PRESS RELEASE

SEVEN Investment Management

FOR IMMEDIATE RELEASE **6 FEBRUARY 2018**

7IM COMMENTS ON MARKET VOLATILITY: THIS EPISODE HAS NOT YET PLAYED OUT AND COULD WELL INVOLVE MORE WRENCHING TRADING SESSIONS FOR INVESTORS

In recent months, whilst participating to a degree in the very strong market momentum, **Seven Investment Management (7IM)** has remained underweight equities overall, and have been very wary of government bonds. **7IM** has built up allocations to alternative strategies, which aim to be uncorrelated to the direction of equity and bond markets.

Commenting on the current market volatility, **Alex Scott, Chief Strategist, Seven Investment Management (7IM)** said: "We have been living through extraordinary times for markets. Through 2017, we experienced the lowest levels of equity market volatility in a generation. In January, investors were contemplating a market 'melt-up', as US stocks enjoyed their best start to the year in over two decades and reached their longest ever period without a 5% correction, topping 400 days. How quickly investor sentiment can change.

"Yesterday's 4.5% negative move in the S&P 500 is something investors haven't experienced since 2011, so where has this come from? Stronger-than-expected US wage data on Friday reminded investors that inflation risks are building and that the Federal Reserve will continue to increase interest rates. With other central banks winding down their Quantitative Easing policies, investors are worrying about the end of the cheap money era which has underpinned market confidence and valuations over the past few years. Bond markets wobbled, with US Treasury yields reaching close to 3%. Equity markets losing their previous dead-calm complacency is a surprise for many investors – but it is important to note that even with all of the terrifying headlines, the S&P 500 is only just negative on the year.

"We have recently been highlighting the challenging environment for investors. The global economy is in good shape, with data continuing to point towards synchronised growth across the major blocs of the US, Europe and Asia in the year ahead, even a possibility of acceleration if corporate capital spending improves. It would be extremely unusual to see a sustained or deep equity bear market against such a positive economic background. Set against this, we have been concerned by demanding equity valuations and by apparently complacent investor sentiment, evident in such low stock-market volatility. With levels of volatility so low, there is a risk that a small rise could lead to a larger market reaction, as investors receive a reality check. Recent low volatility is the exception and not the norm, so there may be a few people (and programs) scrambling to recalibrate their risk models and a need for some to reappraise whether they have taken on too much risk.

"Our strategy over recent months has been to operate with some caution: to participate to a degree in the very strong stock market momentum, but to remain underweight equities overall, and looking to include other defensive measures where possible. We have been very wary of government bonds, especially gilts and European government bonds, where yields remain too low. We have built up allocations to alternative strategies, which aim to be uncorrelated to the direction of equity and bond markets, and may be partially sheltered from an equity market shakeout such as we are now witnessing. Finally we have continued to hold high levels of cash and very short-dated bonds (as high as 12% in a Balanced portfolio across cash and short term bonds currently), awaiting more advantageous opportunities to invest. These may soon appear.

"This episode of market volatility has not yet played out and could well involve more wrenching trading sessions for investors. Central banks are gradually moving towards a more normal interest rate policy, and this will see some of the distortions of the last few years unwinding – not always smoothly. But the economic cycle has not yet turned, the growth outlook remains healthy, and this suggests that we face a market correction, not a sustained downturn or a recession. 7IM portfolios will see losses from their market exposure, but lower than average equity weights and high cash allocations, as well as our other defensive measures, should mitigate the pain and provide chances to invest cash into attractive assets at much more appealing prices. For investors with a long time horizon and robust portfolios, periods such as this offer opportunity."

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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 £12bn (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 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.

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