PRESS RELEASE

SEVEN Investment Management

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7IM REFLECTS ON H1 2018: MARKET DECLINES SHOULD BE SEEN AS AN OPPORTUNITY, NOT A THREAT – BUT EXPECT MORE SURPRISES, MORE VOLATILITY AND MORE TRUMP TWITTERSTORMS

At the midpoint of 2018, almost every equity market in the world is lower than at the start of the year. Europe, Japan and the UK are all down by two to four percent, whilst many Emerging Markets have lost closer to double digits, with the US equity market being the only exception.

Ben Kumar, Investment Manager, Seven Investment management (7IM) puts some perspective on the volatility:

"Whilst there's plenty around to worry equity markets, violent price movements have drawn investors' attention away from the underlying positives. In 2018, earnings estimates have been revised higher and higher, and yet companies have still beaten profit expectations, with earnings growth in the US coming in at 20% in Q1. There are some one-off impacts such as currency moves, the oil price rebound or the tax-cuts that help these earnings numbers, but the real momentum is coming from real, honest sales growth.

"Fundamentally, businesses are finding that more people are buying more of their goods and services. As such, we believe that the direction of global equity markets is still upwards over the medium term – market declines should be seen as an opportunity rather than a threat.

"In terms of Brexit, it's always tempting to talk at length about the road ahead. However, we believe that it is almost pointless to do so given the uncertainty in the process at present. It is a bit similar to analysing US equities in the context of every Donald Trump tweet, you can spend a lot of time and effort achieving very little. Instead, we would just note that the FTSE 100 is a little undervalued versus some of its global peers, given a weak currency, high oil price and a positive outlook for global growth. In that context, the benchmark index of large global businesses looks quite attractive."

US - positive sentiment courses through the US economy

Ben Kumar said: "The large cap S&P 500 has proved resilient once again, up 2% so far this year – but the real star has been the smaller companies index, the Russell 2000, up 7% in the past six months. This is not a normal state of affairs. Usually in an environment where equities are troubled, smaller companies would be expected to underperform their larger, more stable counterparts.

"It seems that the positive sentiment that is coursing through the US economy is enough to outweigh investors' fears about smaller equities; the domestic US market still seems to be giving Donald Trump a vote of confidence. Outside of the US though, the President's approach to politics – and trade in particular - has definitely not been well received."

Trade wars - more surprises, more volatility and more Trump Twitterstorms?

Ben Kumar said: "It is often said that there are no winners in a trade war; that everyone ends up worse off than when they started. The question that the financial world is trying to come to terms with at the moment is whether there can be any *relative* winners. Currently, it looks like the honours are going to the US; Chinese equities have fallen 20% from their peak, with

Mexican stocks down 15%, and other global trading nations such as South Korea have felt a similar pain.

“In the final few weeks of the second quarter, there was some transmission back to the American heartland – with Harley Davidson being on the receiving end of EU sanctions. No one is quite sure of President Trump’s pain threshold here, or indeed of his idea of a win. With the conditions for victory undefined, it is difficult to have an informed view on the path of any negotiations, or indeed what that will mean for markets other than more surprises, more volatility and more Trump Twitterstorms.”

Eurozone running along the edge of a cliff?

Ben Kumar continued: “Donald Trump hasn’t been the only thing concerning investors in 2018. Eurozone politics has become turbulent once more, after 12 months of calm. Whilst Italy now has a government, it is a coalition of polar opposites in the League and the Five Star Movement. At the moment, outside forces are keeping this volatile mix together, but there is a worry that this may not last. One source of external pressure on Italy is Germany, where Angela Merkel’s government looks under pressure, and another is the European Central Bank (ECB), where Mario Draghi is approaching the end of his tenure.

“Italian bonds are still a lot cheaper than they were at the start of the year, and European banks’ share prices still reflect the pain. We don’t believe that the European project is any more likely to fall apart now than it ever has been, but are also aware that it usually takes a crisis to force a resolution – it can feel very uncomfortable running along the edge of a cliff.

“The final issue of concern is the strength of the US Dollar. The difference in interest rates between the US and the rest of the world is attracting investors to US assets, causing a rise in the US Dollar versus almost all global currencies. Despite the fact that this is exactly in line with economic theory, and that the US Dollar is no stronger than it was through most of 2017, people are starting to worry about the impact this could have on the global financial system – it is being seen as representative of the kind of issues associated with the withdrawal of Quantitative Easing. Whilst we are aware of the risks of stimulus withdrawal, it is important to remember that monetary policy is still extraordinarily accommodative around the world, and that is not going to change in the short term.”

Ends

For further information, please contact:

Jemma Jackson
PR Manager, 7IM
jemma.jackson@7im.co.uk
020 3823 8696
07776 204 610

Notes to Editors:

<u>About 7IM</u>

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.