PRESS RELEASE

SEVEN VII IM
Investment Management

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FROM BABY GROW TO UNIVERSITY GOWN – 7IM ON SAVING FOR CHILDREN

Exam results season will spur on many parents to think about how they will support their children through university. Almost half (49%) of 18-to-30-year-olds now go on to some form of higher education, according to the Department for Education.

The average cost of a three year degree is over £50,000, according to the Institute for Fiscal Studies.

The team at **Seven Investment Management (7IM)** share some thoughts on saving for children.

1. **Saving in your name or your child's?**

There are pros and cons to saving in a Junior ISA (JISA) and it is worth being aware of them.

Chris Justham, Relationship Manager, 7IM (Business, University of the West of England), said: "The JISA automatically turns into an adult ISA when your child hits 18 and they have control over the cash – you might have it earmarked for university funding or a house deposit, they might prefer a holiday in Barbados and a fast car. So educating children on finance and getting them engaged in the decision-making about how it's invested early on will help them make better decisions later on."

It is possible to save the money within your own ISA, which would give you more control, but **Justham** counsels against the idea. He said: "I think it's best to hold the money irrevocably in your child's name. It ensures there is discipline to the process and stops you dipping into it. It also reassures friends and other family members who may wish to make a contribution that the money will be ring-fenced and used for what it is intended. By putting money into JISAs, friends and family know it will be for the child alone."

2. **Get friends and family to join in**

Chris Justham adds: "No one wants to be churlish – whilst we might not think another cuddly toy is strictly necessary, a child might have very different ideas! But it's worth encouraging friends and extended family to put at least some of the money they would spend on birthday gifts into a child's Junior ISA. However small or large, this will have a much bigger impact on the life of a child than a gadget that gobbles batteries."

3. **Invest for returns**

Most recent data from HMRC shows that of the £858 million that went into Junior ISA accounts in 2016-17, 61% was in cash. **Justin Urquhart Stewart, Co-founder and Head of Corporate Development, 7IM** (Law, University of Southampton), says: "For many people cash is a sensible option, but caution can also be expensive – and over the past decade most cash savings accounts have arguably lost you money in real terms, due to pitiful interest rates and the eroding effects of inflation.

"Investing in a well managed equity fund and allowing the power of compounding to work its magic over the long term can help transform the value of a savings pot. Investing in equities can be a roller coaster ride but the long term average real return over the past century has been around 5%, according to the Barclays Equity Gilt Study. You don't need a degree in maths to know that that's going to make a difference. Save £50 per month in a fund aiming to achieve 5% a year, and over 18 years, this could grow to over £17,000 – a decent head start."

There is a caveat – **Urquhart Stewart** warns "Equity funds come with ups and downs, and there are never any guarantees, but taking a long term view can help smooth out some of the highs and lows."

4. **Don't be put off by the debt if you do want to go to university**

Justin Urquhart Stewart says: "It's easy to be put off by the thought of a massive student debt hanging around your neck for the rest of your life. Don't be! Many students will never pay off the full cost – and not just because of the outrageous interest rates being charged on their loans. In England and Wales, for example, recent graduates are required to pay 9% of their salary over £25,000 – and after 25 or 30 years, depending on when they entered higher education, anything still unpaid is written off. So it's more of a graduate tax than a loan.

"It's an unpleasant tax, though, and I'd much prefer the system in place when I was a student when tuition was free and children from less well-off families were given a maintenance grant they never had to pay off."

5. **Think carefully about whether university is the right choice**

University may not always be the best investment. **Andrew McCulloch, Relationship Manager, 7IM** (University of Life), went straight from school to working for an IFA firm, and over the past 18 years has built up long list of professional qualifications through the workplace that are entirely relevant to what he does now.

McCulloch said: "We all want children to have the best opportunities, but often at 18 they don't know what they want to do. A lot of people go to university and do something that has little relevance to their resulting career. So assuming your child is going to go to university and saving just for that reason is not necessarily a good idea. Try to build a multi-purpose savings pot that can be used for various objectives – like the deposit for a home, starting a business or other education and training. That's a more flexible approach."

He suggests that the best vehicle for child saving is a Junior ISA. You can put up to £355 each month or £4,260 in total in the current tax year for each child, throughout their childhood. If you managed to save that much each year and achieve a 5% annualised return, if all went to plan, each child could have a pot worth £122,566 after 18 years, although there are never any guarantees.

6. **Teach your children how to budget before they get to university**

Sophie Kilvert, Relationship Manager, 7IM (Politics, Philosophy and Economics, University of Oxford), said: "It's important that your child understands the value of money before they go to university. These are skills they can learn from an early age. Start with giving them regular pocket money and teaching them to save patiently for things they want, so that they learn the pleasure of delayed gratification.

"As they get older, encourage them to earn their own money with part-time work that doesn't affect their studies, so they understand the meaning of 'hard-earned'. When they're 16, open a bank account for them with a debit card and consider giving them a budget to manage through a monthly allowance paid by direct debit into their bank account. Hopefully, this will mean you pack them off to university able to make their money stretch the whole term and with the skills to supplement it if necessary."

7. **A journey of a thousand miles…**

Channelling some Aesop fables, **Chris Justham, 7IM** said: "Breathe deep! The most difficult ventures have a starting point that begins with one first step and the tortoise saver regularly beats the hare. Start early, save little and often and you'll be surprised how the money can build."

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Notes to Editors:

<u>About 7IM</u>

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 £12.9bn (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.