
A GUIDE TO OUR
INVESTMENT MANDATES

INTRODUCTION

This guide is to help you understand the rationale for the risk mandates offered by Waverton so that we can help you to agree what is the most appropriate investment strategy for your portfolio. The nature of risk is highly complex and sometimes quite subjective. Often it cannot easily be quantified. Therefore it is important that you consider carefully the descriptions contained in this document in order that we can agree on the most appropriate mandate to suit your requirements and enable us to act in your best interests.

Future returns are likely to be lower than they have been over the last three or four decades, if only because starting bond yields and interest rates generally are so low. You can read more about this on pages 5 and 6.

In this environment we foresee Waverton continuing to balance an assessment of risk and reward on behalf of our clients across our range of mandates. Regardless of the vagaries of markets, we do believe that a commitment to [direct investment, active management, high levels of personal service and a value for money proposition will remain at the heart of what we do.

Nick Tucker
Chief Executive
January 2022

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WAVERTON'S APPROACH TO MANAGING MONEY

The key elements of the Waverton approach to managing your money are:

- a global approach to investing, providing you with the widest possible set of investment opportunities to grow your capital in real terms over the long term.
- an active approach to investing, both in terms of asset allocation and at the security selection level. We focus on the investment merits of a particular asset, rather than its importance in any index.
- direct investments into best-in-class companies and direct engagement. This enables our investment research team to develop strong and constructive relationships with their management teams over time.
- consideration of Environmental, Social and Governance factors forms an integral part of our fundamental research, as these factors have a significant bearing on the long-term returns of an asset.
- ongoing risk management measures, not just in terms of volatility, but also with respect to liquidity and inflation.
- a close relationship between you and your portfolio manager. This enables particular circumstances (for example income requirements) to be taken into account in the construction of the portfolio.
- regular contact between you and your portfolio manager as well as a secondary portfolio manager and an assistant on each account to ensure you always have clear points of contact.
- detailed and transparent reporting to keep you fully informed about your assets and how they are performing.

Please note: Our definitions (e.g. Balanced or Cautious) may differ from other firms' definitions so it is important that you read the relevant description to understand fully the implications of your mandate choice.

RISK MANDATES

EQUITY

Mandate Description & Investment Objectives

Bespoke investment primarily in global equities. Designed for clients with an extended time horizon who can tolerate periods of significant volatility, and whose objective is to maximise the value of their capital by participating in the growth of the world economy thereby significantly increasing their long-term purchasing power. On a selective basis, other asset classes (e.g. bonds/hedge funds/real assets/a protection strategy) may be considered if appropriate. Portfolios will have the flexibility to hold cash in difficult market conditions.

Risk Mandates

RISK DESCRIPTION	TIME HORIZON (YEARS)
High volatility	8
INDICATIVE VOLATILITY OF RETURNS [†]	
HISTORIC	BAND
16	8–23
INDICATIVE LONG TERM RETURNS [§]	
CPI + 4.5%	

Asset Class Range

NEUTRAL EQUITY WEIGHTING



100

EQUITIES



100
65

Upper
Lower

BONDS & CASH



35
0

ALTERNATIVES



20
0

GROWTH

Mandate Description & Investment Objectives

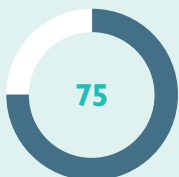
Investment primarily in global equities for those clients who broadly have a long-term investment objective as described above but who have a lower risk tolerance. There will be a reduced allocation to equities and a correspondingly greater allocation to other asset classes than in a pure equity mandate.

Risk Mandates

RISK DESCRIPTION	TIME HORIZON (YEARS)
High/medium volatility	7
INDICATIVE VOLATILITY OF RETURNS [†]	
HISTORIC	BAND
12	6–16
INDICATIVE LONG TERM RETURNS [§]	
CPI + 3.5%	

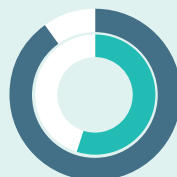
Asset Class Range

NEUTRAL EQUITY WEIGHTING



75

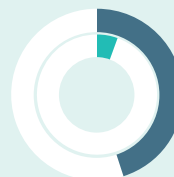
EQUITIES



90
55

Upper
Lower

BONDS & CASH



45
5

ALTERNATIVES



25
0

* Note the volatility bands also on this page and potential outcomes highlighted on page 5.

† Historic volatility of returns as at 31st December 2021 and based on returns since 31st December 1985. Bands reflect the potential range of volatility as a result of asset allocation changes within the indicated limits. For example, the lower end of the Equity volatility band reflects the fact that there is flexibility to reduce equity exposure to as low as 65% in exceptional circumstances – in favour of bonds, alternatives and cash.

§ Given the unprecedented interest rate and monetary policy environment, the range of outcomes is likely to be wide.

RISK MANDATES *CONTINUED*

BALANCED

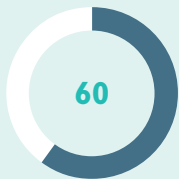
Mandate Description & Investment Objectives

For those who are comfortable with equities representing the core of the portfolio, but whose risk tolerance and / or time horizon requires diversification across asset classes and a lower level of volatility than a portfolio with a higher equity content. Often appropriate for clients requiring a combination of income as well as some capital growth in real terms.

Risk Mandates	
RISK DESCRIPTION	TIME HORIZON (YEARS)
Medium volatility; diversified	6
INDICATIVE VOLATILITY OF RETURNS [†]	
HISTORIC	BAND
10	5–14
INDICATIVE LONG TERM RETURNS [§]	
CPI + 3%	

Asset Class Range

NEUTRAL EQUITY WEIGHTING



EQUITIES



Upper 80
Lower 40

BONDS & CASH



60
15

ALTERNATIVES



35
0

CAUTIOUS

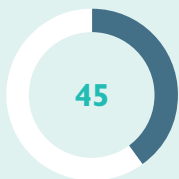
Mandate Description & Investment Objectives

A medium risk mandate for clients who wish to have some participation in the higher returns available from equities, but prefer a more cautious stance than the typical “Balanced” investor. Likely to have a meaningful allocation to alternative investments (see glossary for definition).

Risk Mandates	
RISK DESCRIPTION	TIME HORIZON (YEARS)
Medium/low volatility; highly diversified	5
INDICATIVE VOLATILITY OF RETURNS [†]	
HISTORIC	BAND
8	4–12
INDICATIVE LONG TERM RETURNS [§]	
CPI + 2.5%	

Asset Class Range

NEUTRAL EQUITY WEIGHTING

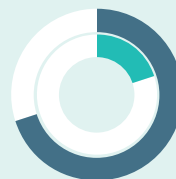


EQUITIES



Upper 60
Lower 30

BONDS & CASH



70
20

ALTERNATIVES



45
0

* Note the volatility bands also on this page and potential outcomes highlighted on page 5.

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RISK MANDATES *CONTINUED*

DEFENSIVE

Mandate Description & Investment Objectives

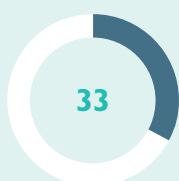
A modest equity allocation for more risk averse clients who want to preserve the value of their capital and minimise volatility whilst being able to benefit from some increase in long-term purchasing power. Will have a higher weighting in alternatives.

Risk Mandates

RISK DESCRIPTION	TIME HORIZON (YEARS)
Low volatility; highly diversified	4
INDICATIVE VOLATILITY OF RETURNS [†]	
HISTORIC	BAND
6	3–10
INDICATIVE LONG TERM RETURNS [§]	
CPI + 2%	

Asset Class Range

NEUTRAL EQUITY WEIGHTING

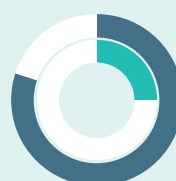


EQUITIES



Upper
Lower

BONDS & CASH



ALTERNATIVES



CONSERVATIVE

Mandate Description & Investment Objectives

A low equity allocation for risk averse clients who want to preserve the value of their capital and minimise volatility whilst being able to benefit from some increase in long-term purchasing power. Will have a higher weighting in fixed income and alternatives.

Risk Mandates

RISK DESCRIPTION	TIME HORIZON (YEARS)
Low volatility, diversified	3
INDICATIVE VOLATILITY OF RETURNS [†]	
HISTORIC	BAND
5	2–9
INDICATIVE LONG TERM RETURNS [§]	
CPI + 1.5%	

Asset Class Range

NEUTRAL EQUITY WEIGHTING



EQUITIES



Upper
Lower

BONDS & CASH



ALTERNATIVES



* Note the volatility bands also on this page and potential outcomes highlighted on page 5.

† Historic volatility of returns as at 31st December 2021 and based on returns since 31st December 1985. Bands reflect the potential range of volatility as a result of asset allocation changes within the indicated limits. For example, the lower end of the Equity volatility band reflects the fact that there is flexibility to reduce equity exposure to as low as 65% in exceptional circumstances – in favour of bonds, alternatives and cash.

§ Given the unprecedented interest rate and monetary policy environment, the range of outcomes is likely to be wide.

RISK MANDATES *CONTINUED*

BONDS

Mandate Description & Investment Objectives

A fixed interest mandate for those who require low risk to capital in nominal terms. May include index-linked stock and other cash equivalent or bond-like instruments if deemed appropriate.

Risk Mandates

RISK DESCRIPTION	TIME HORIZON (YEARS)
Low volatility	3
INDICATIVE VOLATILITY OF RETURNS [†]	
HISTORIC	BAND
7	3–9
INDICATIVE LONG TERM RETURNS [§]	
CPI + 0.5%	

Asset Class Range

NEUTRAL EQUITY WEIGHTING



EQUITIES



BONDS & CASH



ALTERNATIVES



Upper
Lower

0
0

100
80

20
0

* Note the volatility bands also on this page and potential outcomes highlighted on page 5.

† Historic volatility of returns as at 31st December 2021 and based on returns since 31st December 1985. Bands reflect the potential range of volatility as a result of asset allocation changes within the indicated limits. For example, the lower end of the Equity volatility band reflects the fact that there is flexibility to reduce equity exposure to as low as 65% in exceptional circumstances – in favour of bonds, alternatives and cash.

§ Given the unprecedented interest rate and monetary policy environment, the range of outcomes is likely to be wide.

RETURN ASSUMPTIONS AND LIKELY OUTCOMES

Features of the Waverton mandates

Understanding risk

In order to achieve higher real rates of return over the long term, clients must accept a higher level of risk. This is usually measured by using volatility – a measure of the variability of returns. The shorter your investment time horizon and the lower your capacity to cope with short-term drawdowns (perhaps because you have pressing cash requirements), the less you can afford to invest in a volatile strategy.

However, whilst volatility is the primary measure of risk, it is important to note that there are other risks to consider, such as liquidity risk (i.e. the possibility that you will not be able to cash in your investment quickly) and inflation risk (i.e. the risk that your investments, whilst making a positive nominal return, lose their purchasing power over a period of time). With regard to liquidity risk, we endeavour at all times to minimise this for every mandate. Protecting your asset base from inflation risk, on the other hand, is more difficult and requires the acceptance of a degree of volatility and risk to capital in the short term – although the risk of a permanent diminution of capital can be obviated through diversification and by investing in global large cap companies and publicly traded funds. Generally speaking, our higher risk mandates are likely to provide greater inflation protection over time, and lower risk mandates will be more vulnerable to inflation risk.

RISK DESCRIPTION	EXPLANATION
High volatility	A high risk of significant drawdowns in the short to medium term
High/medium volatility	A high risk of drawdowns in the short to medium term
Medium volatility; diversified	A significant risk of some drawdowns over the short to medium term, moderated through asset class diversification
Medium/low volatility; highly diversified	Risk of meaningful drawdowns is moderated through a high degree of diversification across asset classes
Low volatility; highly diversified	Risk of modest drawdowns, the impact of which will be limited by a high degree of asset class diversification
Low volatility	Risk of modest drawdowns – but bond-only mandates are vulnerable to changes in interest rates and inflation

A recommended time horizon: higher risk mandates come with more chance of drawdowns in the short term, albeit with the likelihood of larger gains in the long term. Each of our mandates has a recommended time horizon. This should be considered alongside your risk appetite to ensure that the mandate you choose and its investment objective are suitable. These time horizons are an important consideration, since they seek to allow time for the portfolio to recover from any drawdowns.

An indicative long-term return: Over the long term, we will aim to achieve a return in excess of inflation (i.e. a real return). The margin is determined by the degree of risk you are prepared to accept and is expressed in terms of CPI+X%, where CPI is the Consumer Price Index in your base currency and X is the additional margin of return above inflation. This is a long-term estimate which is not relevant over short periods of time.

We therefore also monitor performance relative to reference indices, commonly referred to as benchmarks. More detail on those is available on page 8. It is important to note that we expect returns over the coming years to be lower than in the past because the mathematics of ultra-low and negative bond yields mean that high returns are extremely difficult to achieve – especially in mandates which have a large allocation to bonds and cash. See below for further details of our return assumptions.

Asset class ranges: for each mandate we define the extent to which the amounts invested in each asset class might vary over time. This is set out in the table on pages 2 to 4. These decisions are driven by the Waverton Asset Allocation Committee and implemented by your portfolio manager. The ranges provide our clients with the assurance that their portfolios will be managed in accordance with their long-term objectives but also provide Waverton with a degree of latitude that would be expected of a discretionary fund manager. This provides us with the flexibility to add value using asset allocation and reduce risk for our clients whenever either we or individual client preferences deem it to be necessary.

Return Assumptions

In the past, the indicative real return targets in our Mandate Guidance Notes were based upon the long-term historical averages for equities, fixed interest and cash. These were cross-checked with forward-looking considerations and deemed to be appropriate in the light of prevailing interest rates (upon which all asset prices to a large extent ultimately depend). However, in the last few years we have witnessed an unprecedented monetary experiment being conducted by central banks which has led to interest rates all over the world falling to levels which were previously unheard of – no matter how many centuries one looks back. Accompanying programmes of Quantitative Easing (often referred to as ‘printing money’) have driven up the prices of government bonds and corporate bonds through direct buying by central banks; as a secondary effect, equity valuations have been pushed up as investors take on more risk to compensate for the fact that there has been a long-term downward trend in the yields available from the traditional safe havens of cash and bonds.

RETURN ASSUMPTIONS AND LIKELY OUTCOMES CONTINUED

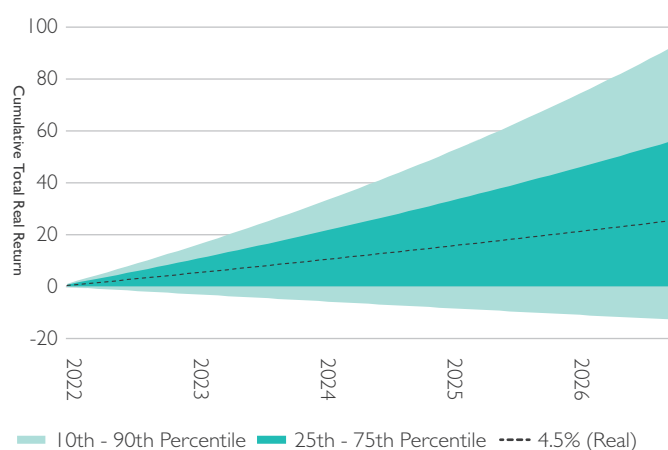
It has always been the case that an important determinant of future returns has been the starting valuation of the asset in question. Never has this been truer than today: the valuation of bonds is extremely high, and traditionally government bonds have been the anchor to which all asset prices are linked. Accordingly, we no longer believe that historic returns are a realistic or prudent place to start when considering future returns. We have, therefore, thought a great deal about how asset classes are likely to perform from here on: we have reduced our return expectations for bonds from CPI+0.5% to CPI+0.25% and for cash from CPI+0.0% to CPI-1.5%. We maintained our equity expectations at CPI+4.5%.

The area where we are more optimistic is alternatives, here we have raised our expectations from CPI+2.0% to CPI+2.25%. These are an increasingly prominent part of financial markets and, we have successfully been managing alternative funds in recent years. We have incorporated alternatives in client portfolios for many years and have now adjusted some of our risk mandates to include this asset class in their reference indexes.

Projected Real Equity Returns

In figure 1, we display the breadth of potential outcomes for global equities over the next 5 years, taking 25 years of historical volatility data and applying this to our forward-looking estimate. The analysis assumes a forward-looking 4.5% average real total return (i.e. including dividend income, and after inflation) – lower than the historic average of c.6%. The simulation suggests that 90% of outcomes will fall within the combined teal bands; 50% will fall within the dark green area.

Figure 1: Compounded Real Equity Returns Projection



Further explanation of potential outcomes of risk mandates

When constructing your portfolio, the most important type of risk to consider is the variability of returns. This is most commonly measured by the standard deviation of returns around the mean and is often referred to as annualised volatility. Over the long term, global equities have produced volatility of around 16% whereas cash has been much less volatile – around 1%.

It is generally accepted that over the longer term, in order to generate superior returns, an investor needs to accept a higher level of risk. This is illustrated in figure 2 where we have shown potential outcomes for each mandate based on the returns since 31st December 1985. This is a backward-looking analysis which, as we have explained on the previous two pages, may not be repeated in the future – but it does support the generally accepted wisdom that higher long-term returns are not possible without some periods of significant drawdown or negative returns.

Figure 2 also shows the average positive and average negative return, based on a neutral asset allocation over the period since 31st December 1985. Those averages are shown by the solid-coloured bars. The horizontal lines above and below these bars show the average returns based on a tactical asset allocation stance which is close to the extremes allowed by the ranges shown on page 7. As we would expect, taking more risk leads to higher positive returns but also, on occasion, larger negative returns.

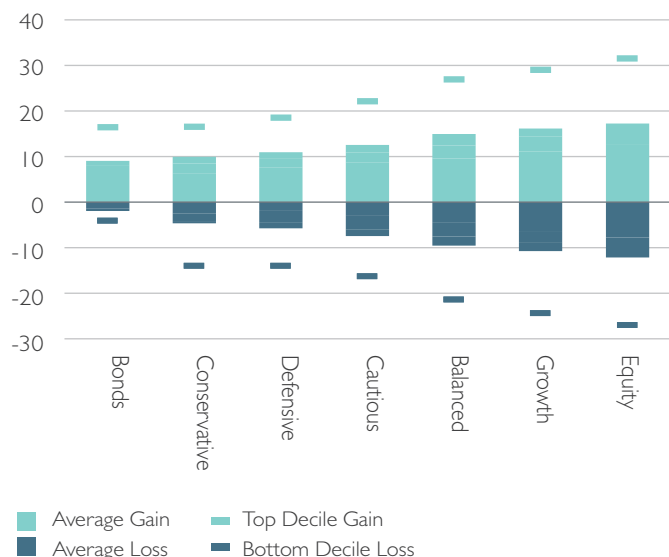
The actual outcomes will depend on the performance of markets, the tactical calls taken by the Waverton Asset Allocation Committee and the security selection within portfolios. However, the bars give an indication of the profile of returns across the range of standard mandates that Waverton offers and importantly show that higher long-term returns are normally interspersed with periods of greater drawdowns too.

It is important for us to be clear that these returns cannot be regarded as forecasts. There are three ways in which returns may not meet these historic levels.

1. Financial markets may provide lower returns than over the last 35 years. Indeed, our CPI+ investment objectives already imply this.
2. Waverton is an active investment manager, and we will try to improve returns by varying the amount of risk taken at each stage of the investment cycle. We cannot guarantee the results of this approach.
3. Long-term returns can be diminished by investor behaviour during periods of stress (i.e. selling when drawdowns increase to unacceptable levels). This is why it is so important to ensure that investors are in the appropriate mandate at the outset, are comfortable with the level of risk inherent, and prepared to accept with the time horizon indicated.

RETURN ASSUMPTIONS AND LIKELY OUTCOMES CONTINUED

Figure 2: Historic range of annual returns by mandate



Source: Waverton

Notes: The above chart is based on sterling actual returns achieved since 31st December 1985. These returns are similar to those experienced when using the US dollar or euro as the base currency. The index compositions that were used to achieve the backtest with a continuous run of alternatives exposure are as follows: 30th April 2005 to present – Equities: MSCI AC World Index £ (net of withholding tax); Bonds & Cash: ICE BofA UK Gilt Index/ ICE BofA Sterling Corporate Index (equal split); Alternatives: S&P Real Assets Index (hedged)/ Absolute Return Index (equal split); and Cash: ICE GBP LIBOR 1 Month. 31st Jan 98 – 30th April 2005 – Equities: MSCI AC World Index £ (net of withholding tax); Bonds & Cash: ICE BofA UK Gilt Index/ICE BofA Sterling Corporate Index (equal split); Alternatives: Gold Bullion/ IPD UK Property Index/ Absolute Return Index (equal split); and Cash: ICE GBP LIBOR 1 Month. 31st Dec 85 – 31st Jan 98 – Equities: MSCI AC World / World Index £ (net of withholding tax); Bonds & Cash: ICE BofA UK Gilt Index/ICE BofA Sterling Corporate Index (equal split); Alternatives: Gold Bullion/ IPD UK Property Index/ UK CPI; and Cash: ICE GBP LIBOR 1 Month.

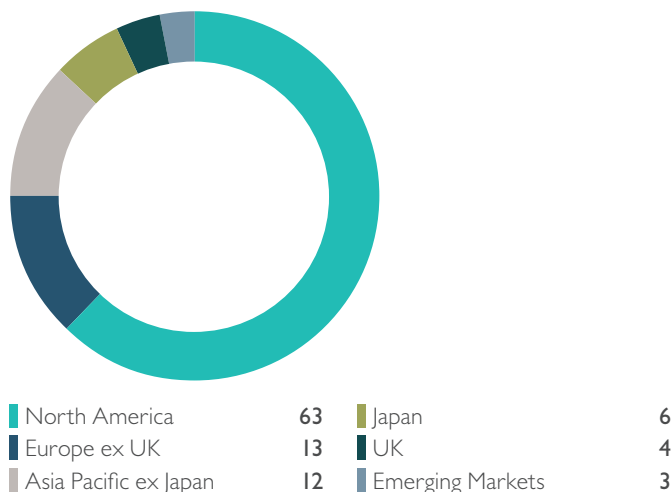
Risk Warning: Past performance is no guarantee of future results and the value of such investments and their strategies may fall as well as rise. You may not get back your initial investment. Capital security is not guaranteed. Changes in rates of exchange may have an adverse effect on the value, price or income of an investment.

Market-based Reference Indices

Our reference indices are constructed from the MSCI All Country World Index, the ICE BofA Government and Corporate Indices, S&P Real Assets Index, HFRX Global Hedge Fund Index and a suitable one-month cash index for the base currency of the portfolio. These should be looked at in conjunction with our CPI targets and our performance relative to our peer group.

The MSCI All Country World Index is made up of the large-cap global companies. The constituent weightings change over time and the chart below shows the current geographic weights. The use of this global index reflects our international view and the importance we place on selecting the best quality equities regardless of where they are located.

Figure 3: Global geographic equity weight (%)



Source: Waverton, 31.12.21

REFERENCE INDICES AND GLOSSARY

Reference Indices Used

COMPONENTS	MANDATE WEIGHTS – STRATEGIC ASSET ALLOCATION						
	EQUITY	GROWTH	BALANCED	CAUTIOUS	DEFENSIVE	CONSERVATIVE	BONDS
Equity	100.0	75.0	60.0	45.0	33.0	20.0	0.0
MSCI AC World Index	100.0	75.0	60.0	45.0	33.0	20.0	0.0
Bonds	0.0	15.0	20.0	28.0	35.0	45.0	100.0
ICE BofA UK Gilt Index	0.0	7.5	10.0	14.0	17.5	22.5	50.0
ICE BofA Sterling Corporate Index	0.0	7.5	10.0	14.0	17.5	22.5	50.0
Alternatives	0.0	8.0	18.0	25.0	30.0	33.0	0.0
S&P Real Assets Index (Hedged)	0.0	4.0	9.0	12.5	15.0	16.5	0.0
Absolute Return Index*	0.0	4.0	9.0	12.5	15.0	16.5	0.0
Cash	0.0	2.0	2.0	2.0	2.0	2.0	0.0
ICE GBP SONIA 1 Month	0.0	2.0	2.0	2.0	2.0	2.0	0.0
	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* Absolute Return Index: 66.6% HFRX Global Hedge Fund Index, 33.3% ICE BofA 1-3 Year UK Broad Market Index

Glossary

TERM	DESCRIPTION
Absolute return fund	A fund that seeks a positive return regardless of the direction of financial markets.
Alternatives	An investment which is not a straight bond or equity – for example a property fund, infrastructure fund, absolute return fund or commodity fund.
Asset allocation	The proportion in which an investment portfolio is deployed into different asset classes such as equities, bonds and cash.
CPI	Consumer Price Index – i.e. a measure of price inflation.
Bond	Promissory note issued by a government or corporation, usually offering a fixed rate of interest (coupon) and redemption at a fixed date in the future. Often known as a fixed interest security.
Equity	An ordinary share, usually listed on a stock exchange, which offers capital upside at the risk of downside. The dividend income paid out by an equity, if any, is variable. Ranks lower down the capital structure than a bond, and is therefore higher risk.
Exchange Traded Fund (ETF)	A regularly traded liquid index fund.
Fixed Interest	See 'Bond'.
Hedge Fund	A pooled investment vehicle which has greater flexibility than a traditional 'plain vanilla' long-only fund. Hedge funds may invest across a wide variety of asset classes, go short, or invest through derivatives.
Index-linked Stock	A bond which carries a coupon that increases with inflation.
Mandate	A neutral strategic asset allocation designed to meet a longer-term indicative real return with defined risk parameters.
Nominal Return	The simple investment return, taking no account of inflation.
Protection Strategy	A structured note designed to offer a degree of downside protection during periods of market stress.
Real Assets	Physical assets such as land, precious metals or commodities.
Real Return	The investment return over and above general price inflation.
Reference Index	A market-based comparator for evaluating investment performance. Also referred to as a benchmark.
Total Return	Capital appreciation/depreciation plus the income return.
Volatility	The variability of returns (positive and negative), often used as a measure of risk.



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