

From losing sleep and holding nerve to flattery through imitation - 10 years of 7IM AAP Funds

Blog by Peter Sleep, Senior Investment Manager, Seven Investment Management (7IM)

The 7IM AAP (Asset Allocated Passive) funds are now 10 years old and they are fast approaching adolescence. I hope that this does not mean late nights, tantrums and kicking parents in the shins. I think 7IM had more than enough market misbehaviour when we launched the funds on 28 March 2008, right in the middle of the Global Financial Crisis. We lost sleep when our lead investor dropped out just before launch, held our breath when Bear Stearns went out of business, and had to be nimble on our feet when Lehman Brothers went bust.

Back in the day

Ten years on, the AAP funds now have just under £4 billion assets under management in the London and latterly, the Dublin fund ranges. They were the brainchild of 7IM's Alex Scott and the then CIO Ros Price, who had noticed that the ETF market had grown to a sufficient breadth that you could put together a global multi asset portfolio using these vehicles. The funds would use the same asset allocation as our conventional multi manager portfolios, but would be cheaper by using ETFs. This sounds simple, but at the time we were the first, or one of the first, to do it.

ETFs, Barry Manilow and why AAP is no longer just an ETF show

Whilst the AAP funds started out as ETF only funds, seeded by 7IM employees' SIPPS and ISAs (including yours truly), we quickly found that although they were lower cost, we could drive the cost down further by bringing in tracking funds, using futures or by buying the cash instruments direct.

ETFs are a bit like Barry Manilow. In 10 years they have been through a lot, but any makeover has only been skin deep - at heart they are the same. Just like Barry's CD prices have fallen as on-line streaming gained popularity, ETFs have become a whole lot cheaper in the last 10 years. But there are also a lot more tools for multi asset managers to use to actively manage client portfolios, and the AAP Funds are no longer just an ETF show.

What's in a name?

When parents spend hours agonising over baby names, front of mind is whether it will affect their chances in life. Coming up with a fund name is not dissimilar, and that's probably why we see so many world-conquering-style names in the fund management world. For those who know 7IM's logo, it uses some Roman numerals, so we thought about the Centurion Fund or the Trojan Fund, but those names had already been taken. Our CEO then said we will call them the "Asset Allocated Passive" funds, and so AAP was born. It might not trip off the tongue or even be particularly aspirational, but the name says it as it is. They are a suite of risk rated funds, passively implemented, that have a regular tactical asset allocation to take calls on markets.

The good and the bad calls

The tactical asset allocation has sometimes been right and sometimes wrong. Most notably it took us out of a lot of riskier markets and helped us play defence in late 2008. There have been other times when we have got it wrong, like when we assumed the oil price fall in 2015 would be a clear win for consumers, whereas the market went backwards.

It will be interesting to see how the AAP funds evolve in the next 10 years. There are now quite a number of similar funds paying a compliment to AAP by emulating its strategy. Whilst not yet adolescents, ten years on, the AAP funds have delivered what they say on the tin – active asset allocation, passively implemented.

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Ends

Editor's Note by Justin Urquhart Stewart: The 7IM AAP Fund range would not have been the success it has been without the expertise of Peter Sleep, who still has the best name for a passive expert.

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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 £12bn (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.

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

Seven Investment Management LLP is authorised and regulated by the Financial Conduct Authority. Member of the London Stock Exchange. Registered office: 55 Bishopsgate, London EC2N 3AS. Registered in England and Wales No. OC378740.

- 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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