSET ALLOCATION

Asset Class Ranges	Minimum	Maximum
Cash & Fixed Income	25%	80%
Equities	20%	45%
Alternatives	0%	40%

Please see overleaf for a detailed breakdown of the holdings within each asset class.

## FIXED INCOME

The Waverton Sterling Bond Fund's objective is to achieve capital growth and income through direct investment in UK and International government and corporate bonds.



Top 10 Positions	% Fund	% Portfolio
UK Gilts	16.3%	5.1%
Pershing Square	3.0%	3.0%
US Treasuries	13.6%	2.3%
US Treasury Inflation	4.3%	1.5%
Royal Bank of Canada	3.0%	0.9%
HSBC	2.5%	0.8%
Mexican Government	2.5%	0.8%
Barclays Bank	4.9%	0.5%
Lloyds Bank	4.1%	0.2%
Phoenix Group	3.2%	0.1%
	57.4%	15.1%

Credit Risk	% Fund	% Portfolio
AAA	20.0%	6.2%
AA	19.7%	6.1%
A	10.7%	3.3%
BBB	27.7%	8.6%
BB	6.4%	2.0%
B	0.6%	0.2%
NR	9.4%	2.9%
Cash	5.5%	1.7%
	100%	31.0%

Sector	% Fund	% Portfolio
Financial	44.5%	13.8%
Government	39.8%	12.3%
Utilities	3.1%	1.0%
Energy	3.0%	0.9%
Consumer,	1.4%	0.4%
Hedging	0.7%	0.2%
Industrial	0.6%	0.2%
Consumer, Cyclical	0.6%	0.2%
Communications	0.5%	0.2%
Basic Materials	0.3%	0.1%
Cash	5.5%	1.7%
	100%	31.0%

## EQUITIES

The Portfolio's equity holdings are divided between Core Equities (typically 60% of the holdings) and Tactical Equities (typically 40% of the holdings).

### CORE EQUITIES

The Waverton Global Core Equity Fund is a diversified portfolio of approximately 200 global developed market equities. The Fund takes no regional or sector biases so the asset allocation will always closely reflect that of global equity markets. Investment is through directly held equities.

NORTH AMERICAN	% of Fund	% of Defensive Portfolio	UK	% of Fund	% of Defensive Portfolio	CONTINENTAL EUROPEAN	% of Fund	% of Defensive Portfolio
Microsoft	2.6%	0.4%	BP	0.8%	0.1%	Nestle Sa	1.1%	0.2%
Amazon.com	2.1%	0.4%	Tate & Lyle	0.5%	0.1%	Novartis 'R'	0.7%	0.1%
Exxon Mobil	2.1%	0.4%	Diageo	0.4%	0.1%	Roche Holding	0.7%	0.1%
JPMorgan Chase	1.9%	0.3%	London Stock Exchange Group	0.4%	0.1%	Safran	0.5%	0.1%
Apple	1.9%	0.3%	Berkeley Group	0.4%	0.1%	BASF	0.5%	0.1%
Verizon Communications	1.5%	0.2%	Anglo American	0.4%	0.1%	LVMH	0.5%	0.1%
Visa 'A'	1.4%	0.2%	HSBC Holdings Plc	0.4%	0.1%	Adidas	0.4%	0.1%
Johnson & Johnson	1.3%	0.2%	Reckitt Benckiser	0.4%	0.1%	Sika	0.4%	0.1%
Berkshire Hathaway 'B'	1.2%	0.2%	National Grid	0.3%	0.1%	Bayer	0.4%	0.1%
Other (93 Positions)	45.6%	7.7%	Other (7 Positions)	1.9%	0.3%	Other (32 Positions)	10.1%	1.7%

JAPANESE	% of Fund	% of Defensive Portfolio
Toyota Motor	1.1%	0.2%
East Japan Railway	0.5%	0.1%
Sumitomo Mitsui Financial Group	0.5%	0.1%
Itochu	0.5%	0.1%
Maeda Road Construction	0.5%	0.1%
Hoya	0.4%	0.1%
Shionogi	0.4%	0.1%
KDDI	0.4%	0.1%
Kansai Paint	0.4%	0.1%
Other (16 Positions)	5.1%	0.8%

ASIA PACIFIC EX JAPAN	% of Fund	% of Defensive Portfolio
BHP Group	0.6%	0.1%
Link REIT	0.5%	0.1%
Taiwan Semi Manuf Company (TSMC)	0.4%	0.1%
Macquarie Group	0.4%	0.1%
Spark New Zealand	0.4%	0.1%
Hang Lung Properties	0.4%	0.1%
Northern Star Resources	0.4%	0.1%
DBS Group Holdings	0.4%	0.1%
CLP Holdings	0.3%	0.0%
Other (8 Positions)	2.3%	0.8%

## EQUITIES CONTINUED

### TACTICAL EQUITIES

The Waverton Tactical Equity Fund provides an exposure to a variety of market themes in which we have high conviction. Investment is principally through third party specialist funds.

TOP HOLDINGS	Region	% of Fund	% of Defensive Portfolio
Hermes Asia Ex Japan Equity Fund	Asia Pacific	12.1%	1.4%
RWC Global Emerging Markets Fund	Emerging Market	7.2%	0.8%
Fundsmith LLP Equity Fund	Global	7.1%	0.8%
Driehaus US Micro Cap Equity Fund	North American	6.1%	0.7%
Smith & Williamson AI	Global	5.6%	0.6%
MI Chelverton UK Equity Growth Fund	UK	5.5%	0.6%
LF Lindsell Train UK Equity Fund	UK	5.0%	0.6%
MI Metropolis Valuefund	Global	4.6%	0.5%
Waverton Protection Strategy	Hedging	4.3%	0.5%
Lindsell Train Japanese Equity Fund	Japanese	4.2%	0.5%
Fidelity China Special Situations	Asia Pacific	3.8%	0.4%
SPDR MSCI Europe Energy UCITS ETF	Continental European	3.7%	0.4%
Ashoka India Opportunities Fund	Emerging Market	3.6%	0.4%
BNY Mellon Japan Small Cap Equity Focus Fund	Japanese	3.6%	0.4%
Magallanes European Equity Fund	Continental European	3.6%	0.4%
LF Milton European Opportunities Fund	Continental European	3.4%	0.4%
Draper Esprit Plc	Global	3.0%	0.3%
Prusik Asian Equity Income Fund	Asia Pacific	3.0%	0.3%
Other (6 Positions)		10.6%	1.2%
<b>Total</b>		<b>100.0%</b>	<b>11.2%</b>

### ALTERNATIVES

The Portfolio's alternative holdings include both Absolute Return and Real Asset Strategies.

#### ABSOLUTE RETURN

The Waverton Absolute Return Fund provides broad exposure to a diversified range of hedge fund strategies. The underlying strategies aim to produce positive returns over 1 to 3 year rolling periods.

TOP HOLDINGS	Sector	% of Fund	% of Defensive Portfolio
Jupiter Absolute Return Fund	Equity Market Neutral	9.9%	3.4%
Phileas Long/Short Europe	Equity Market Neutral	8.5%	2.9%
JP Morgan Global Macro Opportunities	Global Macro	8.1%	2.8%
BMO Real Estate Equity Long/Short Fund	Long/Short Equity	8.0%	2.7%
DCI Market Neutral Credit Fund	Equity Market Neutral	7.9%	2.7%
Alpine Merger Arbitrage Fund	Merger Arbitrage	7.5%	2.6%
Odey Absolute Return Fund	Long/Short Equity	7.2%	2.4%
Merian Global Investors UK Specialist Equity Fund	Long/Short Equity	6.6%	2.2%
BlueBay Global Sovereign Opportunities Fund	Global Macro	6.3%	2.1%
MontLake Dunn WMA UCITS Fund	CTA	5.9%	2.0%
Other (5 Positions)		24.1%	8.2%
<b>Total</b>		<b>100.0%</b>	<b>34.0%</b>

#### REAL ASSETS

The Waverton Real Asset Fund provides exposure to a diverse range of strategies all gaining access to various Real Asset classes and their respective income streams.

TOP HOLDINGS	Sector	% of Fund	% of Defensive Portfolio
Channel Islands Property	Property	5.1%	0.3%
Invesco Physical Gold US\$	Hedging	4.3%	0.2%
GMO Climate Change Investment	Commodity	3.8%	0.2%
Semper Total Return	Specialist Lending	3.7%	0.2%
Twelve Capital Cat Bond	Specialist Lending	3.7%	0.2%
Atlas Global Infrastructure	Infrastructure	3.5%	0.2%
BMO Property Growth & Income	Property	3.4%	0.2%
The Renewables Infrastructure Group	Infrastructure	3.1%	0.2%
3i Infrastructure	Infrastructure	3.0%	0.2%
Pimco Global Advisors MLP Energy Infrastructure	Commodity	2.4%	0.1%
Other (29 Positions)		64.0%	3.2%
<b>Total</b>		<b>100.0%</b>	<b>5.0%</b>

Source: Waverton Investment Management, Morningstar

### REGIONAL ALLOCATION

The chart below shows the overall equity regional allocation for the combined Core and Tactical Equity holdings.



Region	% Fund	% Portfolio
UK	9.4%	2.6%
North American	39.4%	11.0%
Continental European	13.6%	3.8%
Asia Pacific ex Japan	11.2%	3.1%
Japanese	9.0%	2.5%
Emerging Market	4.3%	1.2%
Global	9.7%	2.7%
Hedging	1.9%	0.5%
Cash	1.5%	0.4%
<b>Total</b>	<b>100%</b>	<b>28.0%</b>

#### ABSOLUTE RETURN



Sector	% Fund	% Portfolio
Long/Short Equity	29.3%	10.0%
Equity Market Neutral	26.3%	8.9%
Global Macro	14.4%	4.9%
Cash	11.6%	3.9%
Merger Arbitrage	7.5%	2.6%
CTA	5.9%	2.0%
Hedging	2.9%	1.0%
Real Asset Transition	2.1%	0.7%
<b>Total</b>	<b>100%</b>	<b>34.0%</b>

#### REAL ASSETS



Sector	% Fund	% Portfolio
Property	25.7%	1.3%
Specialist Lending	18.2%	0.9%
Infrastructure	15.0%	0.8%
Cash	13.5%	0.7%
Asset Finance	13.3%	0.7%
Commodity	8.9%	0.4%
Hedging	5.4%	0.3%
<b>Total</b>	<b>100%</b>	<b>5.0%</b>

## COMMENTARY

After a difficult fourth quarter of 2018 markets have now rebounded strongly in January. We have recently added the Waverton Real Assets Fund to our model portfolio range and details of holdings can be found in the centre spread of this document. The commentary below relates to predominantly the performance of our models towards the end of last year.

Government bond markets rose during the quarter as equity markets and other risk assets sold off sharply. We posted a positive performance from our Fixed Income component in the quarter thanks largely to a very strong December which in turn was due to some defensive moves within the Fund during the year, including: reduction of currency risk and credit exposure, an increase in duration and the introduction of derivative based protection strategies. Our use of options will enable us to reverse this when we judge the cycle is changing and the bear market in Gilts resumes.

Within equity markets there was more dispersion amongst sectors than regions. The Technology sector fell -15.7% in sterling terms, as many growth businesses came under pressure, including some of the largest companies like Apple (-28% during Q4) and Nvidia (-51%). Many of these have performed strongly for some time, and even after a weak Q4 the Technology sector still posted positive returns in sterling over 2018 as a whole. Technology was not the worst performing sector in Q4; the Energy sector fell -19.7%. Oil price (Brent) collapsed from \$83 a barrel to \$54 during the period, which put pressure on oil companies many of which have low returns on capital and high debt levels. The only sector to post positive returns was Utilities (+3.0%), although other sectors with defensive cash flows like Telecoms and Consumer Staples were relatively resilient.

The Core portfolio outperformed on a relative basis during Q4 (and for 2018 as a whole) as valuation discipline and exposure to companies with relatively strong balance sheets supported stock selection performance. The Tactical component underperformed the Index in the fourth quarter. Unsurprisingly in these conditions the chief laggards were those funds that were exposed to the small and micro-cap strategies in the UK, US and Japan. There was little change to the geographic allocation over the quarter, but we did purchase a new holding, the closed ended investment trust BB Healthcare, in December.

Alternatives also had a challenging fourth quarter with the absolute return strategies caught out by the sharp reversal in equity markets in October. Seven of our ten Managers posted negative returns. It was interesting to note however that these managers, in aggregate managed to protect in December and posted a small positive so were clearly relatively nimble in the fast markets that we have seen.

The falls that we saw in the 4th quarter have raised fears that the stock market is expecting a sharp slowdown or even recession in the United States in particular. However, the reliable cyclical indicators we constantly monitor are not consistent with a recession. For example, whereas corporate profits have declined ahead of 10 out of the last 11 recessions, company results for the third quarter of this year showed continued growth with widespread confidence that there will be further progress in 2019. Also, the oil price has risen significantly ahead of all recessions since 1970; in contrast, oil prices have declined over 35% in the last two months. That is a positive for the economy, not a negative. This stock market correction that we are seeing means that valuations are now more attractive with the prospective price earnings multiple on the world index at a hardly elevated 13x. We have high degree of conviction that the companies you are exposed to in your portfolio will continue to grow their future earnings and cash flow, and that their business models are robust; this will in turn provide shareholders with good returns over time.

## FUND DETAILS

Investment Manager	Waverton Investment Mgmt
Annual Management Charge (AMC)	0.4%
Ongoing Charge - Strategic (Inc. AMC & Transaction charges)	1.03%
Ongoing Charge - Current Tactical (Inc. AMC & Transaction charges)	1.11%
Dealing Frequency	Daily
Base Currency	Sterling
Launch Date	31st December 2011
Minimum Investment	None

## CONTACT DETAILS

### MARKETING CONTACT

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