SEVEN Investment Management

7IM
AAP BALANCED
FUND

A Sub-fund of 7IM Investment Funds

Interim Short Report for the period end 31 May 2016

Investment Objective and Policy

The 7IM AAP (Asset Allocated Passives) Balanced Sub-fund ('the Fund') aims, by applying active asset allocation techniques to predominantly passive strategies, to provide a balance of income and capital appreciation. There may be some risk to capital.

The Investment Manager will invest the majority of the portfolio in fixed interest and equity instruments using predominantly passive strategies (that is, strategies designed to track the performance of particular indices, market sectors or asset classes). The Investment Manager will also make investments in other asset classes such as property, commodities and private equities. Such investments will be made indirectly through holdings in investment trusts, exchange traded funds or other intermediary vehicles with the objective of improving returns and controlling risk by increasing diversification within the portfolio. The asset allocation for the entire portfolio will be actively managed.

The Sub-fund invests predominantly in a range of equities and fixed interest investments or instruments that track the returns of equity and fixed interest indices. The Sub-fund will comprise a mixture of income-generating assets and assets with scope for capital growth in real terms. The Sub-fund may use different asset classes, with investment primarily in equities and fixed interest investments, or instruments that track the returns of equity and fixed interest indices, with no long-term preponderance to either class.

Investment may also be made in exchange traded funds, warrants, deposits, cash and near cash, money market instruments, other transferable securities, derivatives and forward transactions and other investments to the extent that is permitted in the stated investment and borrowing powers of the company.

The Sub-fund may rely on third party advice on quantitative investment techniques or use third party quantitative investment software in the portfolio's construction.

The IA Mixed Investment 20-60% Shares Sector is the benchmark comparison against which the performance of the Sub-fund is measured.

Risk Profile

The Sub-fund has little exposure to credit or cash flow risk. There are no borrowings or unlisted securities of a material nature and so there is little exposure to liquidity risk. The main risks it faces from its financial instruments are market price, foreign currency and interest rate risk. The ACD reviews the policies for managing these risks in order to follow and achieve the Investment Objective as shown on the front page.

Accounting and distribution dates

	Accounting	Distribution
Interim	31 May	31 July
Final	30 November	31 January

Ongoing Charges Figures

As at 31 May 2016

	Class A	Class C	Class D	Class O	Class S
ACD's periodic charge	1.00%	0.50%	1.40%	1.50%	0.25%
Other expenses	0.03%	0.03%	0.03%	0.03%	0.03%
	1.03%	0.53%	1.43%	1.53%	0.28%
Collective investment scheme costs	0.07%	0.07%	0.07%	0.07%	0.07%
Ongoing Charges Figure	1.10%	0.60%	1.50%	1.60%	0.35%

As at 30 November 2015

	Class A	Class C	Class D	Class O	Class S
ACD's periodic charge	1.00%	0.50%	1.40%	1.50%	0.25%
Other expenses	0.03%	0.03%	0.03%	0.03%	0.03%
	1.03%	0.53%	1.43%	1.53%	0.28%
Collective investment scheme costs	0.06%	0.06%	0.06%	0.06%	0.06%
Ongoing Charges Figure	1.09%	0.59%	1.49%	1.59%	0.34%

The Ongoing Charges Figure ('OCF') represents the total operating expenses of the sub-fund, expressed as a percentage of the average net assets during the accounting year.

The collective investment scheme costs represent the OCFs, or a reasonable substitute, of the underlying funds which are held as portfolio investments. Their inclusion has been calculated on a weighted basis against the Fund's net assets at the balance sheet date.

Synthetic Risk and Reward Indicator

Typically lower rewards						Typically higher rewards
Lower risk						Higher risk
1	2	3	**4**	5	6	7

This indicator shows how much a sub-fund has risen and fallen in the past, and therefore how much a fund's returns have varied. It is a measure of a fund's volatility. The higher a sub-fund's past volatility the higher the number on the scale and the greater the risk that investors in that sub-fund may have made losses as well as gains. The lowest number on the scale does not mean that a sub-fund is risk free.

This indicator is based on historical data and may not be a reliable indication of the future risk profile of this sub-fund.

The risk and reward profile shown is not guaranteed to remain the same and may shift over time.

Distributions

Share Class	Interim 31.07.16 pence per share	Interim 31.07.15 pence per share
Class A Income	0.8339	1.1714
Class A Accumulation	0.9421	1.3080
Class C Income	0.9653	1.2723
Class C Accumulation	1.1073	1.4390
Class D Income	0.7881	1.0948
Class D Accumulation	0.8765	1.2091
Class O Accumulation	0.7693	1.1051
Class S Income	0.8643	1.1356
Class S Accumulation	0.8920	1.1529

Performance Record

Class A Income

Calendar Year	Highest Price p	Lowest Price p	Distribution per share p
2011	109.72	96.41	1.9133
2012	107.21	100.69	1.9653
2013	119.76	107.56	2.0169
2014	123.42	112.84	1.8762
2015	133.40	114.68	2.1058
2016*	121.70	109.89	1.4090

Class A Accumulation

Calendar Year	Highest Price p	Lowest Price p	Distribution per share p
2011	114.86	101.29	1.9604
2012	116.06	107.02	2.0773
2013	129.68	116.47	2.1871
2014	136.81	124.08	2.0531
2015	149.00	129.25	2.3438
2016*	137.81	124.43	1.5935

Class C Income

Calendar Year	Highest Price p	Lowest Price p	Distribution per share p
2011	110.87	97.50	2.1440
2012	108.70	101.90	2.2108
2013	121.54	109.00	2.2614
2014	125.65	114.62	2.1371
2015	135.89	116.96	2.3441
2016*	124.32	112.17	1.6381

Class C Accumulation

Calendar Year	Highest Price p	Lowest Price p	Distribution per share p
2011	116.70	103.02	2.2308
2012	118.63	109.11	2.3407
2013	132.75	119.05	2.4551
2014	140.91	127.39	2.3644
2015	153.70	133.57	2.6411
2016*	142.73	128.78	1.8755

* To 31 May 2016.

Performance Record (continued)

Class D Income

Calendar Year	Highest Price p	Lowest Price p	Distribution per share p
2011	109.00	95.74	1.0143
2012	106.24	99.91	1.8247
2013	118.55	106.61	1.8399
2014	121.80	111.58	1.7195
2015	131.57	112.99	1.9419
2016*	119.76	108.20	1.3014

Class D Accumulation

Calendar Year	Highest Price p	Lowest Price p	Distribution per share p
2011	113.49	100.01	1.7541
2012	114.14	105.45	1.9211
2013	127.37	114.54	1.9701
2014	133.73	121.61	1.8678
2015	145.47	126.00	2.1397
2016*	134.11	121.15	1.4508

Class O Income

Calendar Year	Highest Price p	Lowest Price p	Distribution per share p
2011	108.50	95.30	1.6462
2012	105.66	99.40	1.8139
2013	117.86	106.03	1.8133
2014^	116.93	97.19	1.6917

Class O Accumulation

Calendar Year	Highest Price p	Lowest Price p	Distribution per share p
2011	113.17	99.71	1.7096
2012	113.69	105.09	1.8979
2013	126.82	114.09	1.9517
2014	125.80	114.06	1.8055
2015	136.31	118.03	1.9639
2016*	125.58	113.46	1.3406

* To 31 May 2016.
^ Closed on 30 November 2014.

Performance Record (continued)

Class S Income

Calendar Year	Highest Price p	Lowest Price p	Distribution per share p
2014^	106.76	98.88	0.6050
2015	115.49	99.45	2.0984
2016*	105.76	95.39	1.4892

Class S Accumulation

Calendar Year	Highest Price p	Lowest Price p	Distribution per share p
2014^	107.39	98.88	0.6050
2015	117.23	101.97	2.1213
2016*	109.08	98.39	1.5330

* To 31 May 2016.
^ From 26 February 2014 to 31 December 2014.

Net Asset Value

Date	Share Class	Net Asset Value £	Shares in Issue	Net Asset Value pence per share
30.11.13	Class A Income	1,934,731	1,675,140	115.50
	Class A Accumulation	12,732,906	10,025,156	127.01
	Class C Income	78,235,113	66,733,474	117.24
	Class C Accumulation	715,263,631	548,949,615	130.30
	Class D Income	10,563,676	9,243,619	114.28
	Class D Accumulation	169,767,556	136,312,850	124.54
	Class O Income*	2,782,925	2,450,281	113.58
	Class O Accumulation	4,979	4,017	123.94
30.11.14	Class A Income	1,998,162	1,633,094	122.35
	Class A Accumulation	13,165,229	9,633,005	136.67
	Class C Income	96,776,236	77,763,565	124.45
	Class C Accumulation	981,131,341	696,988,133	140.77
	Class D Income	7,425,222	6,145,722	120.82
	Class D Accumulation	141,458,023	105,893,062	133.59
	Class O Accumulation	4,717	3,767	125.22
	Class S Income**	15,653,719	14,811,457	105.69
	Class S Accumulation**	147,344,649	137,343,614	107.28
30.11.15	Class A Income	523,507	432,683	120.99
	Class A Accumulation	11,551,301	8,430,664	137.02
	Class C Income	135,700,250	109,965,098	123.40
	Class C Accumulation	1,401,773,819	989,287,945	141.70
	Class D Income	3,217,578	2,699,448	119.19
	Class D Accumulation	90,221,278	67,585,908	133.49
	Class O Accumulation	4,710	3,767	125.04
	Class S Income	19,306,389	18,403,300	104.91
	Class S Accumulation	204,256,193	188,766,364	108.21
31.05.16	Class A Income	345,785	293,999	117.61
	Class A Accumulation	7,290,769	5,435,729	134.13
	Class C Income	114,686,188	95,496,703	120.09
	Class C Accumulation	1,324,104,088	952,684,719	138.99
	Class D Income	1,352,077	1,168,415	115.72
	Class D Accumulation	65,764,001	50,406,545	130.47
	Class O Accumulation	4,602	3,767	122.17
	Class S Income	20,220,484	19,795,806	102.15
	Class S Accumulation	200,269,467	188,500,807	106.24

* The ‘O’ Income closed on 30 November 2014.
** The ‘S’ Income and ‘S’ Accumulation share classes were launched on 26 February 2014.

Fund performance to 31 May 2016 (%)

	1 year	3 years	5 years
7IM AAP Balanced Fund	-7.81	7.38	20.79
IA Mixed Investment 20-60% Shares Sector*	-2.58	8.68	22.36

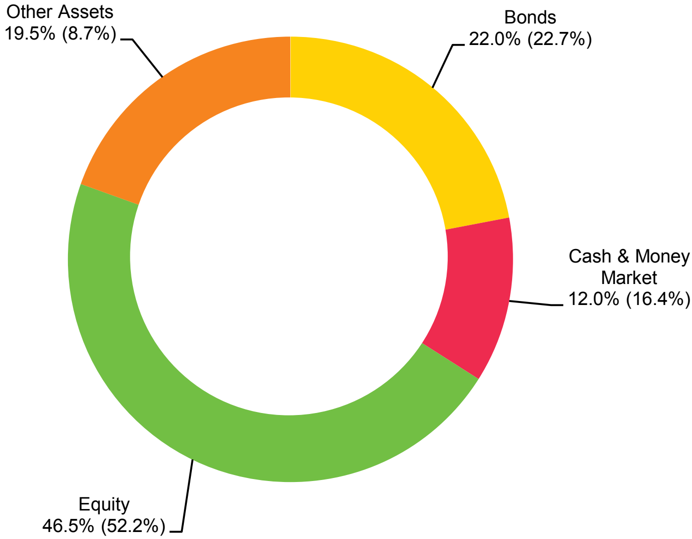
* Source: Morningstar.

The performance of the sub-fund is based on the published price per ‘C’ Accumulation share which includes reinvested income.

Risk Warning

Please remember that past performance should not be seen as a guide to future performance and that the value of an investment and the income from it can fall as well as rise and may be affected by exchange rate variations.

Sector Spread of Investments



The figures in brackets show allocations at 30 November 2015.

Futures are measured by reference to the current notional exposure of the future, in other words, the economic interest in the underlying, although only the difference between the price on opening the position and the price on closing the position is settled. The sector spread of investments shown above is based on the market or notional value as a proportion of the net assets of the Fund (and therefore may not sum to 100%).

Major Holdings

The top ten holdings at the end of each period are shown below.

Holding	% of Fund as at 31.05.16
Northern Trust Global Sterling Fund	10.57
iShares Emerging Markets Local Government Bond UCITS ETF	3.82
US Treasury Notes 2.25% 2025	3.31
PIMCO Short-Term High Yield Corporate Source	2.76
Most Diversified TOBAM Anti-Benchmark Emerging Markets	2.68
Merrill Lynch floating rate 2017	2.54
Credit Suisse International 0% 2017	2.46
iShares $ High Yield Corporate Bond UCITS ETF	2.28
F&C Global Equity Neutral 3 Acc	2.20
Source Physical Gold P-ETC	1.94

Holding	% of Fund as at 30.11.15
Northern Trust Global Sterling Fund	12.88
BlackRock Overseas Corporate Bond Tracker	3.16
Most Diversified TOBAM Anti-Benchmark Emerging Markets	2.58
Royal London Cash Plus	2.53
PIMCO Short-Term High Yield Corporate Source	2.46
Vanguard U.K. Short-Term Investment Grade Bond Index	2.34
Merrill Lynch International & Company (linked to the Japan Shareholder Index) 2016	2.32
SSgA SPDR Thomson Reuters Global Convertible Bond UCITS ETF	2.29
F&C Global Equity Neutral 3 Acc	2.00
US Treasury Notes 0.125% 2020	1.98

Investment Manager's Report

Performance Report
In the reporting period, 1 December 2015 to 31 May 2016, the portfolio delivered a total return of minus 2.1%[1]. Over the same period the peer group average return for the IMA Mixed Investment 20-60% Shares Sector which is the fund benchmark was 0.8%[2].

[1] Calculated using 7IM AAP Balanced C Acc shares, published prices. Source: NTRS
[2] Source: FE Trustnet

Investment Background
The wave of pessimism that had dominated markets in the second half of 2015 continued into 2016 but after a shaky start to the year global equity markets staged somewhat of a recovery so that by the end of May the MSCI World Equity index eventually ended up 3.6% for the six month period under review.

January and February were very volatile months. In February the Japan Topix index dropped around 9% - the fall only mitigated for UK investors by the Japanese yen being particularly strong almost offsetting the loss had those investors not hedged the currency. Falling oil prices were seen as raising the risks to global growth and there was a sharp withdrawal from risk assets. Investors sought out traditional safe havens such as global government bonds, which did relatively well over the six months. The Citigroup World Government Bond index ended up 11.5% in sterling terms.

The last three months of the six months were much calmer with economic data out of the US seemingly confirming economic recovery, further stimulus from the European Central Bank helping to build confidence in European markets and the oil price rallying further allaying fears of recession leading equity markets to largely recover earlier losses.

US equities were relatively strong over the six months with the S&P 500 index ending up 5.6% for sterling investors with a strong US dollar tailwind. The FTSE 100 index and MSCI Europe Ex-UK index were effectively unchanged over the six months for sterling investors. The best and worst performances were in Asia and Emerging Markets with the Hang Seng China Enterprises index down 8.1% on fears of a downturn in growth as the country repositions itself for the shift from an industrial to a services led economy. Russian and Brazilian equity markets staged a strong recovery after last year's poor equity and currency performance, ending up over 10% and 20% respectively on the back of both strong markets and currencies. The oil price recovery helped Russian equities to progress while the likely impeachment of Brazil's President Dilma Rousseff and deepest recession in recent history seems to have reignited interest in Brazilian equities.

Alternative investments performed strongly with gold, often a safe haven in times of financial stress, up 18.2% and the EPRA Global Property index up 5.9%. The Pound fell against most major currencies on fears about the future path of interest rates and growing concerns about the outcome of the EU referendum.

Portfolio Review
Positioning at the beginning of the period reflected our view that the US, Europe, Japan and Emerging Markets equities were more attractive than UK equities. We saw risks around the EU referendum and had a relatively low allocation to UK equites. However, later in the period we trimmed the European value exposure to reduce concentration of exposure and bought UK equity value for its materials and energy exposure – effectively a global growth proxy. Value strategies tend to overweight small and mid-cap companies over large ones, a position we think will produce better returns than conventional large cap indices at present. In order to emphasis this source of return enhancement, we also bought futures on the small and mid-cap European equity index.

We sold China H shares which while they were cheap in absolute terms and also by historic standards have exhibited changing correlation with other blue-chip indices over the last year so there is a chance that, due to specific China issues, any short-term rally in developed markets might not be reflected in H shares. We also disposed of the Japan Shareholder certificate which had not performed as we had expected and as a means of reducing risk and later on reduced Japan equity exposure further having been less confident of Prime Minister Abe's reforms and that the risks around Japan equity had risen with global uncertainty. We felt that the proceeds of these sales would be better invested in US equity where we had turned more positive, following a year of lacklustre performance, and with the prospect of earnings this year unlikely to be encumbered by an adverse currency move. We therefore added to the US value strategy where the risks are less idiosyncratic.

Early in the year we implemented a risk management and diversification trade buying US Treasuries. Yields on US Treasuries had risen through 2015 to reflect an expectation of Fed Funds rates rising and we felt that this offered a good entry point into an asset which could provide good risk and diversification benefits.

We also bought a holding in US Treasury Inflation Protection Securities (TIPS) to add some inflation protection to the portfolio based on our view that with unemployment reaching very low levels in the US there will be some skill shortages which will drive inflation up; a view that is not currently being reflected in inflation expectations.

With sterling weakening against Emerging Markets currencies on Brexit fears and with local currency yields looking attractive, we bought a position in an Emerging Markets bonds local currency index fund.

We made a large reduction to investment grade corporate bonds allocation. High grade corporate bonds look challenged in a wide range of economic scenarios. Perhaps the best corporate bonds can reasonably hope for is muddling through in a subdued status quo, but yields are too low to provide much return even in such a world. There are specific, sub-sector opportunities that seem more attractive (in floating rate credit, or in short-term bonds) but we have reduced our allocation to corporate bonds in general and hold the proceeds in cash for now.

Alternative asset classes are attractive as diversifiers having low or no correlation with equities or bonds including asset classes such as private equity, real estate, commodities and hedge funds and other securities structures having low correlation with equities and bonds. When financial markets are volatile uncorrelated asset class returns help to reduce risk and enhance returns.

We sold the 2016 EuroStoxx dividend futures which had little further to go in terms of reaching fair value and switched into the 2017 futures where there was more. We also made an allocation to the 2018 EuroStoxx dividend futures which, because there is more than one year to maturity, behave more like an equity than a bond and so are classified within European equity.

Gold tends to perform well in periods of inflation and has a low correlation with equity and bond returns. We had already invested in inflation linked bonds in Europe and the US but felt that gold also looked attractive and bought a holding in an exchange traded physical gold fund as a further way of protecting the fund from the risks of inflation.

The global government inflation linked bonds are, however, not a pure play on inflation risk because they still contain duration risk which, depending on market movements, may enhance or offset the returns delivered from rising inflation. We wanted to isolate returns available from rising US inflation and therefore sold the inflation linked bonds to invest in a 30 year inflation swap certificate which benefits when inflation expectations rise in the US but does not expose the fund to duration risk. And, unlike global inflation linked bonds, the inflation swap has a low correlation with both equities and bonds so we have classified this investment within alternatives rather than a bond investment.

We also invested in a commodity curve strategy which benefits from harvesting of the investment premium which arises from the shape of the commodity curve.

Investment Manager’s Report (continued)

During the period under review we lowered exposure to sterling by raising the allocations to other major currencies. We felt that in the run up to the EU referendum sterling could be highly volatile perhaps as a result of unfavourable poll results or other events and that reducing exposure to sterling would help hedge against such risks.

Investment Outlook

The EU referendum occurred after the period end and the fund was positioned for the most likely outcome, which according to the bookies and polls was Remain; although there were risk buffers in place to provide capital protection in the event of a surprise Leave outcome. We continued to make adjustments in the days and weeks running up to the vote, as probabilities shifted. We had added to risk off positions a couple of weeks before the vote before taking some small steps towards risky assets in the last week of the campaign as momentum appeared to swing back to Remain. In the small hours of Friday as the result became clear we bought US dollars to protect the portfolio from sterling depreciation. Equities obviously sold off sharply, particularly European equity and UK mid-caps. US and Asian equity was a little more resilient. Fortunately, the relatively large foreign exchange positions and other risk buffers such as long dated bonds and gold offset the equity losses.

There is clearly huge uncertainty from here – political, economic and market uncertainty. We are pleased that our protective measures appear to have worked well so far, but we are examining a range of possible scenarios and potential portfolio shifts, with major consideration given to how far sterling can fall. It seems possible that the political situation will remain in limbo for some time, with Article 50 (the formal request to leave the EU) potentially not triggered until the Autumn, but the UK’s wide current account deficit remains a particular headwind – sustainable if we see capital inflows into the UK, but a driver for sterling weakness if those capital flows are interrupted.

Seven Investment Management LLP
Investment Manager
June 2016

Buying and Selling Shares

The dealing office of the ACD is normally open from 9.00am to 5.30pm London time on each business day. The ACD may vary these times at its discretion. Requests to deal in shares may also be made by telephone on each business day (at the ACD's discretion) between 9.00am and 5.30pm London time directly to the office of the ACD (telephone: 0870 870 7431 or such other number as published from time to time). The initial purchase must, at the discretion of the ACD, be accompanied by an application form.

Reports and Accounts

This document is a short report of the 7IM AAP Balanced Fund for the period 31 May 2016. The full Report and Accounts for the Fund is available free of charge upon written request to Seven Investment Management LLP, 3rd Floor, 55 Bishopgate, London EC2N 3AS.

Other Information

The information in this report is designed to enable you to make an informed judgement on the activities of the Fund during the period it covers and the results of those activities at the end of the period.

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C. Darbyshire
V. Smith
C. Sparrow
J. Urquhart Stewart
S. Sanderson
T. Sheridan
H. Paton (retired 8 April 2016)
R. Poulten
J. Routledge
P. Bungey (appointed 27 June 2016)

Sub-Investment Manager
Sarasin & Partners LLP is the sub-investment manager providing investment advisory services for the 7IM Sustainable Balance Fund.

Ibbotson Associates Inc is the sub-investment manager providing investment advisory services for the following sub-funds:

7IM Cautious Fund
7IM Moderately Cautious Fund
7IM Balanced Fund
7IM Moderately Adventurous Fund
7IM Adventurous Fund
7IM AAP Income Fund
7IM AAP Moderately Cautious Fund
7IM AAP Balanced Fund
7IM AAP Moderately Adventurous Fund
7IM AAP Adventurous Fund

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