PRESS RELEASE

SEVEN Investment Management

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WE NEED TO TALK ABOUT…RISK AND RETIREMENT

7IM RESEARCH SHOWS DE-RISKING AS RETIREMENT APPROACHES NEEDS RE-EXAMINING IN A CHANGING WORLD AND FINANCIAL ADVISERS HAVE A KEY ROLE TO PLAY

- **7IM calling on Government, post-election, to mandate time to make this issue a national conversation and financial education is key**
- **The world has changed: people are living longer, annuities are no longer the only option, and income is harder to come by**
- **£100bn of pension savings are invested to automatically reduce risk as retirement approaches, but 7IM research shows the model no longer works for many of us**
- **Financial advisers have a pivotal role to play in all this**

With fewer people now buying guaranteed-return annuities at retirement, and in a changing world where people are living longer and money needs to work harder, **Seven Investment Management (7IM)** have published a discussion paper examining old assumptions for retirement.

Published today and independently reviewed by actuaries at **OAC*,** the paper reveals the strategy of reducing investment risk as retirement approaches may leave millions of people running out of money towards the end of their lives. **7IM** ran a range of scenarios through different market cycles based on 7IM funds across the risk profiles.

7IM's research challenges the assumptions of default 'lifestyling' pension funds that gradually switch from equities to bonds as the investor nears retirement. **It is estimated that over £100bn is invested in such funds**. 7IM is calling on the next Government to make this a national conversation and financial education is key to this**.

7IM also believes financial advisers have a pivotal role to play in all this − advice will cost you but nowhere near as much as being in the wrong retirement strategy.

Chris Darbyshire, Chief Investment Officer, 7IM and co-author of the research said: "The world has changed. With a huge number of default pension funds automatically reducing risk as retirement approaches, many investors are sleepwalking into an uncertain retirement. We are not saying reducing risk isn't right for some people, but this is a conversation that needs to be happening. Investors should not underestimate the power of compounding. By reducing investment risk at the point when you are at your wealthiest you reduce its enormous potential benefits."

Karen Barrett, Founder and Chief Executive at Unbiased, said: "There is no denying that the retirement landscape has changed, and what was previously a straightforward transition is now fraught with new questions. The 7IM research highlights that risk isn't for everyone, but people should be willing to explore their options. If you're at or near retirement then there isn't a better time for learning about your pension options and taking steps to maximise your income.

“Our most recent Value of Advice report found that, on average, people who take advice on their retirement planning have an estimated £48,279 more in their pot compared to those in a similar income bracket who do not take advice, with tax relief and interest factored in. It’s hard to think of a more clear-cut demonstration of value for money. Many of the advisers listed on Unbiased offer free financial health checks as an introduction to advice, so there really is nothing to lose by giving it a try.”

Pete Matthew, Chartered Financial Planner, Jacksons Wealth Management in Penzance, said: "Arguably the time when the financial planning process can offer the most value to a client is the great transition from accumulation to decumulation. Planners and their clients need to factor in many variables to determine how long clients' money will last, and portfolios need to be managed more intelligently than ever. Automatic lifestyling just doesn't cut the mustard any more, and advisers need tools to be able to manage money and, more importantly, client expectations."

Echoing this, **Justin Urquhart Stewart, Co-founder and Head of Corporate Development, 7IM** said “Taking your foot off the gas as retirement approaches is often precisely the wrong thing to do, but millions are in products doing this automatically and probably don’t even know it. It might be the right strategy for some people, but it absolutely won’t be right for everyone – and it’s time we all got talking about it. That goes for any new Government, too, who need to mandate time on this issue, and financial education should be absolutely central to this.

“It’s also worth taking advice from a financial adviser on this – yes, advice will cost you but nowhere near as much as being in the wrong retirement strategy.”

The research

7IM research looks at a number of scenarios. 7IM’s research has modelled returns for two investors who each saved an average of around £7,500 a year from the age of 30 to 60 (starting with £500 and increasing by £500 in each year of employment), retiring with an annual pension of £22,000 a year. The amounts used in the discussion paper were larger*** but the conclusions are consistent. The principles that follow are the same whether you save £20,000 or £2,000 and draw £60,000 or £6,000.

One saver invested in a moderately cautious portfolio targeting a return of 4% a year; the other took a step up the risk ladder, investing in a balanced portfolio targeting a return of 5% a year.

At retirement the first had a portfolio worth around £375,000 and the second had £425,000. The first ran out of money at 86, having withdrawn £22,000 per year. The balanced investor still had around £275,000 left at this point, demonstrating how a very small increase in investment risk can make a remarkable difference to outcomes when pension pots are at their greatest, in retirement, and the effects of compounding are at their most potent.

What about when markets are volatile?

Markets don’t perform in consistent straight lines, so 7IM then ran the portfolios through a range of outcomes drawing on the historic volatility experienced by investment portfolios between January 2004 and January 2016.

Matthew Yeates, Quantitative Investment Manager, 7IM and co-author of the discussion paper, said: “This 12 year period included the global financial crisis, the Eurozone crisis, taper tantrums and flash crashes. Income was taken out monthly to reflect real life, ensuring any losses were locked in. The *expected* scenario was the midway point between the best and worst outcomes. On a scale of one to 10 (with 10 being the worst case scenario), the *bad* scenario was number eight – not quite financial Armageddon but pretty bad.

"In the *expected* scenario the moderately cautious investor ran out of money at 86. The balanced investor was still going strong at 100. But it is what happened in the *bad* scenario that may surprise investors. The moderately cautious investor ran out of money at 79. The balanced investor's money lasted another four years – to 83."

Let's make it even tougher

7IM research went a step further. They made bad *really* bad, turning the dial up to nine – even closer to financial Armageddon. This was the equivalent of investing at the worst possible time – just before the 2008 crash on 6 July 2007 – and then staying invested until near the bottom of the market slump at the start of 2016 (19 January). For good measure, the analysts imagined that at this point the crisis began all over again – meaning they excluded the 10-15% rally that many funds enjoyed after the 2016 correction, for instance.

They also assumed the investor hadn't been enjoying the benefits of taking more risk in the build-up to retirement but had got the expected return of the lower risk fund in accumulation. Both portfolios started at exactly the same level when the investor retired at 60 – with a pot of £375,000.

In the *really bad* scenario **both** portfolios ran out at 81. The volatility of the higher risk fund was higher but even in this particularly scary world the benefit of the higher expected return helped to offset this over time.

Conclusions

Matthew Yeates, Quantitative Investment Manager, 7IM continued: "The research suggests that in the vast majority of circumstances investors would be better off leaving more of their portfolios in equities at and into retirement than they have done traditionally.

"We aren't saying investors should take more investment risk than they are comfortable with, but they need to understand that by choosing lower-risk investment options they may be increasing the danger of running out of money in retirement – and they certainly shouldn't do it automatically without thinking the issue through. It's also worth bearing in mind that investment risk is not the only lever to pull when making investment decisions – longevity risk and event risk are other levers to pull. For example, how long you might choose to work, how much you plan to financially help your children – attitudes towards investment risk should not necessarily be viewed in isolation."

The 7IMagine app:

- 7IMagine allows anyone to capture details about their own and their families' finances in as little as 10 minutes. A wealth of options can be incorporated into any scenario and include any number of streams of income, properties and other assets.
- Via iPad, Android tablet or PC: an easy to use cash flow planning tool, My Future, allows investors to take a look at their portfolio and see how much more they would need to save each month to reach their long-term financial goals in a very visual way. It is quick, flexible and easy to populate.
- For existing 7IM clients they can view their valuations, performance, asset allocation and where their investments are placed around the globe in an interactive way.

Ends

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Notes to Editors:

* The 7IM research was reviewed by an actuarial firm, OAC, who deemed our methodology as appropriate and conclusions consistent with analysis up to the 90% probability level.

** Source: Which? Money estimated around £100bn is in ‘lifestyled’ pension products, April 2016.

*** In the discussion paper, 7IM modelled returns for two investors who saved £20,000 a year from the age of 30 to 60, retiring with an annual pension of £60,000 a year. One saver invested in a moderately cautious portfolio targeting a return of 4% a year; the other took a step up the risk ladder, investing in a balanced portfolio targeting a return of 5% a year. At retirement the first had a portfolio worth £1m and the second had £1.15m. The first ran out of money at 86. The balanced investor still had over £800,000 at this point.

7IM then ran the portfolios through a range of outcomes drawing on the historic volatility experienced by investment portfolios between January 2004 and January 2016. In the *expected* scenario the moderately cautious investor ran out of money at 86. The balanced investor was still going strong at 100. But in the *bad* scenario the moderately cautious investor ran out of money at 79. The balanced investor’s money lasted another seven years – to 86.

7IM research then went a step further. They made bad *really* bad, turning the dial up to nine, the equivalent of investing at the worst possible time – just before the 2008 crash – and then staying invested until near the bottom of the market slump at the start of 2016. For good measure, the analysts imagined that at this point the crisis began all over again – meaning they excluded the 10-15% rally that many funds enjoyed after the 2016 correction, for instance. They also assumed the investor hadn’t been enjoying the benefits of taking more risk in the build-up to retirement, so both portfolios started at exactly the same level when the investor retired at 60 – just over £1m.

About 7IM

It all began in 2002, with seven of us in a basement establishing Seven Investment Management (7IM) because we couldn't find anywhere we wanted to invest our families' money. Our assets under management now stand at around £11bn (more than doubling since 2013), and we have moved from ‘basement’ to ‘Bishopsgate’ in the City of London. There are now around 240 of us.

Radical common sense

We manage money aiming to meet people’s medium to long term return expectations. Fundamentally, we believe in active asset allocation in both active and passive investments (where we were one of the first to offer actively managed passive portfolios). We build global portfolios based on that allocation, and include alternative assets where appropriate to manage the risk reward trade off. Active currency management is also at the core of what we do.

7IM provides investment services to professional wealth managers, planners, advisers and private investors. These include: discretionary investment management, a range of multi-asset portfolios, an investment and open architecture trading platform and a fantastic app, 7IMagine, which brings client portfolios to life.

Multigenerational investing

We do our best to pass on economies of scale, reducing fees so more investors within a family save with us. Grandparents, through to parents and their children can invest as individuals with one charging structure – whether they live under the same roof or not.

A story of continuous innovation

In 2013, we launched 7IMagine, an app allowing investors and advisers to keep up to date with their portfolio. The brainchild of some clients – professional 'gamers' uninspired by their paper statements – 7IMagine was enriched in February 2016, with My Future. Again using gaming technology, My Future allows advisers and investors to capture details about family or individual finances, including any number of streams of income, properties, other assets and expenses, to help identify how sustainable their finances are and if / when their retirement income will run out.

Our funds

- Our **AAP fund range (Asset Allocated Passive)** is populated largely with passive structures to keep costs to a minimum. Asset allocation is actively managed to help exploit opportunities and reduce risk across the spectrum: **7IM AAP Adventurous, 7IM AAP Moderately Adventurous, 7IM AAP Balanced, 7IM AAP Moderately Cautious, 7IM Cautious and 7IM AAP Income**. Some of these risk profiles have an offshore version of the fund.
- Our **Multi-Manager fund range** invests in a range of active and passive vehicles. Costs still matter, but if we think an actively managed fund can outperform a passive alternative we have the freedom to choose it. Asset allocation is actively managed. Again, there are different funds for different profiles: **7IM Adventurous**, **7IM Moderately Adventurous**, **7IM Balanced** and **7IM Moderately Cautious**. Again, some of these risk profiles have an offshore version of the fund.
- We also have a selection of funds designed to meet specific needs, such as the **7IM Personal Injury Fund**, the **7IM Unconstrained Fund** or the SRI focussed **7IM Sustainable Balance Fund**.
- We also have a range of 'smart passive' funds known as the equity value funds. The range includes: the **7IM UK Equity Value Fund**, the **7IM US Equity Value Fund**, the **7IM European (ex. UK) Equity Value Fund** or the **7IM Emerging Markets Equity Value Fund**. These are entirely systematically managed based solely on company fundamentals, the aim being to outperform the relevant passive market cap-weighted alternative by selecting profitable, high-quality, cash-flow generating companies that trade at a discount to their intrinsic value.

Our Model Portfolios

The 7IM Model Portfolios are a range of risk rated portfolios and are available within our discretionary investment services and standalone on the 7IM platform and other platforms. The Models use the same investment process and asset allocation as our funds. Like the Asset Allocated Passive (AAP) funds, the entire asset allocation is fulfilled with 'Smart Passive' market cap weighted passive instruments (for example UK and US equities) which track those markets and systematic instruments. 7IM undertake the due diligence on the passive securities (such as counterparty risk and concentration). Our range of Model Portfolios are available across the risk profiles: **7IM Adventurous Model Portfolio, 7IM Moderately Adventurous Model Portfolio, 7IM Balanced Model Portfolio, 7IM Moderately Cautious Model Portfolio, 7IM Cautious Model Portfolio and 7IM Income Model Portfolio**.

The 7IM funds and Model Portfolios are available through the 7IM Discretionary, Managed Investment, Platform, and Self Invest services, as well as on other platforms.