

FOR IMMEDIATE RELEASE

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7IM COMMENTS ON ITALY “THE SCRATCH THAT WAS NOT QUITE ITCHED” – WITH MULTI MANAGER VIEWS ON EUROPE MORE GENERALLY

Today, **Ahmer Tirmizi, Investment Manager, Seven Investment Management (7IM)** shares thoughts on the economic implications of the Italian political situation and current portfolio actions, whilst **Damian Barry, Senior Investment Manager, 7IM** gives a multi manager perspective on Europe.

Ahmer Tirmizi, Investment Manager, 7IM said: “On the surface, there’s nothing extreme about a political stalemate in a country which has had nearly 70 different governments since World War II. In that context, there’s also nothing extreme about voting into government a political party set-up by a comedian in a country that gave Silvio Berlusconi four shots at running the government. However, when politics, extreme or not, could impact the economic situation, investors tend to take note.

“The economic situation in Italy is unique. Most countries experienced huge change following the Financial Crisis that attempted to avoid the same problems again. Italy though, has always felt like the scratch that was not quite itched. The market’s worst kept secret is that while everyone scrambled to find ways to avoid another crisis, Italy never bothered.

“Last Tuesday saw the biggest one day change in Italian bond yields since 2011, putting the country’s debt on a precarious path if nothing is done. The thinking goes once that happens, Italy has no choice but to leave the Eurozone, as it simply will not be able to pay the high rates of interest demanded by the market – at least, not in Euros. But we believe that extrapolating the events of last week and forecasting a disaster is not sensible.”

Ignore the bluster? Why we’re (a little) overweight Europe

Ahmer Tirmizi continued: “The recent past has taught us not to underestimate wider European pragmatism in times of crisis, and the bluster of populist parties can often receive a reality check once in office, and bond markets can be very persuasive.

“We expect the situation to be resolved as it remains in the interest of all parties. We maintain a neutral position on equities, with strong global growth tempered by full valuations, which leaves little margin for error. Yet we remain overweight Europe – valuations still look attractive versus the US, even when accounting for the higher profitability of American companies. Once this situation is resolved, we expect investors to refocus on what’s important – European growth, earnings momentum and ECB policy.

“However, we do not discount that it may take an extreme market reaction to get the right people around the table. As such, we hold equity put options and US Treasuries to help mitigate the risk of a market sell-off and we continue to have ongoing discussions around managing risk. We could be in for a volatile summer – but we also had a volatile spring, and the world didn’t fall apart!”

Multi manager perspective

7IM’s multi manager funds hold **Miton European Opportunities Fund** and **Syz AM (Lux) Oyster Continental European Selection Fund**, which each have a mid cap growth bias, **Old Mutual Europe (Ex UK) Smaller Companies Fund**, and **7IM European (Ex. UK) Equity**

Value Fund. The 7IM fund is a systematic strategy fund launched three years ago to help identify value opportunities in Europe.

7IM's asset allocated passive (AAP) funds also hold the **7IM European (Ex. UK) Equity Value Fund**, alongside **Eurostoxx 50 Future**.

7IM European exposure ranges from 4% in the moderately cautious risk profiles, up to 8% in the Balanced risk profiles, and 10% - 11% in the Adventurous risk profiles.

Damian Barry, Senior Investment Manager, 7IM said: "Europe is a beta play for equity markets. Its tendency for dramatics can lead to overreactions both on the upside and downside, so part of our European exposure in the multi manager funds has been through smaller and mid cap plays, which can be less effected by sentiment."

Italian politics – what else is being ignored?

Ahmer Tirmizi continued: "There are also some other things being ignored: the electorate remains pro-European; the country has been sleepwalking towards competitiveness by standing still while wages in Germany have boomed; once interest costs are accounted for, the government spends less than it receives in taxes; and according to most projections Italy's debt level is actually expected to shrink this year, even with this little wobble.

"The country's economic problem is longstanding – the economy is suffering from chronic stagnation. Since the formation of the Eurozone, it is the worst performing economy in the monetary union, even worse than Greece. Italian banks are still sitting on a large pile of unresolved bad loans, and Italy's best and brightest continue to head to stronger parts of the European Union. The Italian economy is just over half the size of the German economy, but has a debt load of a similar level. The cost of servicing this debt acts as a drag on the economy, while the slow economy does nothing to bring the debt burden down. This vicious cycle is slow moving and relies on a combination of the government frugality and nothing going wrong in the global economy to keep a lid on it.

"This is where the politics comes in. While the headline writers have continued their habit of blending words, "QuitItaly" remains unlikely, as the populist parties are not running on a platform to leave the Eurozone. What the populist parties are promising is to reject European fiscal compacts and to increase domestic spending – this is why people vote for populist parties. If this increase in spending doesn't threaten the country's debt burden, the bond markets voting with their feet might."

*The reference to specific funds or derivatives is not intended to be and should not be taken as a recommendation to invest in them.

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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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