PRESS RELEASE

17th June 2020

CORONA CRISIS SPELLS THE END FOR STRUCTURED PRODUCT-BASED STRATEGIES THAT RELY ON THEIR "NATURAL INCOMES" FOR RETIREMENT - 7IM'S MATTHEW YEATES

The sharp dividend cuts expected in the UK and globally this year have blown apart the theory of relying on "natural income" in retirement from shares and bonds, with strategies that follow this approach now looking increasingly vulnerable, according to 7IM.

For years, the received wisdom was that buying dividend paying stocks and bonds would enable retirees to leave their capital intact, using only the income from their investments to fund retirement.

However, Matthew Yeates, Senior Investment Manager at 7IM, says this theory – which was questionable prior to the crisis in 2020 – is now at an end.

"Globally dividends are being cut heavily this year, and bond yields in the UK are also in negative territory. Anyone relying purely on dividends and bond coupons for income is now facing a big problem," he says

"Unfortunately, the idea of relying on both in retirement is still very popular, with many investors wrongly advised that this approach leaves the capital intact."

"One of the best kept secrets in finance is that this statement is absolutely, 100% not true. Assets that pay an income (e.g. when a stock pays a dividend) drop by the value of that dividend on the day that payment is made – i.e. the capital isn't left intact at all. People often don't realise this, simply because the size of the individual drops is so small."

"What's worse is that structured products, which adopt an extreme version of this approach, have become worryingly common as a default solution for retirement income. Anyone in a solution that followed this strategy would have likely got a nasty surprise when they looked at their valuations through March – some funds focussed on this area were down as much as 35% through the period.

"The key difference for investing in retirement is that investors only get one chance to get it right. Following simple strategies, like using natural income and assuming dividends are in some way free, doesn't cut it. Investment solutions for retirement should be built on solid foundations that don't do their worst in large drawdowns but defined income structure products usually do exactly that, which is just plain dangerous!”.

One solution to tackle this – and one that is more prevalent than ever given the headwinds facing markets – is to stop splitting capital growth and income up, Yeates says.

“Investors looking for a portfolio that maximises their chance of meeting their retirement spending needs should not view income assets and capital growth assets as separate things,” he says.

“It can be better to focus on the total return of portfolios, incorporating both capital returns and income. After all, income can be created by selling the proceeds of capital growth just as easily as from ‘natural’ dividend payments.”

Yeates says a total return mindset in retirement, albeit it one which makes provisions for short-term income needs, provides a better long-term solution that doesn’t need to be changed or “rescued” when markets tumble.

“We believe in a long-term, total return approach to retirement income. To allow us to take a long-term approach we split investments into different pots that aim to provide for short-term income needs, longer-term needs, and as a buffer to provide income when periods of volatility arise.

“We have rules in place to follow for rebalancing portfolios when markets are up or down. This approach allows us the flexibility to look across all types of investments, not just those with high levels of ‘natural’ income. In turn, it can help to give retirees the flexibility to work out how to spend their total return in retirement, without worrying that they’re getting a little less this year from dividends.”

Ends

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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 £14.3bn, 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**.

– 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, Platform, and Self Invest services, as well as on other platforms.

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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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