

## 7IM's AAP Funds – Asset Allocated Passives – available via major platforms

### What are they?

AAP funds are another example of innovation from 7IM.

They maintain many of the benefits of current multi-manager products, but lower the cost and increase the precision of the asset allocation.

They are a range of risk-rated, multi-asset class funds that benefit from 7IM's approach to asset allocation-driven client portfolios, reducing risk and increasing potential return through diversification. There are four AAP funds, ranging from Moderately Cautious to Adventurous in risk profile.

The AAP funds differ by the way they fulfil their asset allocation. Passive instruments, such as Exchange Traded Funds, are used and this allows 7IM to:

- Reduce the cost to investors. ETFs are, on average, around 0.50% p.a. cheaper than actively managed multi-manager funds.
- Diversify portfolios through exposure to assets as wide ranging as sugar, gold, timber and global stock market indices.
- More precisely meet the target asset allocation.

Specifically, they reflect the same 7IM strategic (long term view) and tactical (short term view) asset allocation as the existing 7IM funds. However, instead of utilising active funds, which tend to have relatively high costs, AAP will employ passive investment vehicles such as Exchange Traded Funds (ETFs) for a majority of the portfolio. The funds still reflect 7IM's commitment to:

- Reduced risk, with
- Steady performance, at
- Lower cost.

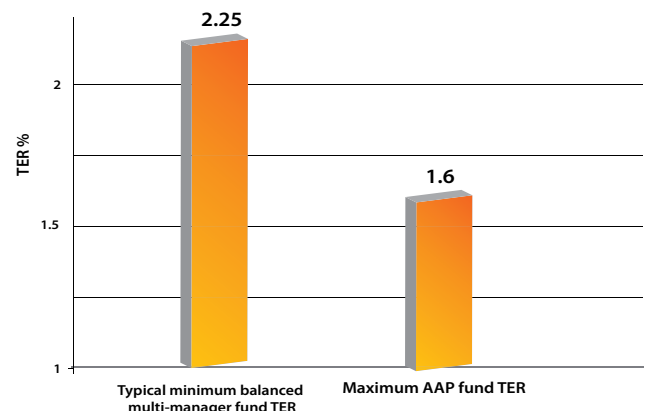
### Why are they different?

The 7IM AAP funds are unique in that they combine:

- the 7IM strategy neutral asset allocations, which are derived from researching 30+ years of asset class performances, volatilities and correlations, and adapting those results for the nuances of the UK market,
- 7IM's short term views, which 'tilt' the long term allocations referred to above for current market conditions, within predefined tolerances,
- and a broad array of alternative investments, with
- low cost instruments.

### Why do they cost less?

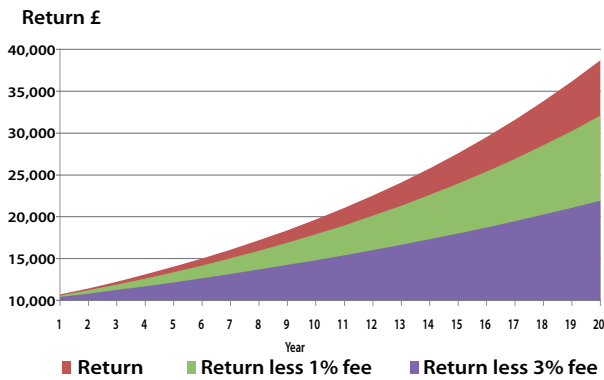
- Actively managed equities funds cost, on average, about 0.75% after rebates.
- Equities ETFs, on average, cost about 0.25%.
- In addition, there is no manager selection cost, so we have also made the 7IM TER lower.
- As the funds grow in size, the cost will gradually reduce even further. This is because the funds will be able to buy baskets of equities to track indices rather than having to pay the 0.25% ETF charge and because the fixed costs become proportionately smaller as the fund sizes grow.



### Why TER's matter

Remember that the TER is the Total Expense Ratio for a fund, which is closer to the total actual cost of the fund than the Annual Management Charge (AMC). Don't be misled by just reading the headline AMC figure. The 7IM AMC figures for the multi-manager funds for example are 1.4%, with the AMC for the new AAP funds at 1.4%...“so the new funds are not cheaper!”, you would cry. In fact, the TER (i.e. the TOTAL charges) for the AAP funds have been capped at 1.6%, but the TERs for the 7IM Multi-Manager Moderately Adventurous fund, for example, are 1.78%. So the figure that does actually matter to the client, the TER, is lower. Every extra percentage point charge makes a big impact on what a client might hope to get back at the end of their investment.

From the graph overleaf you can see the difference a reduction in the charges can make to the returns you could gain. That is why 7IM has introduced these funds with low Total Expense Ratios to the Cofunds, Fidelity Funds Network, Selestia, Standard Life, Sterling and Transact platforms as well as 7IM's platform.



### What does 'active' and 'passive' mean?

There are two levels on which this question should be addressed.

Firstly, for security selection, an active manager will seek to outperform an index or benchmark, while a passive manager will seek to replicate the index or benchmark. It should be noted that the majority of active managers do not outperform their index/benchmark. They also cost more.

*The second distinction between active and passive should be made in reference to the asset allocation process. Some multi-asset portfolios will be automatically rebalanced to a pre-determined allocation at a predetermined interval. This is passive asset allocation.*

*Active asset allocation involves regularly taking a view based on current events and reflecting that in the selection of asset classes, regions and manager styles in the portfolio. In the case of 7IM, this is done at least quarterly, and often more frequently than that.*

*So the 7IM AAP funds have active asset allocation, which is implemented largely with passive instruments. Some of the alternative asset classes will still feature active security selection if suitable passive instruments are not available.*

### Why is the asset allocation in the AAP funds more precise?

Even the best active managers are guided by the same emotions that drive the stock market - fear and greed. At the moment fear has upper hand and many portfolio managers are overweight cash and defensive stocks. This means that when the recovery comes many portfolio managers will not fully capture the early returns as they will either not recognize the recovery or because fear will continue to be their driving emotion. The AAP overcomes human emotion by investing in passive investments, like low cost exchange traded funds, that remain fully invested at all times and that will capture the full returns of the market.

The passive investment world has grown and developed enormously in the past 10 years so the AAP funds can now be very precise in selecting in how it chooses to invest. For instance, as the world develops there will be a greater demand for certain scarce commodities such as water or timber. Using a passive exchange traded fund (ETF) the AAP fund can now invest directly in precise baskets of water or timber stocks, whereas in the past such investments were not available to retail investors.

### Do AAP funds give any more protection against volatile markets than other funds?

They won't be expected to give more protection in volatile markets than the current range of 7IM funds, because it is primarily the asset class, regional and manager style diversification that achieves this, and they will be common to both sets of funds.

Having said that, broad diversification such as that found in all 7IM portfolios is the first line of defence against turbulent markets. Compared to many others in the market, 7IM funds do have lower risk than most funds they are compared to, as measured by Riskmetrics' RiskGrades™.

### What is the difference between the 7IM Multi-Manager funds and the AAP funds?

Simply put, you now have more choice.

The difference between the two boils down to the potential value added by active managers in the 'normal' 7IM funds versus the cost saved in the AAP by not having them. It is largely a matter of personal preference, and the relative importance of cost control to the investor.

7IM would expect the after cost performance of the two to be similar, but not identical.

### What do I need to know in summary?

- The new 7IM AAP funds have lower costs
- They have more precise asset allocation
- They have active asset allocation but use passive instruments
- They can be matched to the client's risk profile (Moderately Cautious, Balanced, Moderately Adventurous, Adventurous)
- They are widely diversified across several asset classes, reducing risk and gaining access to potential returns'
- They reflect 7IM's views on world markets and events
- They reflect 7IM's commitment to funds with **reduced risk**, with **steady performance** at **lower cost**.

### What are the risks?

- There is a risk that any index will go down as well as up. That's the same risk as any other investment but it does mean that the value of an investment may go down as well as up and an investor may receive back less than they invested.
- There is a risk that 7IM will choose an asset class that performs poorly. That's the same risk as with any other investment manager who believes in asset allocation instead of stock picking.
- Foreign exchange risk – the 7IM AAP funds invest overseas, to gain diversity and potential returns. Changes in exchange rates may have an impact on the value of an investment and the income it generates. This is the same risk as with any investment manager who has part of the portfolio in overseas holdings.
- There is a risk that the future performance of assets does not match the past performance of the same assets. This is the same risk as any other investment which takes into account past performance when trying to establish how an investment will perform going forwards.
- There is a risk that income derived from any investment may fall as well as rise.

Detailed information is available in the Prospectus, available from the Authorised Corporate Director for the funds, Capita Financial Managers 020 7556 8800.