

FOR IMMEDIATE RELEASE

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## 7IM BREXIT SCENARIOS AND INVESTOR IMPLICATIONS

### *U-Turn: The Sequel, Dunkirk Spirit, Hard Road to Soft Brexit, Fortress Europe or Wobbly Britain Made Whole?*

With Brexit negotiations now underway, and as Parliament faces its most complex set of Bills in 50 years, **Seven Investment Management (7IM)** has published its new 'Brexit scenarios'. With a 'soft Brexit' looking like the most likely scenario, what are the implications for investors?

**Chris Darbyshire, Chief Investment Officer, 7IM** said: "A softer Brexit is now on the cards given the Conservative's reduced hand. Sterling looks likely to strengthen and economic uncertainty to moderate in the long-term, and this has implications for investors. Those with portfolios massively tilted towards UK assets may well be left wishing they'd diversified.

"The strong performance of large-cap UK stocks and UK bond markets over the last year has been flattered by the Brexit vote. The UK stockmarket benefited from the dramatic decline in Sterling following the vote, whereas gilts surged on lower growth expectations and lower rates. A softer Brexit, leading to stronger Sterling, would mean investors give back those gains.

"Short term pain is the catalyst for soft Brexit: British economic growth is slowing, inflation has surged, and that inevitably eats into people's wealth. UK consumers are now losing 1% of their income a year to inflation. Meanwhile, consumers are spending beyond their means even more than before the credit crunch."

#### **Scenario 1: Wobbly Britain Made Whole – Sterling strengthens**

- UK political uncertainty prevents progress in negotiations...time is running out.
- EU becomes frustrated by Britain's inability to negotiate with a clear mandate approved by a majority in Parliament and popular with the electorate.
- Successful lobbying by EU exporters on Britain's behalf.
- EU offers Britain a take-it-or-leave-it, but reasonable, EFTA-like end-game with transitional phase.
- Parliament's best move is to approve, hoping it can negotiate better terms in future.

#### **Scenario 2: Fortress Europe – dismal scenario for the Pound**

- UK political uncertainty prevents progress in negotiations... time is running out.
- EU becomes frustrated by Britain's inability to negotiate with a clear mandate approved by a majority in Parliament and popular with the electorate.
- EU loses patience, decides to cut Britain loose. Good riddance!
- Take-it-or-leave-it deal which offers Britain what the EU thinks it wants: WTO status plus a few carve-outs that Europe is particularly sensitive to.

#### **Scenario 3: Hard Road to Soft Brexit – good for Sterling**

- May's Hard Brexit strategy has been rejected in the polls.
- Economic deterioration continues. Real incomes are hit. Businesses begin to lobby for Brexit certainty.
- Tories' reputation on economy now questioned - popular and MP discontent leads to second election.
- Creates political conditions for UK concessions – emphasis on economic stability and reducing inflation. Both parties fight campaign with plan for Soft Brexit.

- UK ends up in EFTA – somewhat spun by the government to still be Brexit (no ECJ, allowed to make bilateral agreements). Transitional period.

#### **Scenario 4: Dunkirk Spirit – very bad for Sterling**

- Significant process risk arises from general election result, negatively impacting the UK's negotiating strategy.
- Intransigent EU negotiating position and aggressive demands cause negotiations to break down, almost from the outset. No major issue can be agreed on. Exit bill generates extreme ill-feeling.
- Popular discontent leads to broader anti-EU sentiment, even from Remainers. Thank goodness we're leaving!
- Economic pain tolerated – WTO status becomes default option.

#### **Scenario 5: U turn: the Sequel – very good for Sterling**

- Surprise general election result makes it politically, economically and bureaucratically expedient to soften the UK government stance.
- Cross-party Brexit committee is convened to ensure smooth negotiations.
- Negotiations target minimal disruption, something that pleases both sides. UK to stay in single market, accept freedom of movement with minimal restrictions. Contributions to EU budget to continue.
- UK economic slowdown continues, which is now conveniently blamed on Brexit. Clear majority of population turns against Brexit, especially as it's now seen to offer no real advantages.
- Article 50 revocation movement builds in UK. EU offers UK the chance to revoke Article 50. UK parliament votes to accept.

#### **Ends**

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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 £11bn (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 Unconstrained 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. Like the Asset Allocated Passive (AAP) funds, the entire asset allocation is fulfilled with ‘Smart Passive’ market cap weighted passive instruments (for example UK and US equities) which track those markets and systematic instruments. 7IM undertake the due diligence on the passive securities (such as counterparty risk and concentration). 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 it is not an invitation or inducement to engage in investment activity. 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

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