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OK COMPUTER? 7IM ON 'SMART BETA', BULL MARKETS AND WHY SOMETIMES A HUMAN HAS TO SAY "NO"

- Third anniversary of 7IM Equity Value Funds shows 3 year benchmark out performance in Europe and UK, highlighting benefits of 'smart beta' for cost-conscious investors
- FAANG story undermines results in US as the 'value' strategy keeps these stocks out of portfolios
- Stocks the computer is saying "yes" to and when we have to say "no"

Seven Investment Management's (7IM) systematic equity funds have recently marked their third birthday.

The ongoing charges figure (OCF) of the developed market **7IM Equity Value Funds** (EVFs) is 0.35% – not much more than many tracker funds. But whereas a pure tracker is sure to underperform its benchmark when costs are considered, these automated strategies aim to outperform over the medium to long term.

Dr Alessandro Laurent, 7IM Head of Systematic Strategies, said: "Given the focus our funds have on 'value' stocks, it's perhaps no surprise, nine years into a raging bull market that they have concentrated portfolios – certainly compared to their indices. The computer can be every bit as discerning as a value orientated, high conviction fund manager, in my view – but without the potential for emotion and behavioural biases.

"The strategy looks at the profitability of a company and the cash flows it is generating, not just the book value of assets. A systematic equity strategy is programmed to analyse companies, identify those it likes the most, and then overweight those stocks, eliminating or underweighting others."

- The **7IM European (ex. UK) Equity Value Fund** currently holds just 67 of the 342 stocks listed in its benchmark (the MSCI Europe ex-UK Index).
- The **7IM UK Equity Value Fund** holds 52 of the 103 stocks in its benchmark (MSCI UK Index).
- The **7IM US Equity Value Fund** holds 101 of the 631 stocks in its benchmark (MSCI US Index).

Current overweight's

In Europe, we currently have an overweight position in insurance companies, including Munich Re and Swiss Re, and are underweight banks, including BBVA, ING and Santander. This is a long historical position held over the last three years, which has worked very well. Another long term position is the overweight in the automobiles sector, with FIAT Chrysler, Peugeot and Renault in particular.

In the UK in the past 24 months, the fund has generally had big overweights and underweights in the consumer staples sector. It has long term underweights in British American Tobacco (BAT) and Unilever, while it has been overweight food retailers Morrison, Sainsbury's and Tesco.

As with the European fund, in the financial sector the strategy has been underweight banks, like HSBC and Barclays, and overweight general capital market companies, including 3i and the London Stock Exchange.

In the US, the fund is generally underweight software and services (Alphabet, Facebook, Microsoft) and overweight Semiconductors (Applied Materials, Intel, Micron Technology and Skyworks Solutions).

When we have to say “no”

Sometimes, though, the managers have had to override the computer and say “no”, although this has only happened a couple of times since the funds launched.

Dr Alessandro Laurent said: “We are very hesitant to intervene because a systematic strategy is all about taking the emotion out of investing. However, the computer can only deal with numbers. At the height of the storm over the VW emissions scandal for instance, it was demanding that we buy more, but at that point there was a disconnect between the share price and the historic accounting data. The same happened with Petrofac after the Serious Fraud Office started its investigation in relation to Unaoil.

“If we have reason to believe the numbers we are putting into the computer might be compromised by extraordinary events, we have to override the program and did. That means you might miss some bounce back, but it is better to be safe than sorry.”

Springing a few surprises

Dr Christopher Cowell, Investment Manager, 7IM admits that the algorithm has sprung some surprises. “The computer kept building positions and big overweights in Lufthansa and in car manufacturers, such as Fiat Chrysler, Peugeot and Renault, coming out with high scores for growth, quality, returns generated and value.

“If we had been managing the fund by traditional means, we would have been much less aggressive in buying these stocks, but we have stuck to the strategy.

“The computer’s most contrarian view has been in the US, where it is overweight semiconductor manufacturers, such as Applied Materials and Skyworks Solutions at the expense of Amazon and Facebook, which are stocks that are very hard to value. We launched the fund just as the FAANG stocks went on a tear and so we experienced some underperformance.

“Our intensive back-testing, however, gives us confidence in the long term strategy and in the past year we have begun to make up ground, generating 11.76% – nearly twice the benchmark return of 6.84%.”

Background to 7IM’s EVF Funds:

Prior to the appointment of Dr Laurent, 7IM accessed systematic strategies via ETFs, and had also started to use external fund managers. The decision to bring this in house was based on cost – running an in house systematic strategy was cheaper than using external managers – but also gave 7IM the opportunity to build exactly the type of strategy that we wanted.

Performance – total return

Total Return to 30/04/2018	3 months	6 months	YTD	1 Year	3 Year
7IM European (Ex. UK) Equity Value Fund	-0.55%	0.92%	0.74%	14.77%	34.41%
MSCI Europe Ex. UK	-2.47%	-2.47%	-0.79%	6.12%	30.38%
7IM UK Equity Value Fund	3.55%	5.47%	2.96%	10.19%	24.09%
MSCI UK	0.84%	2.49%	0.03%	8.40%	20.49%
7IM US Equity Value Fund	-2.06%	2.50%	-1.99%	11.76%	42.26%
MSCI US	-2.02%	0.72%	-1.72%	6.84%	48.01%

Discrete % returns

	1 year to 30/04/2018	1 year to 30/04/2017	1 year to 30/04/2016
	1 Year	1 Year	1 Year
7IM European (ex UK) Equity Value Fund	14.77%	24.95%	-6.27%
MSCI Europe Ex. UK	6.12%	27.59%	-3.70%
7IM UK Equity Value Fund	10.19%	18.22%	-4.74%
MSCI UK	8.40%	19.42%	-6.91
7IM US Equity Value Fund	11.76%	24.53%	2.22%
MSCI US	6.84%	32.14%	4.84%

Source: Fund data is the C Income share class total return sourced from Bloomberg and is net of fund charges. Benchmark Index sourced to MSCI 12pm.

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Ends

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Notes to Editors:

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 £12.5bn (more than doubling since 2013), and we have moved from 'basement' to 'Bishopsgate' in the City of London. There are now around 266 of us.

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 funds domiciled in both Dublin (with UK reporting status) as well as the UK.
- 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 funds domiciled in both Dublin (with UK reporting status) as well as the UK.

- We also have a selection of funds designed to meet specific needs, such as the 7IM Personal Injury Fund, the 7IM Real Return 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.

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.

Important information: The information contained in this document does not constitute investment advice and if you are in any doubt about the suitability of the investment or service, you should consult a professional financial adviser. The value of investments, and the income from them, can fall as well as rise and you may not get back the full amount invested. Seven Investment Management LLP is authorised and regulated by the Financial Conduct Authority and the Jersey Financial Services Commission. Member of the London Stock Exchange. Registered office: 55 Bishopsgate, London EC2N 3AS. Registered in England and Wales No. OC378740.

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