



# WAVERTON

INVESTMENT MANAGEMENT

## WAVERTON PLATFORM PORTFOLIO SERVICE CAUTIOUS PORTFOLIO

Quarter 4 2018

### OBJECTIVES

#### PORTFOLIO OBJECTIVE

The Waverton Cautious Portfolio is intended for investors with a medium attitude to risk and a minimum time horizon of 5 years. The portfolio seeks a longer term return of 2.5% 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%	Low
Defensive	2.0%	
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 four specialist Waverton funds: Sterling Bond Fund, Global Core Equity Fund, Tactical Equity Fund and the Alternatives Fund.

#### THIRD PARTY RISK PROFILES



### PERFORMANCE

#### PERFORMANCE (NET OF FEES) TO 31ST DECEMBER 2018

Period	4th QTR	YTD	2017	2016	2015	2014	2013	Since Inception (31.12.11)
Portfolio (%)	-6.0	-4.0	7.9	8.3	2.5	4.7	13.1	47.2
CPI+ Indicative Return* (%)	1.1	4.8	5.7	4.6	3.7	4.0	5.6	40.7

#### STANDARDISED PERFORMANCE

Period 1 year to	31/12/2018	31/12/2017	31/12/2016	31/12/2016	31/12/2015
Portfolio (%)	-4.0	7.9	8.3	2.5	4.7

Performance displayed is the Waverton Cautious 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+3.5% until 31st December 2016 and will be CPI+2.5% 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	35.0%	25.3%
Equities	45.0%	43.3%
Alternatives	0.0%	21.0%
Hedging	0.0%	1.9%
Cash	20.0%	8.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

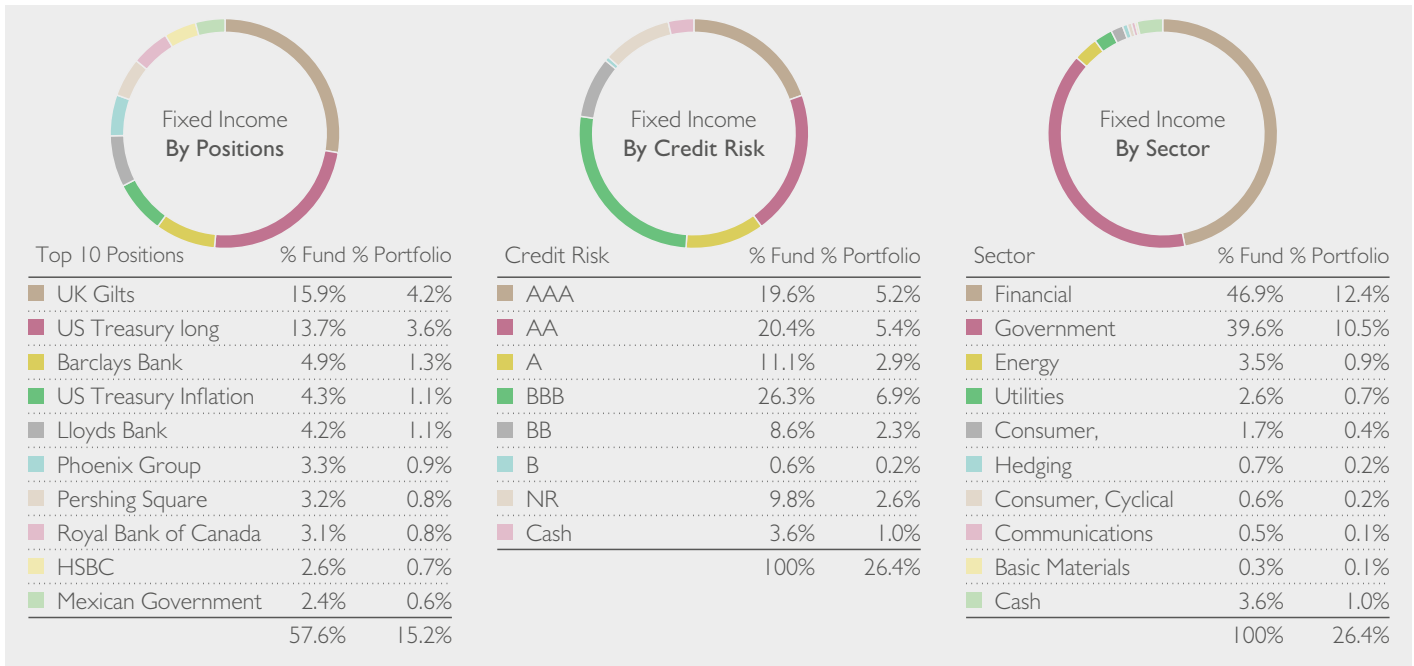
#### PORTFOLIO ASSET ALLOCATION

Asset Class Ranges	Minimum	Maximum
Cash & Fixed Income	20%	70%
Equities	30%	60%
Alternatives	0%	35%

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.



## 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 Cautious Portfolio	UK	% of Fund	% of Cautious Portfolio	CONTINENTAL EUROPEAN	% of Fund	% of Cautious Portfolio
Microsoft	2.5%	0.7%	BP	0.9%	0.2%	Nestle Sa	1.0%	0.3%
Amazon.com	2.5%	0.7%	Tate & Lyle	0.4%	0.1%	Novartis 'R'	0.6%	0.2%
Exxon Mobil	2.4%	0.7%	Diageo	0.4%	0.1%	Roche Holding	0.6%	0.2%
JPMorgan Chase	2.3%	0.6%	London Stock Exchange Group	0.4%	0.1%	Safran	0.6%	0.2%
Apple	1.9%	0.5%	Berkeley Group	0.4%	0.1%	BASF	0.5%	0.1%
Verizon Communications	1.4%	0.4%	Anglo American	0.3%	0.1%	LVMH	0.5%	0.1%
Visa 'A'	1.2%	0.3%	HSBC Holdings Plc	0.3%	0.1%	Adidas	0.5%	0.1%
Johnson & Johnson	1.2%	0.3%	Reckitt Benckiser	0.3%	0.1%	Sika	0.5%	0.1%
Berkshire Hathaway 'B'	1.2%	0.3%	National Grid	0.3%	0.1%	Bayer	0.5%	0.1%
Other (93 Positions)	45.6%	12.6%	Other (7 Positions)	1.9%	0.5%	Other (32 Positions)	10.1%	2.8%

JAPANESE	% of Fund	% of Cautious Portfolio	ASIA PACIFIC EX JAPAN	% of Fund	% of Cautious Portfolio
Toyota Motor	1.0%	0.3%	BHP Group	0.6%	0.2%
East Japan Railway	0.5%	0.1%	Link REIT	0.5%	0.1%
Sumitomo Mitsui Financial Group	0.5%	0.1%	Taiwan Semi Manuf Company (TSMC)	0.4%	0.1%
Itochu	0.4%	0.1%	Macquarie Group	0.4%	0.1%
Maeda Road Construction	0.4%	0.1%	Spark New Zealand	0.4%	0.1%
Hoya	0.4%	0.1%	Hang Lung Properties	0.4%	0.1%
Shionogi	0.4%	0.1%	Northern Star Resources	0.4%	0.1%
KDDI	0.4%	0.1%	DBS Group Holdings	0.4%	0.1%
Kansai Paint	0.4%	0.1%	CLP Holdings	0.3%	0.1%
Other (16 Positions)	5.1%	1.4%	Other (8 Positions)	2.3%	0.6%

## 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.

HOLDINGS	Region	% of Fund	% of Cautious Portfolio
Hermes Asia Ex Japan Equity Fund	Asia Pacific	12.3%	2.1%
Lindsell Train Japanese Equity Fund	Japanese	7.4%	1.3%
Fundsmith LLP Equity Fund	Global	7.1%	1.2%
RWC Global Emerging Markets Fund	Emerging Market	7.0%	1.2%
Driehaus US Micro Cap Equity Fund	North American	5.8%	1.0%
Smith & Williamson AI	Global	5.4%	0.9%
Waverton Protection Strategy	Hedging	5.0%	0.9%
MI Metropolis Valuefund	Global	4.5%	0.8%
Fidelity China Special Situations	Asia Pacific	3.8%	0.7%
SPDR MSCI Europe Energy UCITS ETF	Continental European	3.8%	0.7%
BNY Mellon Japan Small Cap Equity Focus Fund	Japanese	3.6%	0.6%
Magallanes European Equity Fund	Continental European	3.5%	0.6%
LF Milton European Opportunities Fund	Continental European	3.3%	0.6%
Draper Esprit Plc	Alternatives	3.2%	0.6%
Ocean Dial Gateway To India Fund	Emerging Market	3.2%	0.6%
Prusik Asian Equity Income Fund	Asia Pacific	3.1%	0.5%
MI Chelverton UK Equity Growth Fund	UK	3.0%	0.5%
T Bailey Aptus Global Financials B Fund	Global	3.0%	0.5%
BB Healthcare Trust	UK	2.7%	0.5%
LF Lindsell Train UK Equity Fund	UK	2.6%	0.4%
Riverstone Energy Ltd Ord	Global	2.6%	0.4%
Tosca Micro Cap UCITS Fund	UK	1.6%	0.3%
SocGen Oct 19 Expiry 105% Call Option GBPUSD	Hedging	0.4%	0.1%

### ALTERNATIVES

The Waverton Alternatives Fund aims to provide capital appreciation through the investment in various alternative asset classes with a significantly lower volatility than the equity market.

Asset Backed	% of Fund	% of Cautious Portfolio
Tufton Oceanic Assets Ltd	2.9%	0.8%
Channel Islands Property	2.0%	0.5%
3i Infrastructure	1.2%	0.3%
GCP Student Living	1.0%	0.3%
Amedeo Air Four Plus Limited (DNA4)	0.5%	0.1%

Hedging	% of Fund	% of Cautious Portfolio
Waverton Protection Strategy	3.1%	0.8%

High Volatility	% of Fund	% of Cautious Portfolio
JP Morgan Global Macro Opportunities	7.9%	2.1%
Alpine Merger Arbitrage Fund	7.1%	1.9%
Odey Absolute Return Fund	6.4%	1.7%
BlueBay Global Sovereign Opportunities Fund	5.9%	1.6%
MontLake Dunn WMA UCITS Fund	5.7%	1.5%
Polar Capital UK Absolute Equity	4.8%	1.3%

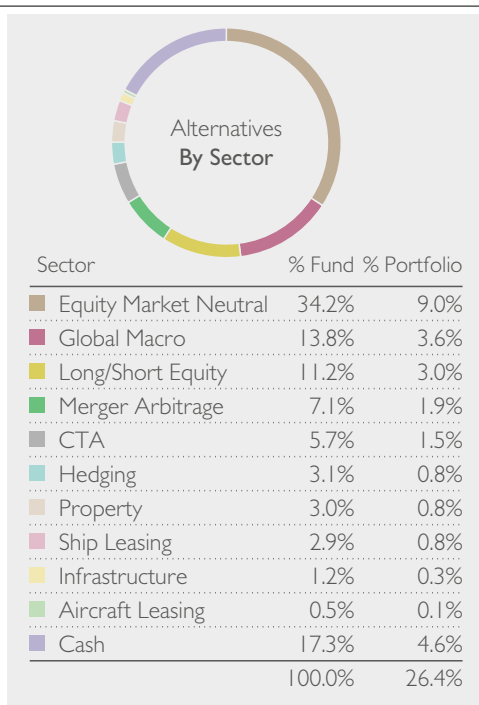
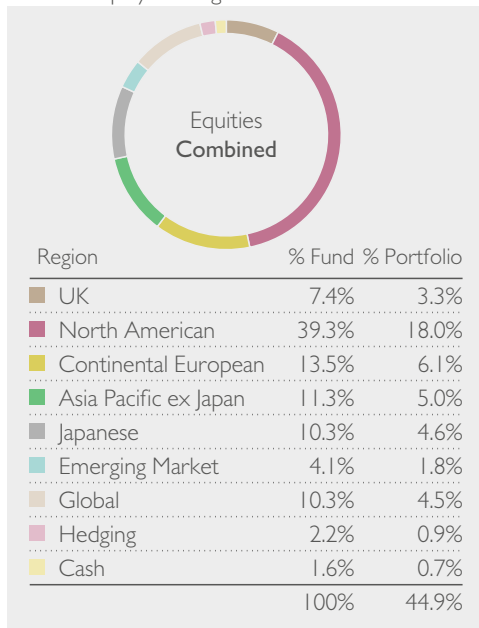
Low Volatility	% of Fund	% of Cautious Portfolio
Jupiter Absolute Return Fund	9.5%	2.5%
Merian UK Specialist Equity	8.8%	2.3%
Phileas Long/Short Europe	8.3%	2.2%
F&C Real Estate Equity Long/Short Fund	7.6%	2.0%

Cash	% of Fund	% of Cautious Portfolio
Cash	17.3%	4.6%

### REGIONAL ALLOCATION

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



#### Definitions:

**Asset Backed** - A fund whose income payments are derived from a specified pool of underlying assets.

**High Volatility** - An investment strategy where the daily realised volatility may exceed 7.5%. Can be "market-directional" in nature.

**Low Volatility** - An investment strategy where the daily realised volatility is unlikely to exceed 7.5%.

## COMMENTARY

All readers will be painfully aware that global equity markets have fallen significantly since the end of September. An initial sell-off in October was followed by a rise in markets in November, but it was one of the toughest Decembers on record as markets were hit hard by a combination of a slowing world economy, less support from central banks and worries over the global trade.

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 have seen in the 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)	0.96%
Ongoing Charge - Current Tactical (Inc. AMC & Transaction charges)	1.1%
Dealing Frequency	Daily
Base Currency	Sterling
Launch Date	31st December 2011
Minimum Investment	None

## CONTACT DETAILS

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