PRESS RELEASE

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60/40 asset allocation strategies "won't work for advisers and their clients over the next decade" – Matthew Yeates, Head of Alternatives and Quantitative Strategy, 7IM

The long-standing 60/40 split between equities and bonds is becoming an anachronism which will not serve clients well in this era of record low bond yields, according to 7IM's investment team.

The 60/40 portfolio has been around for decades, designed to provide investors with a balanced investment portfolio which offers the income and relative security of bonds, combined with the growth potential of higher-risk equities.

So well-known is the investment style that many funds and strategies have been named after it. However, Matthew Yeates, Head of Alternatives and Quantitative Strategy within the Investment Team at 7IM, said the very goal of this strategy – namely to provide some diversification to investors – was no longer being achieved.

"The 60/40 portfolio has been a great place to be over the last decade but looking forward, and with an eye on what's happened in 2020 in particular, we think investors should be looking for more now from their portfolios," Yeates said.

"For a balanced portfolio, we would currently expect to see an allocation of circa 15% in alternatives, a split which will likely only increase over time when you consider where bonds yields and equity markets are currently," he said.

"Be it diversification through proper strategic asset allocation, looking at regions like emerging markets or diversification through alternatives, these should all be differentiating parts of robust multi-asset investing going forward, which should replace the increasingly flawed 60/40 approach."

Last year saw 60/40 portfolios face some major headwinds which are only getting stronger as we move through 2021, according to Yeates.

Firstly, after more than two decades of sliding interest rates which have boosted bond markets, fixed income as an asset class is now starting to sell off heavily as record low rates – whilst not likely to soar – nonetheless start to climb.

More worryingly, this sell-off is coming amid peak equity valuations in many regions. Effectively, just as diversification is most needed, fixed income is now highly correlated to equity markets because of central bank intervention, meaning it is failing to act as a safety net.

Yeates said looking out over the next decade, using uncorrelated assets was therefore a more sensible strategy than relying on fixed income when it comes to diversification.

"A genuinely diversified multi-asset portfolio has a much clearer role in today's prevailing environment of low bond yields, negative debt piles, and returning inflation," he said. "Our answer to the problems facing 60/40 portfolios is, therefore, not to build them."

Instead Yeates said a specific group of alternatives should be incorporated in balanced portfolios to achieve the diversification that bonds used to provide. This means using liquid alternatives – involving long/short strategies, emerging markets and property, for example – to provide a better overall risk/reward profile for a balanced portfolio.

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About 7IM

It all began in 2002, with seven of us in a basement establishing 7IM because we couldn't find anywhere we wanted to invest our families' money. Our assets under management now stand at around £17bn, and we have moved from 'basement' to 'Bishopsgate' in the City of London.

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**.
- 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. There are different funds for different profiles: **7IM Adventurous**, **7IM Moderately Adventurous**, **7IM Balanced** and **7IM Moderately Cautious**.
- 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**.

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**.

In 2019, we launched **7IM Pathway**, a diversified range of passive multi asset model portfolios underpinned by our robust Strategic Asset Allocation (SAA) process. The Pathway Model Portfolios differ from our traditional offering and are built purely using a streamlined version of 7IM's robust (SAA).

The 7IM funds and Model Portfolios are available through the 7IM Discretionary and Platform as well as on other platforms.

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