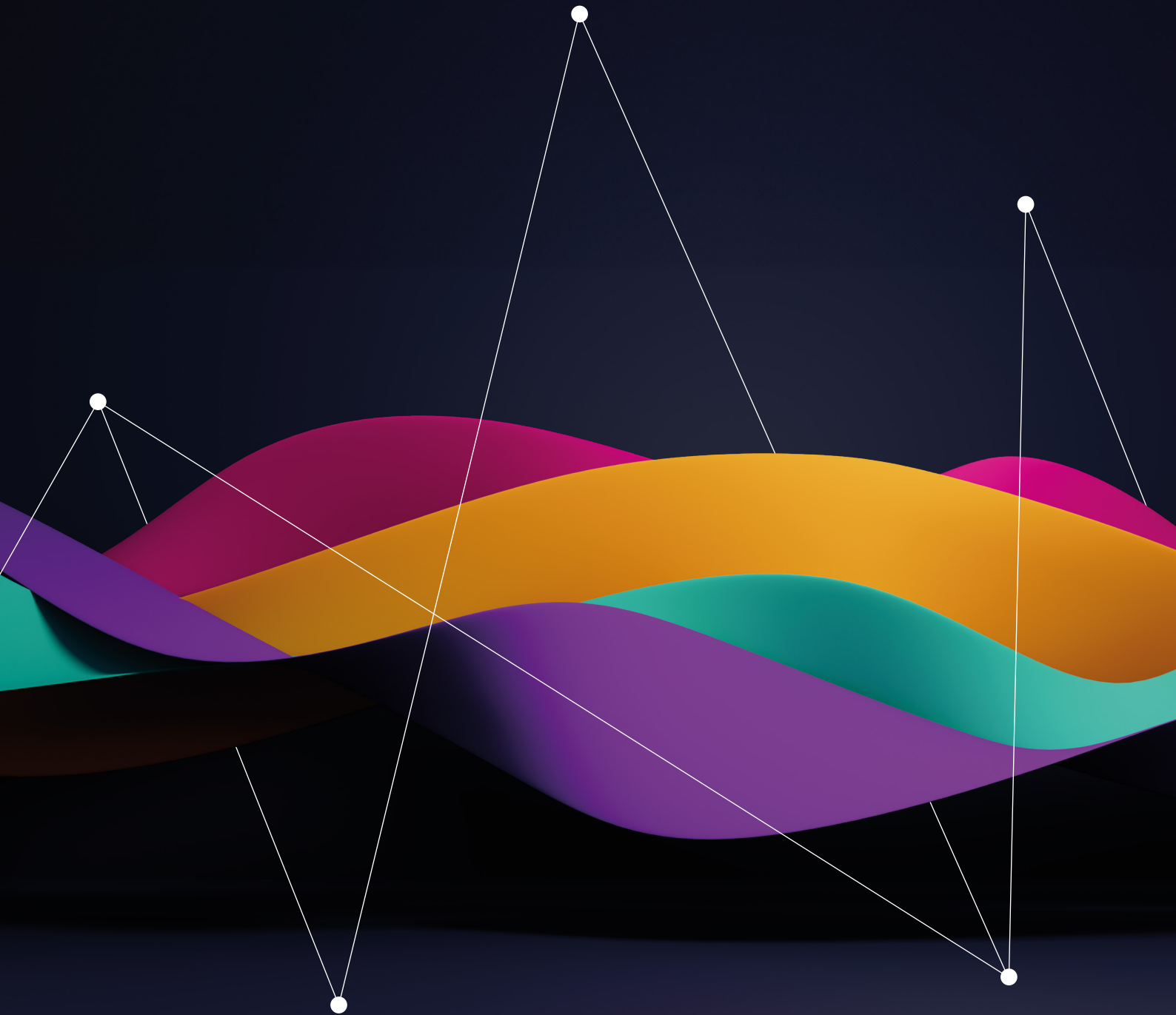


Your investment update

Q2 2026

Succession Model Portfolios

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MODEL PORTFOLIOS

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Capital at risk

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Ben’s brain teaser

Which of these goods and services has increased in price the most of the last 20 years?

- A) Coffee
- B) Cinema tickets
- C) Childcare
- D) Petrol

Find out at the end of this update.



Our key views

The first few months of 2026 were a reminder that markets do not move in straight lines.

With 2026 off to a rollercoaster start, it's good to remember the basic principles for investing: (1) be diversified, (2) think long-term and (3) take the right risk for you. They might feel like a hindrance when markets are rising but are priceless when times are tougher. Diversification helps limit what you lose. Thinking long-term helps avoid rash decisions, taking the right risk is about balancing your goals against your emotions.

Three issues dominated the headlines in the start of 2026: artificial intelligence (AI), private credit and Iran. We look at the first two in the next pages, with Ben Kumar using history to understand how AI might impact jobs and Ahmer Tirmizi tackling the murky world of private borrowing.

We haven't covered Iran in this update, as the news is moving too fast. It'll be difficult for the US and Iran to keep at it for a long time. Elections are coming up in the US and higher energy costs don't win votes. Iran has limited resources to draw on – the country has inflation and a shrinking economy. Even if there's a quick resolution, getting less oil and gas from the Middle East makes higher energy prices unavoidable. We've been sharing our views in our articles and webinars; do look out for them to keep you informed.

Over the coming months we expect:



Markets to continue to experience short-term swings, but this is a normal reaction to uncertainty – not a sign of deeper stress.



Energy prices to stay elevated for a while, but current pricing suggests that markets expect the disruption to be temporary rather than long-lasting. This helps limit longer-term inflation concerns.



Diversification to remain the most effective defence. Periods of turbulence are exactly when a wide spread of global exposures helps smooth the ride.



Shanti Kelemen
Co-Chief Investment Officer



Taking the right risk is about balancing your goals against your emotions."

Which “job” is AI coming for?

Have you heard about this AI thing? It certainly seems important, and there’s certainly a lot of money being spent on it – allegedly more than \$2 trillion worldwide in 2026.

But it’s not really clear what the result of all that investment is going to be. Nobody is quite sure what it’s going to do to the economy.

Some people say it’s going to cause mass unemployment. Others are suggesting that that’s the best-case scenario. Often, that uncertainty manifests as: if AI can do your job, you no longer have a job.

But it’s not quite that simple.

Most modern jobs aren’t a list of instructions to be followed. The purpose of any given job is often more complicated than the employee or the employer realises. And the skills used are often less obvious than they first appear. A “job” bundles up many different things and they don’t all appear on a checklist at the end of the day.

Because of this, automating a task rarely results in replacing the person who used to do it.

Let me give you three different historical examples of automation, where in all cases, the outcome wasn’t as predicted by pessimists at the time.

More of the rest: commercial dishwashers

Commercial dishwashers revolutionised one of the least enjoyable tasks at restaurants and hotels. But stick your head into (almost) any restaurant kitchen and you’ll still see a kitchen porter/runner¹.

They stack the dishwasher, set it running and then it’s on to other tasks: clearing plates, cleaning service areas, prepping food, assisting chefs and, then yes, unloading the dishwasher. Cleaner plates delivered more frequently meant more people eating, which meant more of everything else, i.e. clear a bottleneck and overall capacity increases!

Missing the point: doormen

Author/advertising guru Rory Sutherland talks about the “doorman fallacy”. Stand outside a fancy hotel in the 1960s and a doorman would open the door for you. Game over when the automatic door was invented, surely?

It turns out the door wasn’t the job. For a hotel, having a doorman outside broadcasts security, local knowledge, coordination and reassurance. For a guest, it’s about being treated as special by a representative of where you’re staying. It’s an early welcome, adding personality and familiarity into a strange place. Try looking that up in the job description!

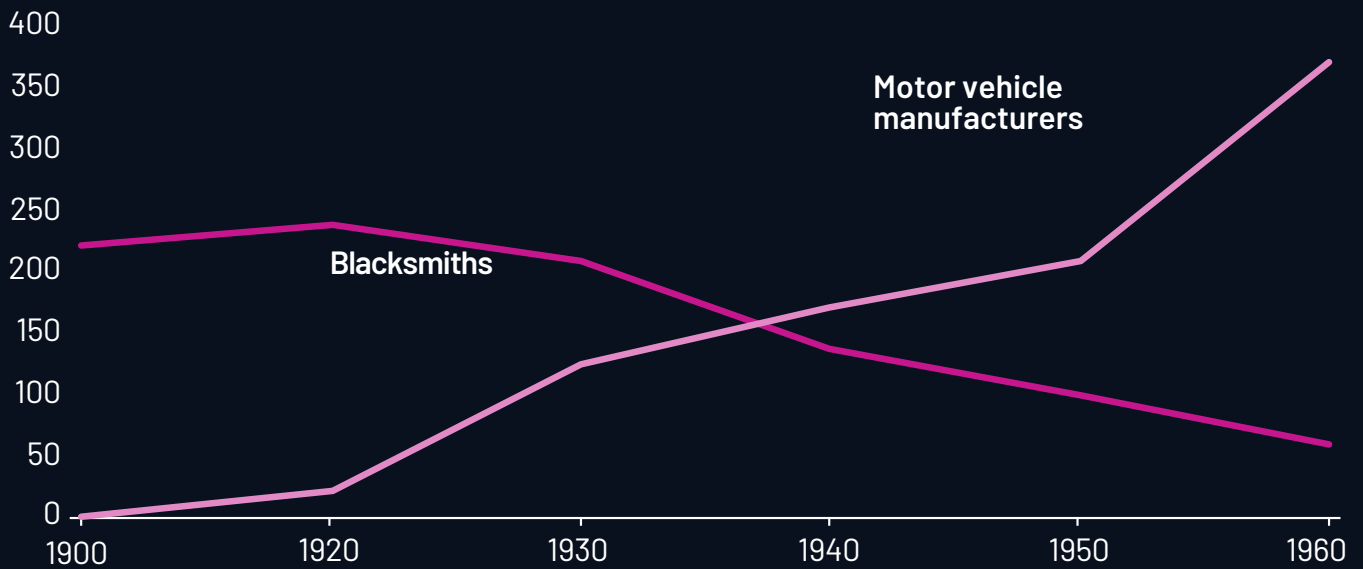
Skills, not products: blacksmiths

At the start of the twentieth century, horses were the main form of transport. So, there were a lot of blacksmiths, to keep them in shoes.

Then, Henry Ford and his peers got going. Cars, not horses. Wheels, not hooves. Most blacksmiths saw the writing on the wall.>>

¹ Between 2005 and 2008, B.Kumar for example

United States employment (thousands): blacksmiths vs car factory workers, 1900-1960.



Source: Bureau for Labour Statistics/PiperSandler/7IM

But they were reading it wrong.

Blacksmiths believed that their job was putting horseshoes on horses. I mean, it had been for hundreds of years! No horses, no job. But the skill was working metal, repeatably and reliably. 250,000-odd blacksmiths in 1910 were replaced by 350,000 car factory workers by 1940. But many of these were the very same people!>>



"But AI is different"

Maybe. Maybe this will be the time where technological advances create mass unemployment. But I'm not so sure. Look at radiology – the medical specialty which interprets images, recognises patterns and produces reports.

That "job" is right in the sweet spot for AI.

In fact, radiology has been using AI for longer than almost any other profession. The first computeraided detection tools appeared more than a decade ago, and in the US, three quarters of ALL approved AI medical devices are for radiology. These tools increase efficiency by an average of 15-20%.

So, has demand for radiologists fallen by that amount?

No – we now need more radiologists than ever! The UK currently needs 30% more radiologists just to meet current demand. The US is a little better but is still seeing double-digit vacancy rates.

AI sped up some tasks: triage scans and report drafting. But that's not the whole job. More scans are done, more conditions detected, more followup required, and more human judgement demanded.

In radiology, a cleared bottleneck created more work (like the dishwasher). And the scan analysis wasn't the whole of the job (like the doorman). In fact, the skill is the judgment, not the report-writing – and there's more demand for judgment than ever (like metalworking).

Tasks might well be done by AI. But jobs are done by people.

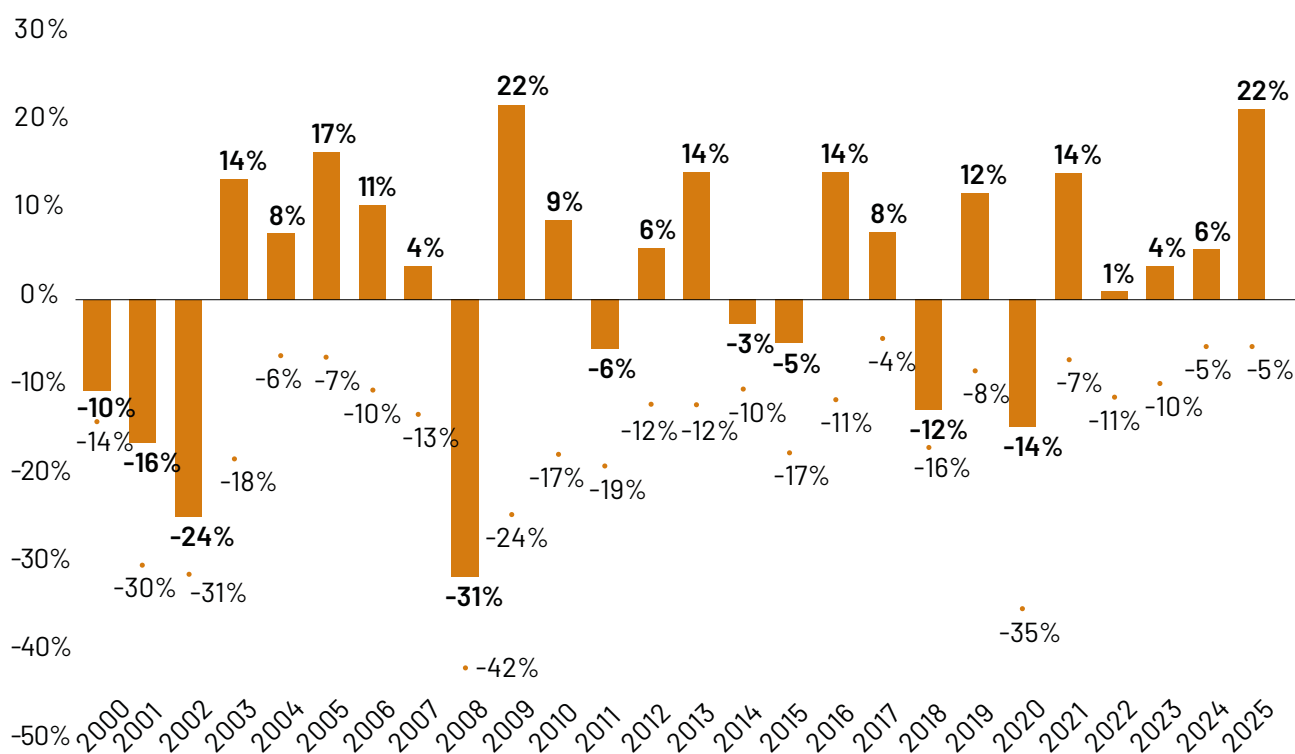
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AI sped up some tasks: triage scans and report drafting. But that's not the whole job."



Ben Kumar
Head of Strategy – Wealth,
Public Policy & Investment

Things are usually better than they seem

FTSE 100: Annual Drawdown vs. Annual Return



The chart above tells a reassuring – and very familiar – market story. It shows the FTSE 100's worst point during each year (the drawdown) alongside where the market actually finished by year end over the past 25 years.

What's striking is how often the market experienced a wobble along the way, sometimes a fairly chunky one, yet still avoided the worst-case outcome many investors feared at the time.

Take 2020 as an example. During the depths of the pandemic, the FTSE 100 fell sharply at its worst point during the year. Headlines were understandably unsettling, and sentiment was extremely negative. Yet by the end of the year, while the market was still lower, the outcome was far less severe than it felt during those most difficult moments. This pattern repeats itself time and again.

Even when things feel uncomfortable in the moment, the final outcome is often much better than investors might expect at the time.

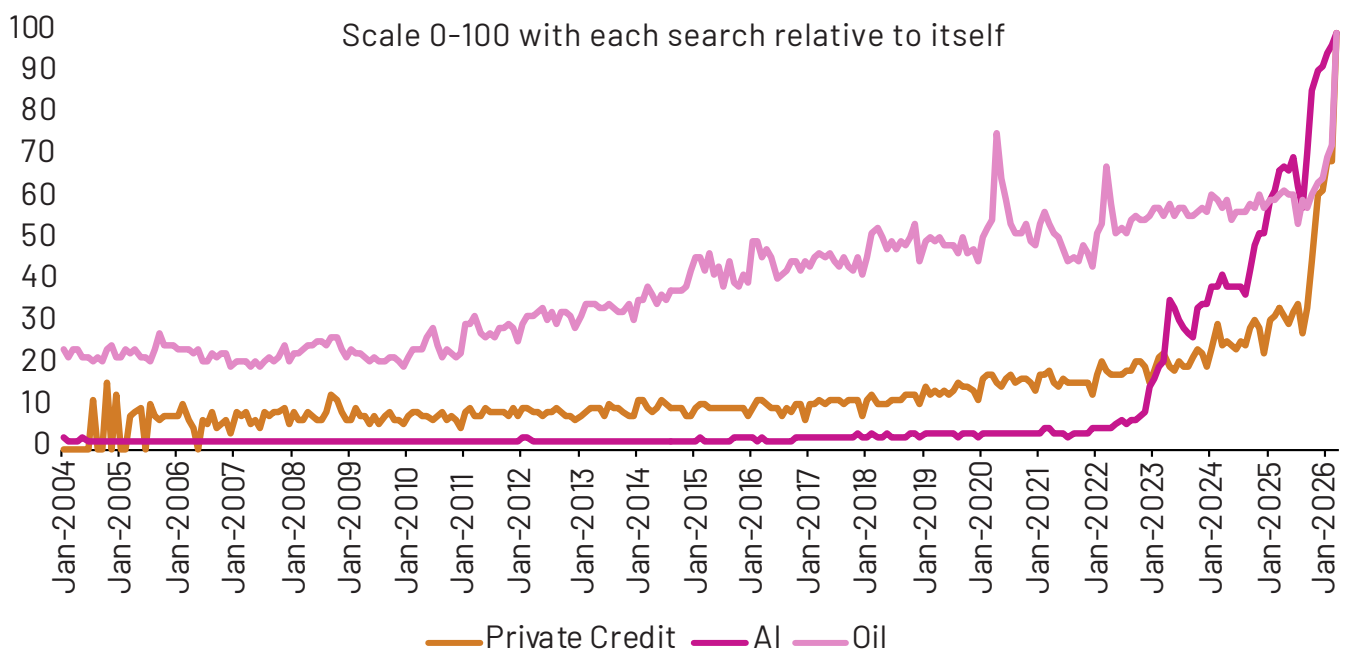
It's a helpful reminder that volatility is simply part of the investing journey. Markets rarely move in straight lines, and short-term pullbacks tend to grab the headlines – but they don't usually tell the whole story. Historically, some of the largest intra-year drawdowns have still gone on to produce far more resilient outcomes by year end as confidence returns and markets recover.

The takeaway is an optimistic one: short-term bumps are normal, but they're not the same as permanent damage. Staying invested and keeping a long-term perspective has, more often than not, allowed investors to look back and realise that things weren't quite as bad as they seemed at the time.

Private credit 101

Before the Middle East crisis, private credit was worrying investors. And if things calm down, it may worry them again. Here, we'll look at the sector. What is it? Why's it making the news and should investors be concerned?

Google Trends: Private credit has been grabbing the news



What is private credit? From clay tablets to spreadsheets

Credit is as old as civilisation. 4000 years ago, Ancient Egyptian merchants borrowed and lent. Instead of money on spreadsheets, it was grains tracked on clay tablets.

The tools have changed, but the deal hasn't. One party needs money. Another wants a return. From London coffee houses to today's global banks, it's the same transaction.

Private credit is the same story. There are businesses who can't (or won't) borrow from a bank, and there are investors (insurers and pension funds) looking for a return. In between them are private credit funds, who do the credit work on the businesses, aligning loans with the risk tolerance of the investors.

"Private" means the loans are not traded like bonds. Each loan is negotiated one by one. Technically, you could still track on clay tablets.>>

Why is private credit new? Because something had to replace the banks

After the financial crisis in 2008, banks got told to stop lending quite so much.

Regulators worried banks had become too central to the global economy. So integral that if the banks don't get paid back, a problem for the banks becomes a problem for us all.

So, regulators asked banks to hold more capital against riskier loans. Essentially, to make less money from lending. Keep lending to 'safe' larger companies, and not to 'riskier' smaller companies.¹

That left private credit with a problem. Lots of the money that banks lent out came from people who were happy enough to put their money in the bank but wouldn't dream of lending it to companies (even though it had been happening behind the scenes).

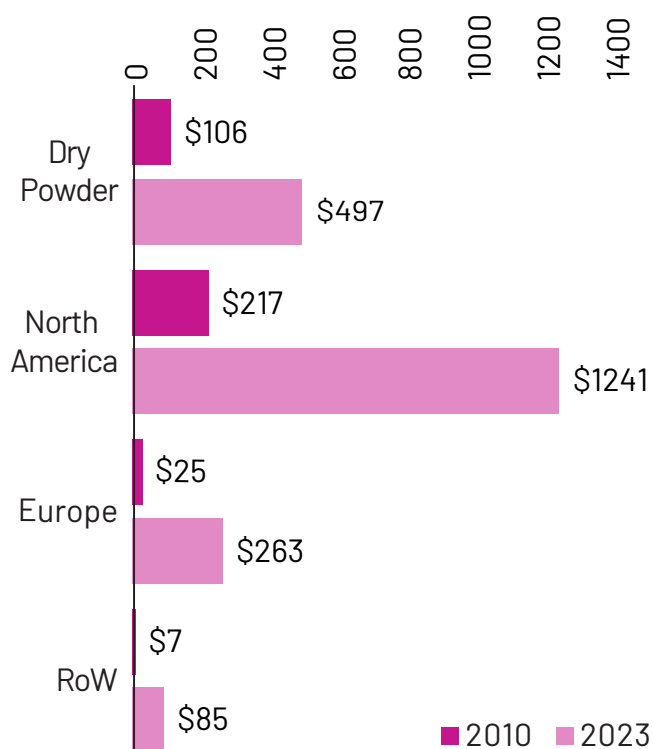
And with sensible risk provisioning and careful marketing, investors grew more comfortable. Evidently, because over the past decade or so, the private credit industry has grown to over \$2 trillion.²

Why's it in the news? It was inevitable

An asset class doesn't reach over \$2 trillion by chance. Incentives lined up across the chain. Investors wanted diversification, and advisers wanted something different. Managers raised money to meet demand, while small businesses still needed capital. Falling rates added fuel, driving a search for yield.

Usually, funds would be closed-ended: find willing investors matching the investment horizon with the borrowing horizon of the business. No new shares issued, and you can't get your money back until a specified time.

Funds managed by private client outstanding



Investment locking isn't for everyone. Evergreen funds changed that. They allow limited withdrawals, under set rules. This broadened the investor base and sped up growth.

But lending has a basic rule. If you mismatch time horizons, this can come back to bite. And this has made the news.³

Funds usually set withdrawal limits upfront. A common rule is 5% of assets per quarter, with the rest queued. In calm markets, few investors test this. When nerves rise, more than 5% want out at once. Funds then say, as promised, "Sorry, not yet." Cue outrage. But is it a big problem, or something more contained?

¹ https://www.bis.org/publ/qtrpdf/r_qt2503b.htm

² <https://www.moody's.com/web/en/us/insights/podcasts/inside-economics/private-credit-systemic-risk.html>

³ https://www.nber.org/system/files/working_papers/w6906/w6906.pdf

Don't compare it to 2008

The media often reaches for the 2008 analogies. But this is NOT the financial crisis. Banks today are safer. They lend more cautiously and hold more capital. That makes them a stronger buffer for the system.

What this means for investors

A more useful comparison might be US shale energy in the mid-2010s. Smaller firms borrowed heavily to fund growth, often with weak cash flow behind it.

When oil prices collapsed in 2014, defaults rose and parts of the market sold off. It was uncomfortable, and some investors lost money. But the wider market was unaffected.

With private credit, we expect pockets of strain. Small software companies look under pressure. Some private credit funds might face stress. Some investors may take losses.

This is part of the ebb and flow of financial markets. Risky lending should have some defaults... that's the "risk"!

It's the same story we've seen for 4,000 years. An Egyptian merchant on the hook for a specific grain shipment might fail to pay his loan back. But overall, lending and borrowing kept going – creating massive wealth. The system survived and thrived. The pyramids are still standing.



Ahmer Tirmizi
Head of Fixed Income Strategy

Changes in our strategies

During the course of this first quarter, the following changes have been made to portfolios*.

Since January, we added more to equities...

Equities – a little more

Even though global growth has slowed, company earnings have remained reasonably resilient. Markets have also taken recent tensions between Iran and the US in their stride. Therefore, this quarter we've:

- Added more to equities overall.
- Added to 'old economy' sectors, such as energy, industrials, and materials.
- Slightly increased our position in financials and communication services.

...and less to bonds

Bonds – a little less

In today's environment, where markets are adjusting to changing interest-rate expectations and global tensions, even high-quality bonds can be driven by the uncertainty. Therefore, this quarter we've:

- Trimmed our fixed income exposure slightly, but not by much.

*These changes only apply to our portfolios with tactical asset allocation. Our asset allocation for Pathbuilder and passive models is reviewed on an annual basis. The next review will take place towards the end of Q3.



Which of these everyday items has increased in price the most over the past 20 years?

Answer: Childcare!

While coffee, petrol and cinema tickets have all gone up gradually, childcare costs have been on their own epic adventure. Staffing requirements, rising wages and higher running costs mean prices have climbed much faster than general inflation. For many families, full-time childcare has become one of the biggest monthly expenses, easily outpacing the cost of caffeine fixes, trips to the cinema or filling up the car.

So yes... it turns out the real inflation heavyweight wasn't oil or popcorn - it was toddlers!

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