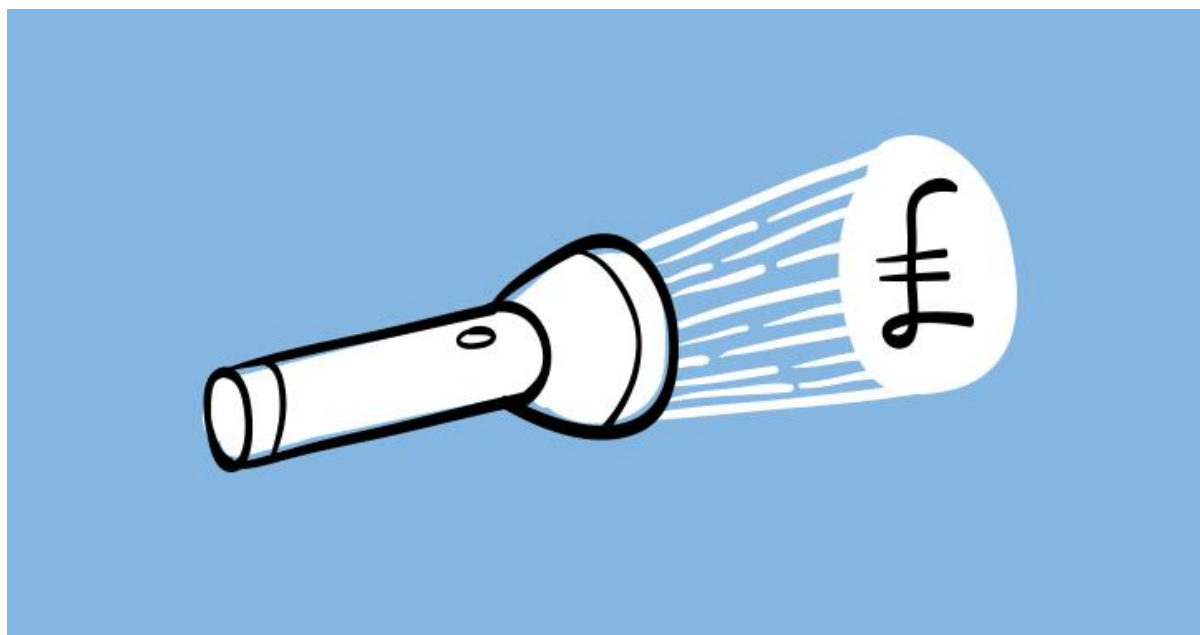


## QUARTERLY PORTFOLIO REVIEW – OCTOBER 2018



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*"The effects of **compounding** even moderate returns over many years are compelling, if not downright mind boggling" Seth Klarman*

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The message from quarter to quarter, year to year, remains the same; our primary aim is to compound wealth over time. Investing doesn't mean that each year you will get a guaranteed positive return; the returns will vary day by day, month by month, year by year but overall the power of staying invested and allowing the money to grow is the way that we can increase wealth over time.

We fear corrections in the market, but these actually happen all the time. In 2015, 2016 and 2018 we saw significant corrections and yet we have still seen positive returns. Even when the markets fall like 1987, 2000/2001 and 2008/09 we have often seen within a year a two those "losses" replaced by gains. A loss is only a loss when we crystallise it; if we can sit it out, then often the loss reverts to positive in time.

One of the stories I've heard was about how people would feel investing £100,000, ignored it for 10 years, and then they were given £150,000 at the end of the term. Most people would be happy with that return. However, if they knew that at one point that money had been worth £170,000 or £70,000 how would they then feel? The point of the analogy is that it is the starting and ending points that are important; irrespective of the highs and lows what has the average return been?

If we consider the returns this year, and compare these to the returns last year we might feel disappointed, but when we look at the five-year figures these have averaged at between 6.5% p.a. and 15% p.a. These returns need to be adjusted to reflect our fees and platform fees, but this would still return around 5.1% to 13.6% p.a. The actual return varies between clients due to withdrawals, additional investments, and family discounts and/or investment size.

But what about this year; at the end of the first quarter the portfolios were down over 3%, in the second quarter we saw the balanced to adventurous portfolios edge up to around 2%. At the end of the third quarter this has edged up to between 3.5% and 5.3%. The cautious portfolios remain flat or slightly up.

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Returns for the remaining months of the year depend on different variables but as an example, Emerging Markets and Asia have been beaten up this year. If the markets start to feel less nervous about trade wars and the global economy, we could see a correction in these markets and this would hopefully benefit the portfolios. We know the alternatives have been a drag on the lower risk portfolios and a slight shift in performance would benefit these.

In summary, at the start of the year we were hoping for about a 5% return from the balanced and higher risk portfolios on average. If we get small incremental increases over the next three months this is still possible but over the long term whether we have been investing for two years, ten years or twenty years we should have seen solid returns from our investments (above the benchmarks) and that is always our focus.

*George Ladds*

October 2018

## PORTFOLIO OVERVIEW

### Bitesize introduction

The message here is unchanged; we are aware that the lower risk portfolios have struggled this year. We have seen the property part of the portfolios recover but the alternatives are still a drag on performance. Jupiter started to claw back into positive territory, but this has dropped back, we are due to have an update with the manager shortly and will post feedback via the website.

The Standard Life GARS Fund was slightly positive in the last quarter but is still down over 4% since the start of the year. We introduced First State, and this aims to deliver a positive return over a rolling 5-year period. We know that this will have periods of negative performance but should on average deliver the positive outcome. There is no hiding that the first quarter in the portfolios has been disappointing, but we remain committed to the strategy playing out.

Threadneedle remains a good solid investment but its positive numbers have not been able to negate the negative returns from Jupiter, Standard Life and First State. If we see an uptick in performance of these three in the next quarter, then this will help the lower risk portfolios.

Over the last few weeks we have met several fund managers and have more meetings planned. Our aim is to meet around 80 managers a year. This is a vital source of information and is a constant challenge to our process to ensure we are delivering the best we can for clients.

In summary, one of my weaknesses is that I tend to give myself a hard time if the portfolios aren't doing that well and this year has been difficult. The important part for us is the process that we have built up over the last seven years, and when things are tricky the focus on that process ensures we stick to what we know and don't try and chase short term wins.

Over the long term the results speak for themselves, but we know that the returns over the last ten years are not 'normal'. In theory these higher levels of returns aren't sustainable but if we can compound even small returns over the long-term, we should ensure we continue to grow investment values.

### Third quarter

We saw individual fund performance drop back slightly in the quarter, meaning 60% of the funds were ahead of the benchmark over the year. We would like to see this figure rise to closer to 70% but we know this year has been a lot tougher and it is in these periods that the benchmark tends to outperform.

We saw stronger returns return in July, and then these slowed in August and were slightly negative in September. The beneficiaries of the recovery are equities, and this is reflected in the higher gains to the Balanced and Adventurous Portfolios.

In terms of specific funds, property funds moved into positive territory after significant downside at the start of the year. The AXA and Artemis US Funds are significantly ahead of the benchmark this year. On the downside Emerging Markets and Asia Funds are mainly in negative territory this year with some of the big fallers being BlackRock Frontier Markets and Utilico Emerging Markets

In summary, we still have more funds above the benchmark than behind and although we would like this to edge towards 70%, in this environment we know this remains a challenge. We are seeing

incremental positive uplifts and we would like to see the lower risk portfolios move to around a 3% return this year, balanced around 5% and adventurous around 7%. However, much of this depends on market events which we think is likely to be focused around trade wars and mid-term elections. Any positive sentiment could mean that these figures are possible but equally any negative sentiment could see performance drop back.

### **Fourth quarter**

We have outlined what we would like to see in terms of performance, but we are beholden to outside factors. We know that some stocks (and therefore funds) are cheap, and therefore in theory if positive sentiment comes through we could see a positive correction. We also know that if negative sentiment keeps flowing into the market this will just make things fizzle out and we may be left wishing for a better 2019.

### **Summary**

In summary, 2018 has been more difficult but we have seen with each quarter small incremental increases in performance which is good news. Clients investing for even two years or as long as twenty years would still have seen good solid returns. We know where we would like to end up in terms of performance but equally we know that we are not in control of the outcome. We'll either enjoy this quarter or wish for 2019 to arrive early.

*Note: 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*

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A summary of the performance is shown below. The performance shown does not reflect our fees and any charges for where the investments are held. The impact of these charges varies but is around 1% p.a.

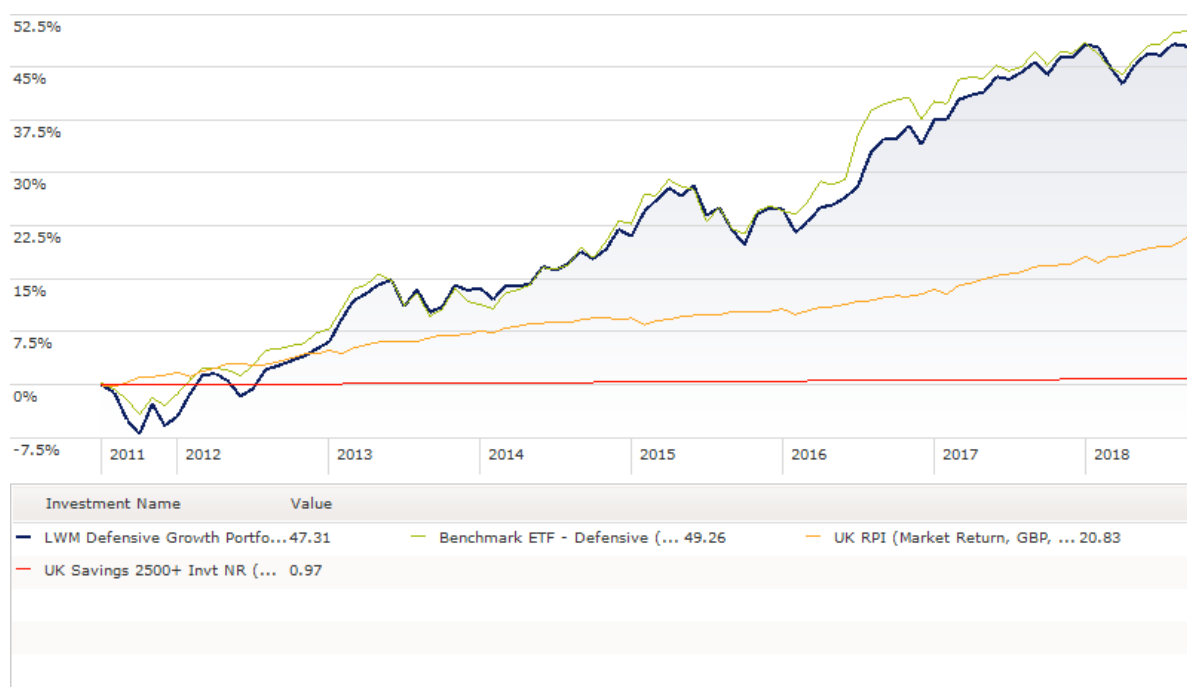
## Summary of performance – 1 January 2009 – September 2018

Performance up to 30 September 2018												
	12 months		2 years		3 years		4 years		5 years		Since launch	
	Portfolio	Benchmark	Portfolio	Benchmark	Portfolio	Benchmark	Portfolio	Benchmark	Portfolio	Benchmark	Portfolio	Benchmark
Defensive	2.32%	2.66%	9.25%	6.30%	22.85%	22.90%	24.91%	26.45%	32.59%	34.73%	47.31%	49.26%
Bespoke Cautious	5.84%	3.41%	13.65%	8.20%	31.31%	26.12%	34.41%	28.30%	45.14%	38.87%	167.52%	102.10%
Cautious	4.86%	4.09%	15.29%	10.00%	32.87%	28.54%	35.55%	31.11%	44.82%	40.91%	161.11%	106.24%
Balanced	8.57%	5.52%	25.52%	14.80%	47.85%	36.40%	52.35%	37.01%	64.14%	47.35%	201.63%	120.90%
Mod Adventurous	9.57%	6.87%	29.86%	18.93%	58.82%	43.98%	58.17%	40.56%	69.57%	49.97%	215.88%	128.22%
Adventurous	10.48%	7.74%	32.99%	21.53%	65.08%	48.49%	63.60%	43.58%	75.47%	53.64%	228.69%	132.11%
Ethical	8.18%	4.87%	24.01%	16.13%	48.88%	31.13%	54.19%	26.95%	-	-	57.89%	26.05%

Note: Please read special note to tables at the end of the tables. The launch date of the portfolios is 1 January 2009 with the exception of the Defensive Portfolio which is 30 June 2011, and Ethical Portfolio 1 August 2014. 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.

## Detailed breakdown of performance

### Defensive

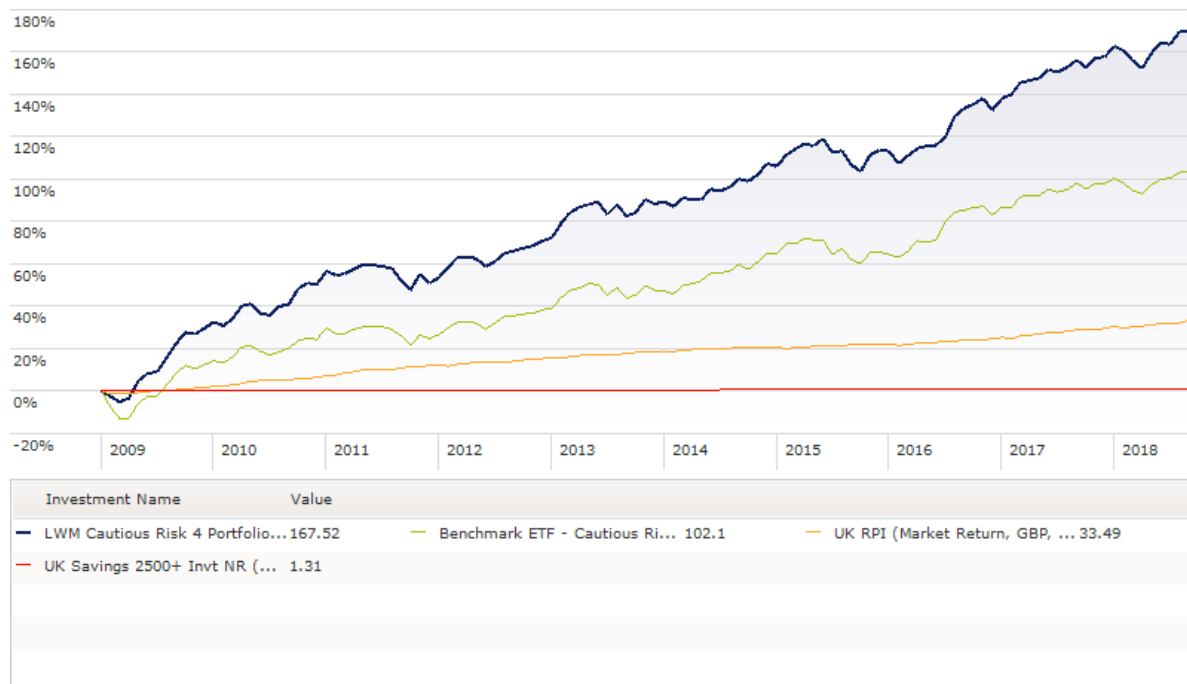


	2013	2014	2015	2016	2017	2018	Since launch
<b>Defensive</b>	7.18%	6.50%	3.29%	10.14%	7.83%	-0.69%	5.49% p.a.
<b>Benchmark</b>	3.21%	10.32%	1.47%	12.42%	5.96%	0.47%	5.68% p.a.

	1 Year to 30/09/14	1 Year to 30/09/15	1 Year to 30/09/16	1 Year to 30/09/17	1 Year to 30/09/18
<b>Defensive</b>	6.15%	1.68%	12.45%	6.77%	2.32%
<b>Benchmark</b>	6.54%	2.89%	15.62%	3.54%	2.66%

Note: Please read special note to tables at the end of the tables. The launch date of the Portfolio is 30 June 2011, and performance is up to 30 September 2018. The Benchmark performance tracks the performance period of the portfolio. 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.

## Cautious Risk 4 (Previously Cautious Income)

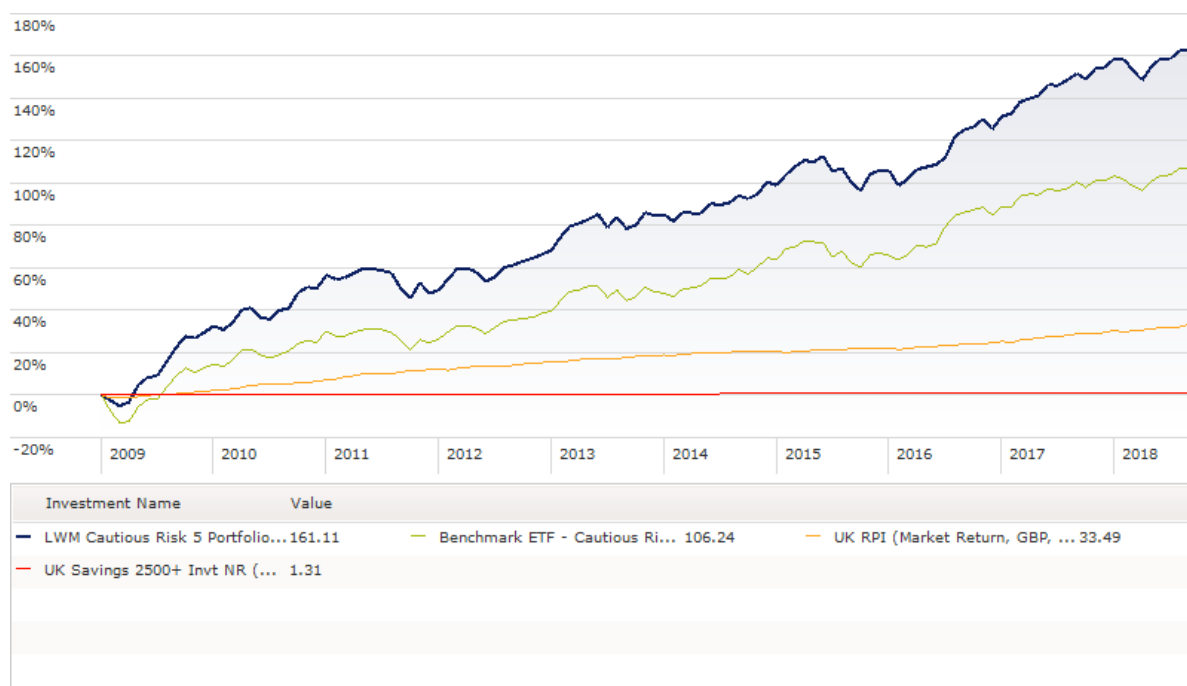


	2013	2014	2015	2016	2017	2018	Since launch
<b>Cautious Risk 4</b>	9.97%	8.81%	3.52%	11.73%	10.43%	1.73%	10.63% p.a.
<b>Benchmark</b>	5.74%	11.79%	-0.20%	13.64%	7.20%	0.79%	7.49% p.a.

	1 Year to 30/09/14	1 Year to 30/09/15	1 Year to 30/09/16	1 Year to 30/09/17	1 Year to 30/09/18
<b>Cautious Risk 4</b>	7.98%	2.36%	15.54%	7.38%	5.84%
<b>Benchmark</b>	8.24%	1.73%	16.56%	4.63%	3.41%

Note: Please read special note to tables at the end of the tables. The launch date of the Portfolio is 1 January 2009, and performance is up to 30 September 2018. The Benchmark performance tracks the performance period of the portfolio. 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.

## Cautious Risk 5 (Previously Cautious Growth)



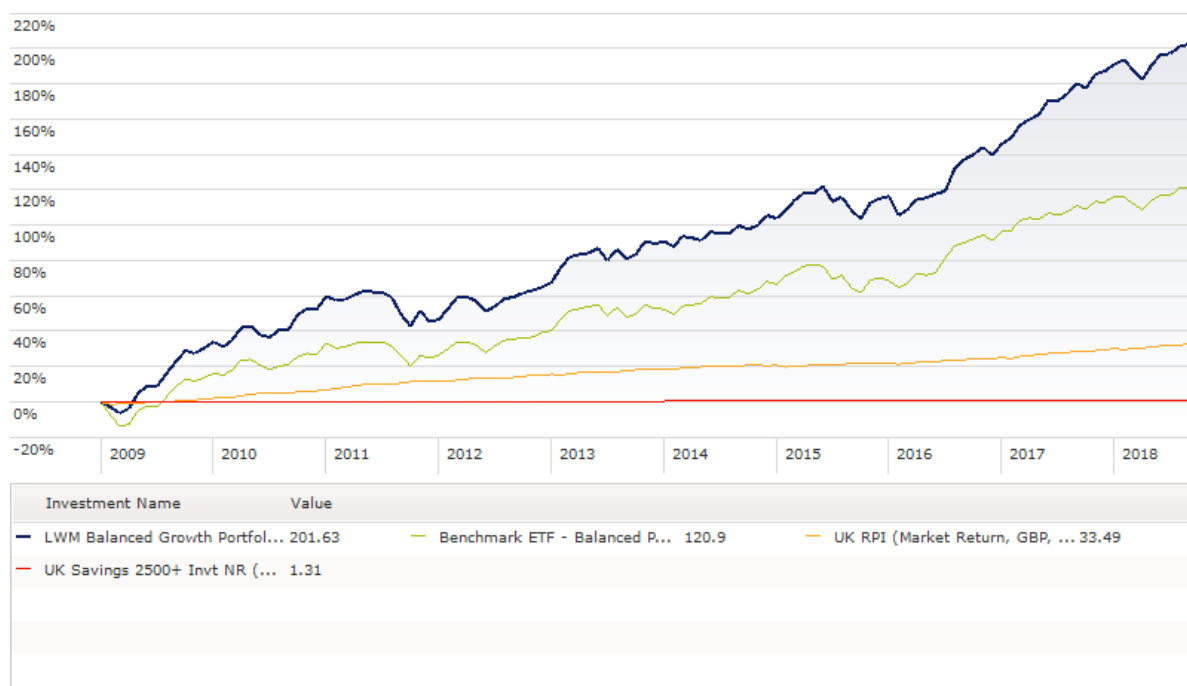
	2013	2014	2015	2016	2017	2018	Since launch
<b>Cautious Risk 5</b>	10.00%	7.49%	3.52%	12.42%	11.81%	0.89%	10.35% p.a.
<b>Benchmark</b>	6.06%	10.67%	1.10%	13.94%	7.76%	1.26%	7.71% p.a.

	1 Year to 30/09/14	1 Year to 30/09/15	1 Year to 30/09/16	1 Year to 30/09/17	1 Year to 30/09/18
<b>Cautious Risk 5</b>	6.84%	2.02%	15.25%	9.94%	4.86%
<b>Benchmark</b>	7.47%	2.01%	16.85%	5.68%	4.09%

Note: Please read special note to tables at the end of the tables. The launch date of the Portfolio is 1 January 2009, and performance is up to 30 September 2018. The Benchmark performance tracks the performance period of the portfolio. 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.



## Balanced Growth

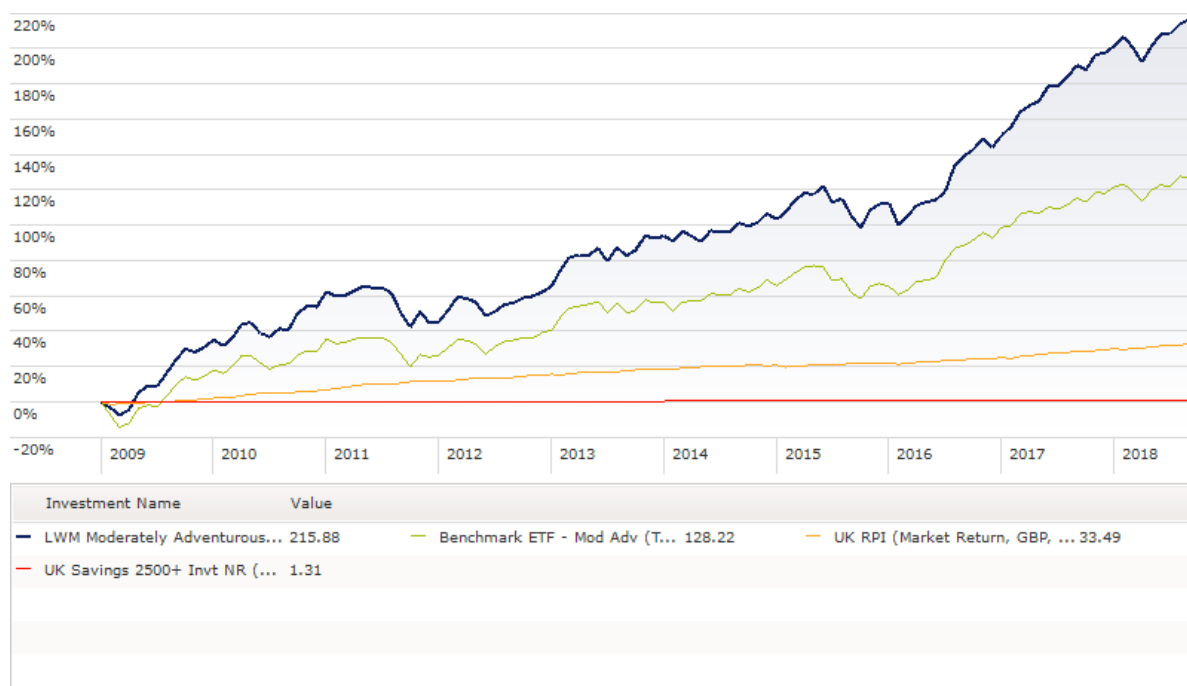


	2013	2014	2015	2016	2017	2018	Since launch
<b>Balanced Growth</b>	13.89%	6.71%	6.24%	13.76%	18.24%	3.54%	12.00% p.a.
<b>Benchmark</b>	8.89%	8.80%	1.25%	16.53%	10.17%	1.90%	8.47% p.a.

	1 Year to 30/09/14	1 Year to 30/09/15	1 Year to 30/09/16	1 Year to 30/09/17	1 Year to 30/09/18
<b>Balanced Growth</b>	7.74%	3.04%	17.79%	15.61%	8.57%
<b>Benchmark</b>	7.54%	0.44%	18.81%	8.79%	5.52%

Note: Please read special note to tables at the end of tables. The launch date of the is 1 January 2009, and performance is up to 30 September 2018. The Benchmark performance tracks the performance period of the portfolio. 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.

## Moderately Adventurous Growth

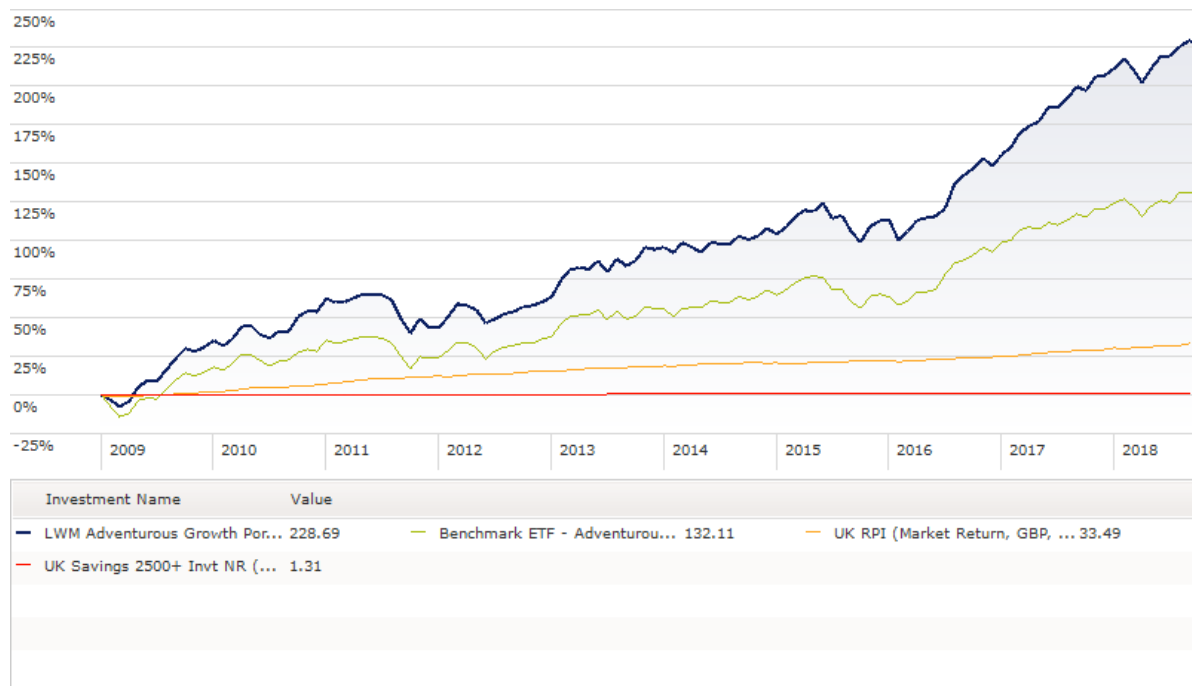


	2013	2014	2015	2016	2017	2018	Since launch
<b>Moderately Adventurous Growth</b>	17.19%	4.86%	4.66%	18.06%	20.16%	4.62%	12.53% p.a.
<b>Benchmark</b>	11.32%	5.86%	-0.26%	20.12%	11.59%	2.80%	8.83% p.a.

	1 Year to 30/09/14	1 Year to 30/09/15	1 Year to 30/09/16	1 Year to 30/09/17	1 Year to 30/09/18
<b>Moderately Adventurous Growth</b>	7.21%	-0.41%	22.31%	18.51%	9.57%
<b>Benchmark</b>	6.69%	-2.37%	21.06%	11.29%	6.87%

Note: Please read special note to tables at the end of the tables. The launch date of the Portfolio is 1 January 2009, and performance is up to 30 September 2018. The Benchmark performance tracks the performance period of the portfolio. 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.

## Adventurous Growth

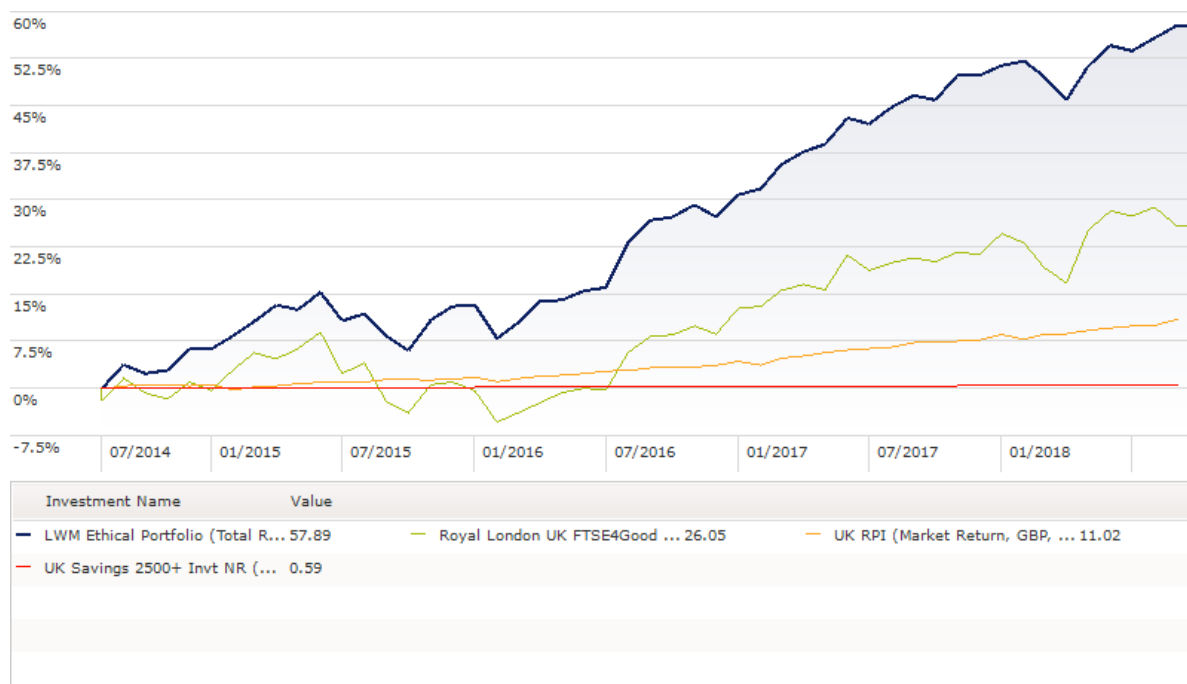


	2013	2014	2015	2016	2017	2018	Since launch
<b>Adventurous Growth</b>	19.73%	4.30%	4.69%	19.65%	21.89%	5.37%	12.99% p.a.
<b>Benchmark</b>	13.41%	5.12%	-0.65%	21.59%	12.79%	3.34%	9.02% p.a.

	1 Year to 30/09/14	1 Year to 30/09/15	1 Year to 30/09/16	1 Year to 30/09/17	1 Year to 30/09/18
<b>Adventurous Growth</b>	7.26%	-0.90%	24.13%	20.38%	10.48%
<b>Benchmark</b>	7.00%	-3.30%	22.19%	12.80%	7.74%

Note: Please read special note to tables at the end of the tables. The launch date of the Portfolio is 1 January 2009, and performance is up to 30 September 2018. The Benchmark performance tracks the performance period of the portfolio. 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.

## Ethical Portfolio



	2013	2014	2015	2016	2017	2018	Since launch
<b>Ethical</b>	N/A	N/A	6.63%	15.51%	15.73%	4.25%	11.59% p.a.
<b>Benchmark</b>	N/A	N/A	0.01%	13.27%	10.52%	1.10%	5.71% p.a.

	1 Year to 30/09/14	1 Year to 30/09/15	1 Year to 30/09/16	1 Year to 30/09/17	1 Year to 30/09/18
<b>Ethical</b>	N/A	3.57%	20.05%	14.63%	8.18%
<b>Benchmark</b>	N/A	-3.19%	12.92%	10.74%	4.87%

The launch date of the Portfolio is 1 August 2014, and performance is up to 30 September 2018. The Benchmark performance tracks the performance period of the portfolio.

**Special note to tables:** 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. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

## Additional notes

The key measure for us is to outperform a fund that tracks an index over a medium to long term period. Within each sector, we will have funds that perform differently. We have set a benchmark which accurately and fairly reflects what we are aiming to do. The benchmark is tradable and therefore can be invested in. The benchmarks we have used are:

Fixed Interest	Vanguard Global Bond Index Fund
	iShares J.P.Morgan \$ Emerging Mkts Bond
Property	iShares Developed Markets Property Yld
UK	iShares UK Dividend
	Lyxor ETF FTSE All Share
Europe	iShares MSCI Europe Ex UK
	iShares MSCI Eastern Europe Capped ETF
US	iShares MSCI North America
Japan	DB X-Trackers MSCI Japan ETF
Asia	iShares MSCI AC Far East Ex Japan
Emerging Markets	iShares MSCI Emerging Markets (Acc)
	iShares MSCI Frontier 100
Global	iShares MSCI World Dist
Specialist	ETFS All Commodities
	ETFS Agriculture
	iShares Global Infrastructure
	Lyxor ETF MSCI World Health Care
	Royal London UK FTSE4Good Tracker

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