

FOR IMMEDIATE RELEASE

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“Keeping your powder dry” in cash no longer works – 7IM’s Yeates

Using cash as an asset class to diversify portfolios is no longer applicable now that inflation is soaring, with investors having to get more creative when it comes to allocating assets, 7IM’s Matthew Yeates has said.

An asset that could beat inflation and provide some protection for investors for much of the last two years, cash is now facing a real threat from soaring inflation in the UK and further afield.

The unprecedented stimulus packages thrown at economies to help them tackle the pandemic saw UK inflation jump to 2.1% in May, breaching its 2% target – something it hasn’t done since November 2018.

Yeates, Head of Alternatives and Quantitative Strategy at 7IM, said as a result the long-standing notion of using cash to wait for good opportunities to invest no longer worked.

“Risk-free no longer gets you a return, and it means the opportunity cost with cash is now very high because you are effectively locking in a loss on anything you leave in cash. While it is essential to maintain a rainy-day fund in cash – we typically recommend starting with around 6 months of income - anything beyond short-term needs is better put to use elsewhere.”

“Keeping your powder dry just doesn’t cut it anymore, because – thanks to the record low rates on cash – investors are not keeping pace with inflation,” he said.

Yeates said one of the main goals for most portfolios was to beat inflation consistently, and this was creating problems for multi-asset portfolios in general. In order to stay true to risk mandates, investors cannot simply pile into equities instead of cash or bonds just to beat inflation.

“We can’t just buy assets more exposed to risk,” he said. “There are some pockets of value in fixed income – like European bank debt where you can get 2-3% additional yield versus comparable credits, or in mortgage debt in the US, where they have had 10-15 years of paying down debts post the GFC.”

He said other alternatives like private equity did not suit many portfolios because that is simply leveraged equity, while many corporate bonds paying low yields did not provide much by way of yield to counter inflation.

“We don’t want economic risk in another way now, so we have looked at absolute return vehicles, which can generate 3-4% a year. One example is an M&A focussed strategy that has been benefitting from the resurgence in corporate activity – we do this via the BlackRock Event Driven fund. In a world of rising inflation, trend strategies that can capitalise on rising commodity prices and yields have also been performing well, here we use the AQR managed futures strategy” he said.

“Frankly though, it is a harder world to invest in now.”

PRESS RELEASE



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For further information, please contact:

Henry Chan
Head of Communications & Content
Seven Investment Management
Henry.Chan@7im.co.uk
0203 823 8696
07786 000 313

Adam Walmsley
PR & Social Media Manager
Seven Investment Management
Adam.Walmsley@7im.co.uk
0203 823 8727
07790 655 584

Notes to Editors:

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 £14bn, 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**. 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. 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**.

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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