HOW WE MANAGE MONEY

AN IN-DEPTH GUIDE FOR PROFESSIONAL INTERMEDIARIES AND THEIR CLIENTS

Seven
Investment Management

CONTENTS

The 7IM Asset Allocation Committee – a collection of very fine minds and decades of experience.
Read about their role on page 13.

OUR APPROACH AT 7IM

We believe that the approach to investment for a private investor should not differ from that of an institutional investor. Therefore, we aim to use the techniques, tools and knowledge employed by large institutional investors for the benefit of our clients.

In the world of professional investment, it is well known that the real opportunity to achieve superior results lies not in chasing short-term results but instead comes from establishing and adhering to appropriate investment strategies over the long term. Our process is designed to do that for all our clients.

Summary

Over the long term, the evidence shows that equities and similar risky investments have provided the strongest returns. Broadly speaking, we expect the same to hold true in future. However, we acknowledge that whilst equities and similar investments may generate the strongest long-term returns, they tend to be volatile with sharp rises and falls rather than a smooth upward progression. All investors have different tolerances for volatility – and for the risk that their investments may lose money over any given period. Understanding your tolerance for such volatility is a crucial part of what we do.

We have two approaches – risk rated and unconstrained. The unconstrained approach tends to complement portfolios once clients have a significant overall proportion allocated to risk rated assets.

Having understood your tolerance for risk, we then try to maximise the potential investment returns for a portfolio that is compatible with the level of volatility you are comfortable with. For our risk rated portfolios we do this in three main ways.

- Firstly, by building a robust **strategic asset allocation** – combining different investment types with varying risk and return characteristics, to create efficient portfolios with the highest potential return expectation for any risk profile. This approach tries to capture most of the upside from long-term investing while limiting exposure to the downside.
- Secondly, by applying sensible **tactical asset allocation** – shorter-term changes to portfolios to reflect our current view of the market and economic outlook. The intention is not to fundamentally alter the portfolio's long-term risk and return profile but to help enhance returns or reduce losses by making modest adjustments over relatively short periods.
- Thirdly, by providing access to independent **manager selection** for the core of our client portfolios, with a process that aims to identify and use managers with potential for sustainable outperformance. As an alternative, we offer Actively Allocated Passive portfolios, still using our strategic and tactical asset allocation research but replacing the active managers with index-based investments. These may have a lower overall cost than active managers, but seek returns that are in-line, rather than outperforming, a benchmark for any particular asset class or region.

The following pages describe in detail the research and beliefs that led us to set up and run our client risk rated portfolios in the way we do now. We are constantly looking for ways to improve and evolve our process, making use of new research and technology and innovations in the market, so we continue to refine and make enhancements to our process and methods. We talk about our unconstrained approach in more detail on page 16.

UNDERSTANDING YOUR OBJECTIVES

Each individual investor thinks and behaves in a different way. As individuals, our motivations and priorities are different, our comfort levels with the possibility – or reality – of losses and our reactions to such losses vary. What is hair-raising to some might be sleep-inducing to others. And our ability to leave our investments untouched for years on end may vary, or may change unexpectedly. One investor may be comfortable with very high levels of volatility resulting in losses of value across a portfolio, believing that the potentially richer rewards of riskier investments may be realised over the very long-term; another may have a need to spend part of the investment pot sooner or may simply be less willing to experience the wider variations of a very aggressive portfolio.

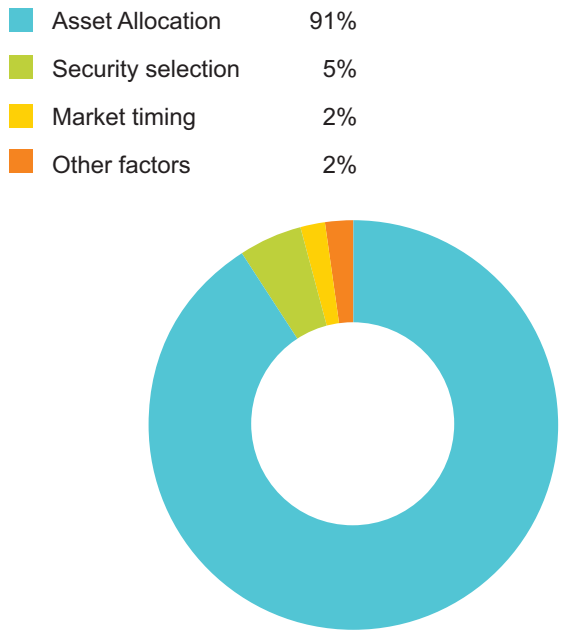
Understanding these distinct factors and what they mean to you is a key part of our service. The three variables shown in the diagram below form the basic questions that will help us to understand what kind of investor you are. Only then can we help to find the right portfolio structure for you, balancing your long-term investment objectives with a level of volatility and risk to capital in the meantime that is acceptable to you.

WHY DO WE NEED STRATEGIC ASSET ALLOCATION?

Research has shown that strategic asset allocation is the most important determinant of variation in investment return, far outweighing other factors like market timing and security selection. This means that the mix of asset classes (equities, bonds, cash and others) in a portfolio is likely to drive long-term results much more than the decisions made within those asset classes – for example, about which equity fund to hold.

According to the Brinson study published in the Financial Analysts Journal in the early 1990's, as much as 91% of the variability of a portfolio's return may be attributed to its asset allocation policy. This led on from Harry Markowitz's 'Modern Portfolio Theory', published in the 1952 Journal of Finance. Markowitz went on to receive the Nobel Economic Prize in 1990, along with Merton Miller and William Forsyth Sharpe for their work in this arena.

A strategic asset allocation is not a view on the markets over the short term.
For us, building a strategic asset allocation means developing an understanding of the likely long-term future returns of each asset class (encompassing a very wide range of possible investable assets), taking into account the likely volatility of those asset classes (using volatility as a standard measure of risk) and – crucially – the expected correlation of the returns between each pair of asset classes.



Source: Ibbotson et al

Risk and volatility:
There are many types of risk (market, default, counter-party, liquidity, currency etc.). Risk as measured by volatility of returns is just one aspect. However, it is important to most investors, so standard deviation (a statistical measure of volatility) of returns is widely used as a key element in portfolio construction.

DEVELOPING AN ASSET ALLOCATION STRATEGY

To build portfolios with a robust and efficient strategic asset allocation, we need a clear understanding of the expected return, volatility and correlation between the assets. With a very broad range of asset classes and markets to invest in, the potential exists to create portfolios with a dramatically better trade-off of risk against reward than for portfolios focused on a small number of, primarily UK-based, assets. However, the complexity of this analysis increases with each new added class that comes into consideration.

We work with a major international specialist consultant to define strategic asset allocation for each risk profile at 7IM. Our selected partner is a leading authority on asset allocation with a strong research-based investment process, serving institutional clients across the world.

There are several steps in the process of finding the optimal asset allocation that we can implement for each portfolio. Many of these stages combine quantitative or statistical work with judgement and applied experience.

First, we need to define our inputs, the asset classes we wish to include in the analysis: not just equities and bonds from different regions, but perhaps a selection of alternative asset classes and techniques, from commodities and timber to hedge funds and private equity.

Next comes the process of modelling each asset class – developing expected risk, return and correlation for each asset class, taking into account not just the past but factors likely to affect the future too. These steps let us construct a range of efficient portfolios, making the best use of the diversification benefits offered by uncorrelated assets and select those appropriate to clients with different investment needs. And, of course, the world changes: this is an ongoing process, which must be regularly reviewed and monitored, to test assumptions and the robustness of the data.

We describe how this process works for us in much more detail on the following pages.

Source: Ibbotson Associates

HOW DO WE FORECAST RETURN, RISK AND CORRELATION?

It is fair to argue that past returns offer no exact guide to the levels of future returns that may be expected from any investment or combination of investments. The past returns observed on any asset class – indeed any individual investment – reflect the extraordinary, unique circumstances of the time which will never be the same again. We should not simply project past returns into the future: other techniques are needed to build an understanding of likely future returns from the various types of investment.

The process used for forecasting asset returns for our portfolios begins with the real risk-free rate of return* and an expected long-term inflation rate. In combination, these two inputs give us a current nominal risk-free rate – we would expect cash and very short-dated government bonds to deliver returns around this level. All other asset classes involve a degree of risk. Over the long term, riskier assets have been rewarded with higher levels of return and we would expect this relationship to hold – not in any one year, or any short period where of course riskier assets can dramatically underperform, but over five years or preferably more.

This observed outperformance of riskier assets in the past suggests that there is a 'risk premium' to be gained by holding such assets. These observed risk premia on different types of investment can be combined with our risk-free return expectations and adjusted for the current environment, to build forward-looking long-term return expectations for any asset class. These expectations build on the experience of the past, but in a more robust way than simply extrapolating the level of observed past returns into the future.

However, past returns may give us a better impression of the likely volatility of returns from any asset and the likely correlation of returns between asset classes.

*The real risk-free rate of return is the theoretical real interest rate which would be paid by an investment which has no risk. A good proxy for this is the real yield of three-month government bonds, which have little or no risk during their life.

ASSET CLASS EXPECTATIONS

We can begin to build a series of return and risk assumptions for each asset class, perhaps best represented by a chart plotting risk (using the measure of standard deviation) along the horizontal axis against expected return on the vertical axis.

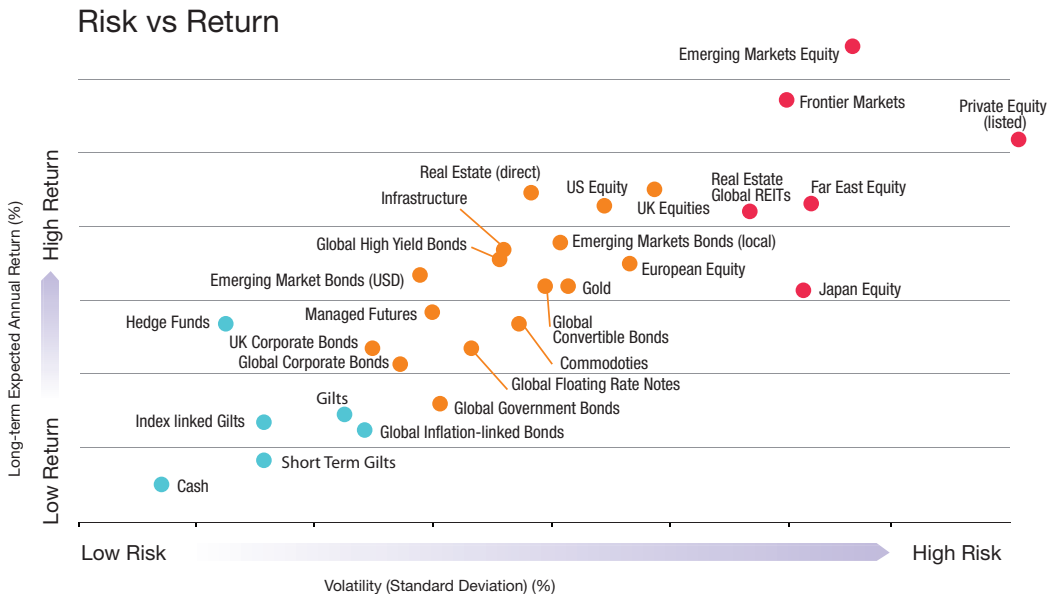
This chart shows a very strong relationship between expected risk and return, with lower risk, lower return assets at the bottom left and more volatile but historically higher return assets at the top right.

If we know which investments are likely to generate high returns over time, why do we not just hold those? For some investors – the most adventurous investors with a very aggressive approach to risk, who are quite unconcerned about what happens to their investments over several years and are firmly focused on growth prospects over the very long-term – a strategy focused on a few higher risk asset classes may be appropriate. However, returns from any individual asset class may be very variable from year to year, both in absolute terms and relative to other asset classes. Focusing a portfolio on just a few asset classes, particularly higher risk, higher return assets, is likely to result in highly volatile returns. Combining multiple asset classes can produce a portfolio with attractive expected returns but much lower volatility.

Reducing the volatility of returns appeals to most investors. Lower volatility can reduce the emotional or psychological stress of investing – the fear of losses – and this can help investors stick with a long-term strategy. Lower volatility of returns can also leave a portfolio better placed to generate stable ongoing income or withstand unexpected withdrawals of cash. The challenge for us is to construct portfolios that reduce volatility to acceptable levels while still achieving attractive long-term rates of return. This is particularly difficult to achieve in the current economic environment where the starting point – the risk free rate of return – is at an historic low.

We might expect a suitable portfolio for a conservative investor to feature large allocations to assets towards the bottom-left of the chart, such as cash, index-linked gilts and other bonds; and a portfolio for an adventurous investor to have significant holdings of assets towards the top-right: private equity, emerging markets and other equities. Up to a point, this is indeed the case.

This only gives us part of the story, however. In order to build robust and efficient portfolios, we need to consider not just the risk and return of the asset classes, but also the correlation between expected returns from different assets.



Source: 7IM, Ibbotson Associates.
As at May 2012

CORRELATION AND DIVERSIFICATION

You may already be familiar with the broad concept of sensible diversification in investments, either within an asset class or across asset classes, to reduce specific risk to any one company or market experiencing problems: 'Don't put all your eggs in one basket'.

Understanding the correlation between returns from different assets helps us to diversify risk in a portfolio in an efficient and effective way. Simply put, there is very little real diversification achieved if we combine two asset classes whose expected returns show high correlation to each other. Far better to combine asset classes which have appealing long-term risk and return characteristics in their own rights, as well as a relatively low correlation with each other: assets that behave differently at any point in the economic cycle or are to some degree independent of the cycle. That way, if one asset falls at any point, there is a reasonable chance that the other may not, thus providing some protection and reducing volatility of returns for the portfolio.

For example, a recession in the United States might have a negative effect on US equity and a similar effect on equities in the UK and Europe (which would imply high correlation between the three). It might have a positive effect on global bonds, with yields falling as investors see lower growth and a reduced risk of inflation (which would imply a low or even negative correlation between US equities and bonds in this example). It might have relatively little effect on returns from commodities which might be affected more by factors like the supply of oil by OPEC nations, the weather affecting the Australian wheat harvest or power shortages affecting smelters in Brazil or South Africa: this would imply rather low correlation between US equities and commodities in this example.

Understanding correlation:
Correlation is measured on a range from -1 to +1.

If correlation between A and B is…	Then, when A goes up…
Positive	B is expected to rise
Negative	B is expected to fall
Close to zero	B may rise or fall

Therefore, combining asset classes which show less than perfect correlation results in a diversification benefit. In fact, the lower the correlation between asset classes, the greater the diversification benefit that can be achieved by combining them.

Therefore, the risk and expected return of any investment should not be looked at in isolation but in the context of that investment's correlation with the rest of the portfolio. In fact, adding a risky or low-return investment to a portfolio can make the portfolio more efficient if the new investment has a very low, or negative, correlation with the rest of the portfolio.

So, assets like index-linked gilts and commodities, which appear relatively unattractive on the risk vs reward comparison scale, may justify a place in most portfolios thanks to their low or inverse correlations with equities and conventional bonds.

The positive result of combining assets with relatively low correlations into an efficient portfolio should be that, for any level of risk, a well-diversified portfolio could have potential for a higher level of return. Equally, for any desired level of return, a well-diversified portfolio should be able to achieve it with lower risk – with less volatility. This should be attractive to investors: price volatility can be unsettling and reducing that volatility gives a greater likelihood that investors can stick to their long-term strategy and realise their goals.

The benefit of portfolio diversification is clear and significant over the long-term, but it is sometimes not apparent over shorter investment horizons. In any given year, more focused, narrowly based portfolios may produce dramatically better, or worse, results than more diverse and therefore theoretically less volatile portfolios. Investors must weigh the expectations of higher long-term risk-adjusted return against the potential regret of underperforming benchmarks or peer group averages over shorter term horizons.

Geographical diversification

The principle of diversification also holds within asset classes but across different countries and markets. This drives our belief that portfolios should have a significant allocation to overseas opportunities in the global marketplace.

Of course, there are risks to investing in overseas markets. Currency fluctuations can have a significant impact – positive or negative. Investing in overseas markets may have other challenges, for example, greater costs of access or different regulatory environments and the difficulties of being properly diversified if relatively small investments are being made in any given country. However, these issues are often overcome (particularly in the more challenging emerging markets) by investing through collective investments, like unit trusts, investment trusts or exchange-traded funds.

For some investors, a bias to the home market remains appropriate, but experience shows that a substantial strategic allocation to overseas assets can be beneficial in the long-run, providing scope for more efficient portfolio construction thanks to effective diversification. However, in any given period, a geographically diverse portfolio may underperform a portfolio focused on a narrower geographical region. On average, over the long term, the data suggests that a geographically diverse portfolio can perform at least as well as a focused UK portfolio, with substantially lower risk.

BUILDING AN OPTIMAL PORTFOLIO

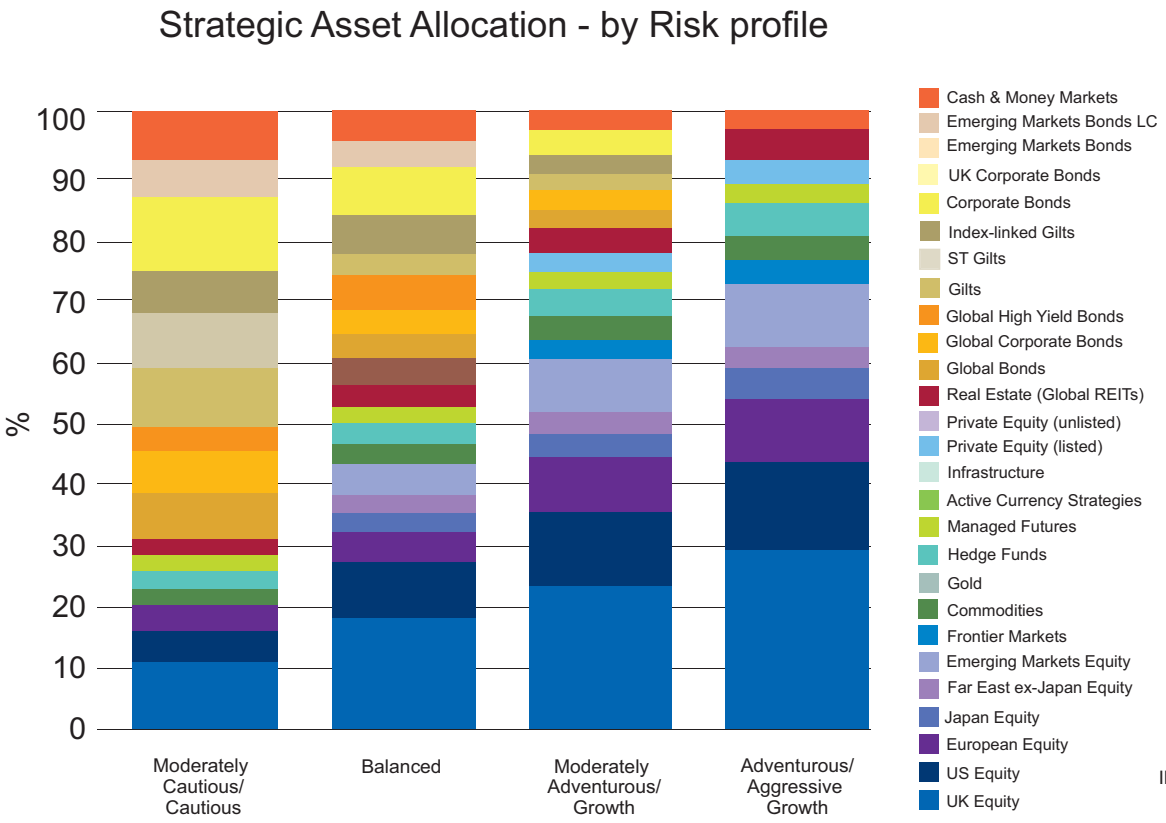
The estimates for future returns, volatility and correlation of all the asset classes we look at are analysed by an optimiser – a programme that generates millions of possible portfolios combining all these asset classes and selects those that offer the most efficient trade-off of risk against expected return. There is an element of human experience and judgment applied to this too: the optimiser can be constrained to fit within the realities of the investment landscape, or to reflect levels of conviction in the data being used – for example, in relatively new, emerging asset classes with a short data history, we may have less confidence over how an asset class will behave and what its risk, return and correlation with other assets may be. This should prevent portfolios being suggested that have high allocations to apparently attractive but in reality very illiquid or unpredictable assets. We can also impose other constraints, for example, enforcing a minimum allocation to Sterling-denominated assets, in order to achieve a sensible balance between the benefits of diversifying into other markets and the risks of being exposed to adverse currency movements.

The output of this exercise is a huge range of efficient portfolios including those showing the most attractive trade-off of risk and reward, based on our estimates of risk, return and correlation. Each of these possible portfolios contains slightly different allocations to the asset classes we included in the analysis. The chart below is one way of expressing this: for different levels of risk (shown along the horizontal axis), different asset allocations are most efficient, providing the highest expected return.

Choosing the right portfolio for each risk profile

We select portfolio strategic asset allocations with different risk and return characteristics along the efficient frontier, to match the long-term objectives and tolerances of our clients. The strategic asset allocations for our four main client risk profiles are shown below.

These portfolios have expected risk and return characteristics that we believe are appropriate for each risk profile.



Source: 7IM, Ibbotson Associates
As at May 2012

The expected long-term return and volatility for these portfolios shown in this table are estimates, based on careful analysis of data for a wide variety of investment types. We show the expected likely minimum and maximum range for the annual returns of each strategy over one year and ten years, derived from the expected return and volatility of each portfolio. The '90% confidence level' for this range suggests that there is a one-in-ten probability of returns in any twelve-month period being outside this range.

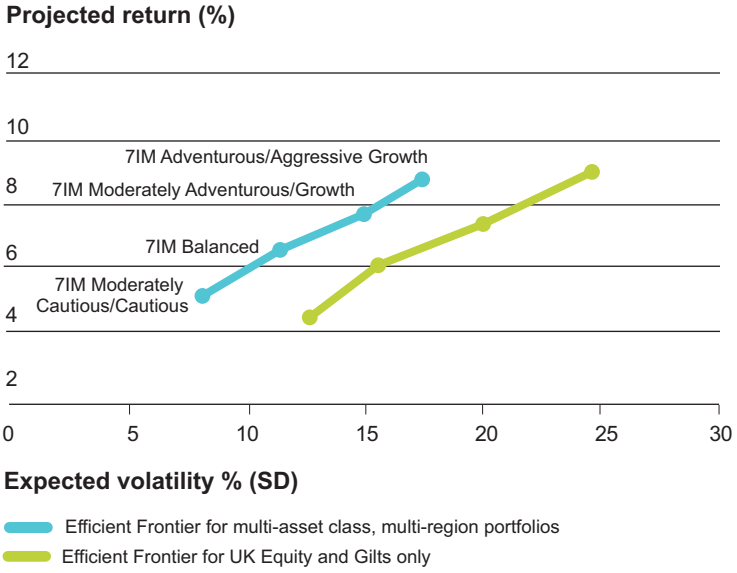
	Moderately Cautious/ Cautious	**Balanced**	**Moderately Adventurous/ Growth**	**Adventurous/ Aggressive Growth**
Benchmark	75% FT-A All Stocks 25% FTSE All Share	50% FT-A All Stocks 50% FTSE All Share	25% FT-A All Stocks 75% FTSE All Share	100% FTSE All Share
Expected long-term annual compound return	5.0%	6.4%	7.7%	8.6%
Expected volatility of annual return	8.5%	12.2%	15.5%	18.3%
Expected minimum and maximum return of strategy over 1 year (90% confidence)	-8.4% to 19.6%	-12.3% to 27.5%	-15.8% to 34.9%	-18.6% to 41.0%
Expected minimum and maximum annual return of strategy over a 10-year period (90% confidence)	0.3% to 9.2%	-0.3% to 12.2%	-1.1% to 14.8%	-1.8% to 16.8%

Source: Ibbotson Associates

THE EFFICIENT FRONTIER

The previous charts show the expected risk and the asset allocation of a range of efficient portfolios; they don't depict the expected return for those portfolios. Of course, we can easily show the risk and return characteristics of all these possible portfolios, each combining a different range of asset classes, on a chart. Plotting risk against return for all these possible portfolios shows what is termed an Efficient Frontier. The Efficient Frontier of diversified, optimised portfolios shows clearly superior characteristics to portfolios created using simply a blend of UK equity and gilts, with a significantly higher expected return for any given level of risk.

THE 7IM EFFICIENT FRONTIER

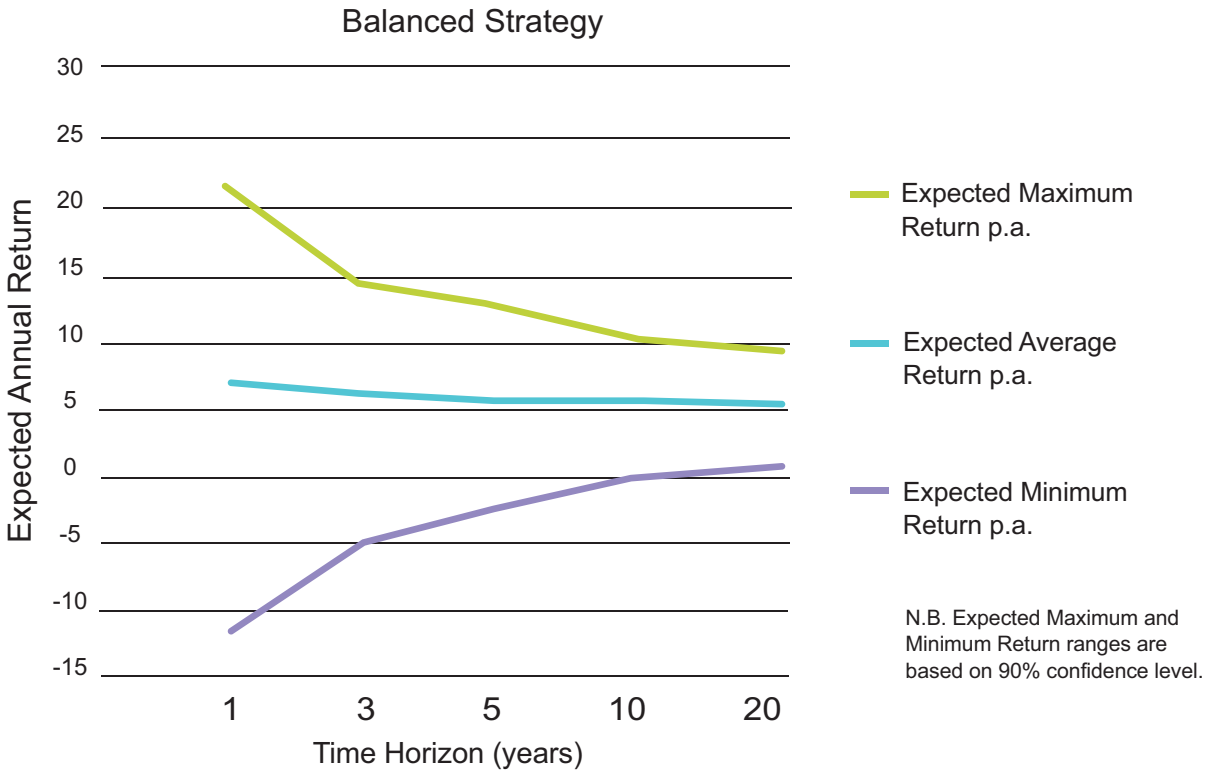


Source: 7IM, Ibbotson Associates

TIME

It is important to note the importance of time in the investment process. This is underlined in the greater predictability of returns over longer time horizons. The following chart shows the wide variation in possible outcomes over a short time horizon and the dramatic 'narrowing' of expected returns around the central case given a longer investment horizon, suggesting a higher degree of predictability the longer that an investment is maintained. The example here is for a client with a 'Balanced' portfolio.

The preceding pages outline the heart of our investment process – building a robust strategic asset allocation that we believe can meet our clients' investment objectives over the longer term. Over the next few pages, we describe how we might tilt portfolios away from their strategic asset allocation and how we select different investments within the various asset classes.



TACTICAL ASSET ALLOCATION: WHAT DO WE HOPE TO ACHIEVE?

Until now, we have been explaining the reasoning behind the strategic asset allocation in our portfolios. However, we also seek to add excess returns beyond those achieved through the strategic asset allocation by making shorter-term adjustments to portfolios based on the economic and market outlook.

Portfolios are 'fine-tuned' by 7IM after taking advice from our Asset Allocation Committee, led by our Chief Investment Strategist. The Committee comprises key members of the 7IM team as well as external advisers and a selected group of independent consultants with differing backgrounds and areas of expertise. This fine-tuning is based on a detailed assessment of prevailing and expected market conditions, economic outlook and asset valuations. This is a temporary, measured, TACTICAL departure from the long-term strategy, in the belief that some markets are temporarily over- or undervalued.

We place internal limits on the extent to which tactical asset allocations may be varied around the positions defined by the strategic asset allocation policy for each portfolio. This reflects our desire to look for incremental value added through tactical asset allocation, not to change investors' strategic risk profile through overly excessive tactical positioning.

Through tactical asset allocation in the normal course of events, we may increase or decrease the exposure to any broad asset class (equity, bonds, cash or alternative asset classes) by up to 15% either side of the level defined by the strategic asset allocation. In extraordinary circumstances, we may temporarily increase allocations to cash (and cash investment instruments) above this level at the expense of any or all of the other asset classes.

The ranges within which we may make tactical adjustments are chosen to be reasonably wide, with scope for decisive short-term views to be expressed in portfolios, but not so wide as to move clients from one strategic risk profile into a portfolio type with significantly different long-term risk and return expectations.

Tactical Asset Allocation: Forming a view

The success of a tactical asset allocation policy is not guaranteed. The movements of different asset classes and investments can be variable and hard to predict in the short to medium term. In our view, this variability does provide opportunities for well thought-out asset allocation decisions to add value: some asset class movements can be forecast up to a point and we seek to take advantage of such situations.

Every quarter, 7IM prepares an investment view supported by extensive background papers. This forms the basis for the tactical asset allocation discussion by our Asset Allocation Committee.

We examine a wide range of factors that may affect the economy and investment markets. Our Asset Allocation Committee discusses the outlook for each market and asset class, based on both quantitative analyses and a qualitative assessment of markets by experienced professionals. The output from this process is a detailed tactical asset allocation view – a range of decisions to reduce or increase exposure to different markets and asset classes relative to their long-term strategic asset allocations in each risk profile, decided by the 7IM Investment Team.

Implementation

In most portfolios, we use a 'core and overlay' structure to help us implement tactical asset allocation decisions in an efficient, precise and cost-effective way. Portfolios will generally hold a series of core positions in the main asset classes (possibly including alternative asset classes, like commodities and hedge funds). In most cases, these core positions will be managed by external fund managers chosen by 7IM on the basis of specialist advice. The remainder of the portfolio comprises the overlay, which will be managed actively by 7IM – often using index-based investments such as exchange-traded funds and structured products – to reflect changes to tactical asset allocation. This approach lets us make decisive moves in tactical asset allocation and implement them efficiently, while minimising the disruptions on the active managers in the core of the portfolio. Of course, holdings of active managers in

the core of the portfolio are closely monitored and may be changed at any time, but in general such changes are likely to be due to manager selection considerations, not due to tactical asset allocation.

Manager selection

At 7IM we do not believe that any one investment company can offer superior stock-selection in every market. Therefore, we use a selection of active managers drawn from a wide variety of external firms to choose underlying investments in the core of our portfolios. Although many active stock-pickers underperform their benchmarks, we believe that it is possible to identify managers with strong and disciplined processes which give them the potential for sustained outperformance against their peer groups.

We work with an external company to identify good fund managers and bring them into our portfolios. They have a robust investment process which combines in-depth quantitative and qualitative analysis on managers from around the world. Interpretation of results by some of the most experienced fund analysts in the industry leads to identification of the better managers in each asset class. These managers are then blended throughout portfolios to ensure benchmark risks are mitigated.

A key part of the process is the complete understanding of markets and managers by dedicated professionals to ensure that stated client investment objectives are consistently met over all time horizons.

For other elements of our portfolios, in particular alternative asset classes and index-based investments, we may identify, research and assess managers ourselves for inclusion in portfolios.

Asset Allocated Passive Investments

We believe that over the medium to longer term it is possible to identify managers who have the ability to add value through security selection and we endeavour to introduce such managers in portfolios. However, we recognise that some investors are concerned about the risk of underperformance by active managers included in a portfolio, both through the risk of weak stock selection and through their higher costs. We therefore offer a choice of approaches: both a conventional range of portfolios making use of a number of active equity and bond managers; and our Asset Allocated Passive portfolios, which build on our core process of strategic and tactical asset allocation but making extensive use of index-based investments to implement exposures in different asset classes and regions.

Performance measurement

The performance of our clients' portfolios is regularly measured against the relevant portfolio benchmark. For example, a client holding the 7IM Multi Manager Balanced Fund would have their performance measured again the IMA Mixed Investment 20-60% shares benchmark as well as comparing performance against cash. We send half-yearly valuations which also show the performance of the portfolio and a full transaction summary; the transaction summary is also available online and updated daily.

There is often confusion between benchmarks and portfolio construction. We use benchmarks composed simply of UK equities and gilts – yet we build portfolios covering global markets and a wide range of asset classes. Why the difference?

Quite simply, a benchmark is a standard – an appropriate measuring tool against which one can judge the performance of a portfolio, in the context of your investment needs – usually for your asset growth to match or exceed growth in future liabilities. It is absolutely <u>not</u> a guide to how that portfolio should be constructed.

On the contrary: except for index-tracking funds, we believe that portfolios should be flexible, allowing investors to use securities and asset classes outside the benchmark in an effort to improve returns and reduce volatility over a long investment horizon. This will result in portfolios with high 'tracking error': i.e. that show quite different performance to the benchmark over shorter periods, for better or worse, but where over time the benefits of appropriate diversification and the skills of the investment manager should be apparent. Any judgment of such a portfolio against a benchmark should be made, however, over an appropriate time horizon, ideally at least three to five years.

Why diversify?

One look at the grid below shows how difficult it is to see which asset class will be the star performer each year, so we think it makes absolute sense to have a range of asset classes in your portfolio – a reduction in volatility and a potential increase in returns are the benefits in addition to that old adage 'Don't put all your eggs in one basket.'

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
European Equity 39.7%	Private Equity 171.8%	Emerging Market Bonds 23.7%	Hedge Funds 9.4%	Gold 13.0%	EM Equity 41.6%	UK Property shares 45.3%	EM Equity 48.8%	UK Property shares 47.9%	EM Equity 36.2%	Global Govt Bonds 50.7%	EM Equity 64.1%	Private Equity 41.1%	Index-Linked 19.9%	Private Equity 25.7%
US Equity 28.0%	Japan Equity 88.6%	Commodities 23.4%	Corporate Bonds 7.2%	UK property 9.6%	UK Property shares 30.8%	UK property 18.3%	Japan Equity 40.8%	European Equity 20.5%	Gold 27.6%	Gold 42.8%	Private Equity 47.6%	Gold 34.7%	Gilts 15.6%	UK Property shares 25.4%
Corporate Bonds 22.7%	EM Equity 72.3%	UK Property shares 19.3%	UK property 6.8%	Gilts 9.2%	European Equity 30.7%	Private Equity 15.1%	Private Equity 39.4%	UK property 18.1%	Commodities 20.6%	Emerging Market Bonds 22.5%	UK Equity 30.1%	EM Equity 23.9%	Gold 10.3%	EM Equity 17.4%
Index-Linked 20.3%	Emerging Market Bonds 27.0%	Timber 17.6%	Cash 5.5%	Corporate Bonds 9.1%	Japan Equity 28.2%	EM Equity 14.4%	Commodities 33.0%	EM Equity 17.9%	European Equity 17.1%	Timber 9.5%	European Equity 18.3%	Commodities 21.8%	Emerging Market Bonds 9.8%	Corporate Bonds 15.6%
Gilts 19.8%	European Equity 25.4%	UK property 10.5%	Emerging Market Bonds 4.3%	Index-Linked 8.2%	Private Equity 25.2%	UK Equity 12.8%	Gold 30.6%	UK Equity 16.8%	Global Govt Bonds 7.6%	Gilts 7.4%	US Equity 14.5%	US Equity 19.2%	Global Govt Bonds 8.0%	European Equity 14.8%
Global Govt Bonds 14.8%	UK Equity 24.2%	Global Govt Bonds 9.9%	Gold 4.1%	Global Govt Bonds 7.9%	UK Equity 22.0%	European Equity 12.6%	Timber 27.4%	Private Equity 13.5%	Cash 5.9%	Cash 6.2%	Gold 14.4%	Emerging Market Bonds 16%	UK property 7.6%	Emerging Market Bonds 13.2%
UK Equity 13.8%	US Equity 23.8%	Hedge Funds 9.3%	Gilts 3.0%	Commodities 6.9%	US Equity 16.1%	Index-Linked 8.5%	Emerging Market Bonds 23.4%	Gold 9.4%	UK Equity 5.3%	Index-Linked 3.7%	Emerging Market Bonds 13.9%	UK property 15.1%	Corporate Bonds 5.4%	UK Equity 12.3%
Hedge Funds 13.3%	Hedge Funds 19.0%	Gilts 8.8%	Global Govt Bonds 1.8%	Hedge Funds 4.3%	Hedge Funds 14.9%	Corporate Bonds 6.9%	European Equity 22.5%	Cash 4.7%	Index-Linked 5.3%	Japan Equity -0.6%	Hedge Funds 13.4%	UK Equity 14.5%	US Equity 2.5%	US Equity 10.8%
UK property 11.8%	UK Property shares 15.0%	Corporate Bonds 8.6%	Index-Linked -0.5%	Cash 4.1%	Emerging Market Bonds 13.4%	Gilts 6.6%	UK Equity 22.0%	Hedge Funds 4.3%	Gilts 5.3%	Corporate Bonds -8.5%	Corporate Bonds 12.3%	Japan Equity 13.5%	Cash 0.8%	Gilts 7.6%
Cash 7.9%	UK property 14.5%	Cash 6.2%	EM Equity -0.8%	Emerging Market Bonds -2.1%	UK property 10.9%	Hedge Funds 6.0%	UK Property shares 21.2%	Timber 3.7%	Emerging Market Bonds 4.9%	Commodities -11.8%	Commodities 12.0%	Index-Linked 8.9%	Timber 0.0%	Japan Equity 3.7%
Timber 4.9%	Timber 14.0%	Index-Linked 4.3%	Timber -5.0%	UK Property shares -2.2%	Corporate Bonds 9.7%	Japan Equity 4.9%	UK property 19.1%	Index-Linked 2.9%	Hedge Funds 4.5%	US Equity -14.5%	UK Property shares 11.8%	Corporate Bonds 8.7%	UK Equity -3.5%	Hedge Funds 3.4%
Japan Equity 2.9%	Cash 5.5%	Gold 4.0%	UK Property shares -6.0%	Timber -6.5%	Gold 8.4%	Cash 4.6%	US Equity 16.9%	US Equity 1.7%	US Equity 4.1%	UK property -22.5%	Index-Linked 6.4%	Global Govt Bonds 7.4%	Commodities -7.8%	Gold 2.3%
Private Equity 2.6%	Commodities 4.5%	US Equity -1.7%	US Equity -9.4%	EM Equity -14.7%	Index-Linked 6.6%	Commodities 4.2%	Corporate Bonds 12.2%	Corporate Bonds 0.8%	Timber 2.6%	Hedge Funds -22.8%	UK property 2.2%	Gilts 7.2%	Hedge Funds -8.0%	UK property 2.1%
Gold -0.9%	Index-Linked 3.8%	European Equity -4.0%	UK Equity -13.3%	Japan Equity -21.5%	Cash 3.8%	Emerging Market Bonds 4.0%	Index-Linked 9.0%	Gilts 0.7%	Corporate Bonds 0.2%	European Equity -28.0%	Cash 1.5%	Hedge Funds 4.8%	UK Property shares -10.1%	Cash 0.9%
Emerging Market Bonds -11.9%	Gold 3.6%	UK Equity -5.9%	Commodities -14.8%	UK Equity -23.4%	Global Govt Bonds 3.7%	US Equity 3.2%	Gilts 7.9%	Emerging Market Bonds -3.5%	UK property -1.8%	UK Equity -29.9%	Japan Equity -0.2%	UK Property shares 1.9%	Japan Equity -11.2%	Timber 0.8%
UK Property shares -18.8%	Corporate Bonds -0.6%	EM Equity -23.6%	Private Equity -20.5%	European Equity -29.1%	Gilts 2.1%	Global Govt Bonds 2.7%	Cash 5.0%	Global Govt Bonds -6.8%	Private Equity -6.7%	EM Equity -36.6%	Timber -0.2%	Cash 0.7%	European Equity -17.6%	Index-Linked 0.6%
Commodities -20.9%	Gilts -1.1%	Japan Equity -24.4%	European Equity -20.9%	US Equity -29.7%	Commodities 0.5%	Timber 1.7%	Hedge Funds 4.0%	Japan Equity -7.7%	Japan Equity -9.5%	UK Property shares -46.6%	Gilts -1.2%	European Equity -0.6%	Private Equity -17.6%	Global Govt Bonds -2.8%
EM Equity -25.8%	Global Govt Bonds -2.1%	Private Equity -30.1%	Japan Equity -27.5%	Private Equity -30.2%	Timber -0.8%	Gold -4.1%	Global Govt Bonds 3.8%	Commodities -14.6%	UK Property shares -36.7%	Private Equity -64.3%	Global Govt Bonds -7.0%	Timber -0.8%	EM Equity -18.1%	Commodities -5.4%

Source: Ecowin, Bloomberg, Barclays Capital, Thomson Reuters.

OUR UNCONSTRAINED APPROACH

In complete contrast to our risk rated approach, the unconstrained style – as the name suggests – is not constrained in its asset allocation or level of volatility. The Investment Team have freedom to allocate to any asset class, driven by where they perceive attractive risk-return trade-offs over the time horizon of any investment. The Investment Team adjust the asset allocation and investment selection in line with their overall investment view, for example, taking on additional risk if economic growth levels improve and conversely cutting risk if the investment climate deteriorates.

Consequently risk varies considerably, which differs completely to the fixed parameters that are applied within our risk rated approach. This approach tends to be used in conjunction with our risk rated approach for clients with larger amounts to invest.

And finally

We maintain actively allocated portfolios for clients once the risk parameters and time horizon have been established. Our Investment Management team makes the decisions on the portfolios, our Relationship Managers maintain the client relationship – they are not involved in the construction of the portfolios and this ensures that clients with the same risk profile have the same asset allocation. Our reward is linked to the gains in portfolio performance, not to commissions generated for the recommendations of including particular stocks or funds. We like to think of it as a radical, common sense approach.

If you would like to find out more about 7IM, please contact us on 020 7760 8777 or email information@7im.co.uk

We look forward to working with you.

Seven
Investment Management

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