
A GUIDE TO A RETIREMENT INCOME PORTFOLIO

2021

FINANCIAL ADVICE &
WEALTH MANAGEMENT



ESTATE  CAPITAL

*Have confidence in your
pension and peace-of-mind
to enjoy your retirement.*

- *Chartered Financial Advisers*
- *33 years professional experience*
- *Trusted, established and well resourced*

Co-ordinate your investments, grow capital and increase your income.

The decision to stop working and live off one's accumulated assets is one of life's most important. We would all hope that the choice to retire is one that suits your situation having been planned well in advance with sufficient capital assets to fund a comfortable later life.

Unfortunately, the decision over timing is not always yours alone as factors such as poor health, redundancy, a business sale or a business closure can bring forward well intentioned plans.

Because we cannot ever be certain of the future, the need for a reliable retirement income cannot be left to chance. The capital cost of providing yourself with a comfortable income for thirty years or so is considerable. Therefore, the earlier the building of retirement savings start the better prepared you will be.

Tax Relief

One great benefit of regular pension savings is that HMRC provides income tax relief on each pension contribution. This benefit means that a basic rate

taxpayer only pays 80% of the cost of their retirement fund, while a higher rate taxpayer pays only 60%. In addition to this tax break, at retirement age 25% of the accumulated pension fund can be taken free of tax.

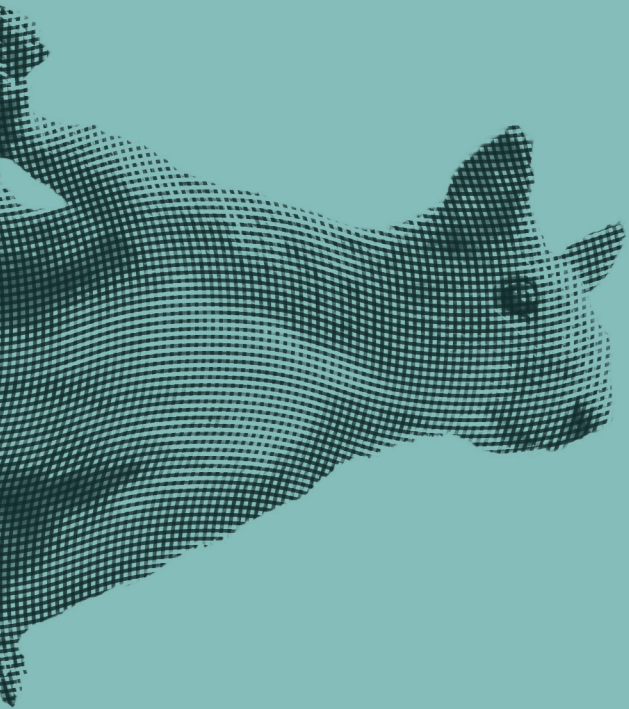
Employers that make pension contributions on behalf of their staff can claim full corporation tax relief on payments made into directors or staff pension schemes.

Tax free compounding growth

Contributions into pension funds can be invested into a wide range of assets, from stocks and shares and investment funds to commercial property. The growth of these assets is aided by the fact that no capital gains tax applies to pension fund assets, meaning that pension fund growth is predominantly tax free.

Despite conflicting priorities in ones working life, the provision of a reliable and comfortable income in retirement should be a clear priority to all.

*Make better informed
retirement decisions
that are right for you.*



RETIREMENT PLANNING

The decision over when to retire is made with several factors in mind and should be planned many years in advance through holistic financial planning, including investment reviews and cashflow forecasts based upon realistic assumptions.

Before the introduction of pension freedoms in April 2015, the majority of retirees were choosing an annuity over a pension drawdown. With the introduction of the new flexibilities with pension freedoms, income drawdown has become the retirement income option of choice.

Pension drawdown is a flexible way to access retirement benefits. The flexibility can be an advantage but it comes with more responsibility and risk as compared to an annuity.

If investments perform well then a growing income is possible through retirement, but if the opposite was to occur, you withdrew too much income too soon, or you live longer than expected, you could run out of money.

These are all factors to consider.

Income Requirements

The key objective is a consistent and reliable source of income at a level that makes retirement comfortable and attractive. There is a certain standard of living needed to make retirement meaningful. How achievable that level of income is, over the duration of one's life is an important factor in deciding if retirement is feasible.

Retirement income may come from several sources. It could be provided by a scheme annuity, your Basic State Pension, or a defined benefit occupational pension. These types of scheme provide a fixed and known income for life. Income may be available from a company or private pension offering flexibility in the level and frequency of payments as well as some control over tax planning of income payments.

Capital Requirements

It is often a desire to use some of the tax-free cash from a pension fund to support some planned events like a holiday, to clear outstanding liabilities, or gift money to children in order to help them. It is important to use one's life savings to reward oneself and these are all factors to be considered in the overall plan for retirement. If there are no specific reasons to take out the tax-free cash, then it can be saved for a future event or used as tax-free income.

Estate Planning

Private pension funds now have the added benefit of being transferred upon death to a dependent or successor. This means that a spouse can take over the pension fund and that children can also inherit the fund too. These transfers are outside of any inheritance taxes so that pension funds are a unique tax efficient way to transfer capital assets down the generations. It is for this reason that wealthy individuals may choose to delay or avoid taking an income from a pension fund when other assets are available first.

RETIREMENT PLANNING

Health and Life Expectancy

The Office of National Statistics (ONS) predict that a man aged 65 can expect, on average, to live a further 19 years, while a woman could expect a further 21 years. Therefore, at 65 a male still has 20% of his life ahead of him while a woman has 25%. Life expectancy is a factor of both age and health and in order to plan for a comfortable and fulfilling retirement we are required to make some assumptions over life expectancy rates. The ONS provide life expectancy tables and with an additional factor of 10 years can be used as the basis of sound planning. The greater the duration of life expectancy the greater the income demands placed upon a pension fund.

Inflation

The need for long term income to retain its full purchasing power through-out the life of a pensioner is a factor that places further demands upon a pension fund. Inflation erodes the real value of money as the cost of living rises each year. If inflation was maintained at an average of 2% per annum, which is the Bank of England's long term

inflation target, then the value of money would halve in 36 years. This also means that a retirement income would need to double every 36 years in order to keep pace with everyday costs.

Life expectancy and inflation are two long-term factors to consider carefully in any retirement planning. For this reason, it is appropriate that pension fund assets are invested in real assets that can grow ahead of inflation such as equities and property.

Other Assets

Commonly a pension fund built up over several decades of savings and supported by company or employer contributions can grow to become a major or even the largest single asset of an individual. This position gives confidence for a sustainable and comfortable retirement. However, a pension fund may be one of many assets including for example a business, investments, or properties all providing additional or alternative sources of income. Therefore, the level of and priority order of income from differing assets is part of overall retirement income planning that takes tax liabilities and estate planning into consideration.

The ability to really relax and enjoy retirement is influenced by health more than any other factor.

*Successful investing is
about managing risk not
avoiding it.*



INVESTMENT PLANNING

When building a portfolio that can sustain long term income withdrawal needs, several factors should be considered. It is just as important to construct a suitable portfolio for decumulation of assets in retirement as it is to build a suitable portfolio to accumulate the assets in the first place. A retirement income portfolio has a focus on the withdrawal of a regular income usually as a fixed monthly amount and the reliability of this income for the life of the pensioner makes a decumulation portfolio different in construction.

Capacity for loss

When it comes to the provision of a regular retirement income needed to maintain a certain standard of living, then sustained losses within a portfolio may lead to a partial or temporary impairment to the payment of income. Therefore, capacity for loss and the impact this may have on a reduction of income needs to be carefully assessed. Income needing investors have to be fully aware of what investment underperformance may mean to them. It is only when this has been considered that the degree of risk a pensioner should take can be assessed and agreed. An investor with no or little capacity for loss is better suited to certain or defined forms of retirement income such as annuities and defined benefits.

Risk Tolerance

Any portfolio that is built of risk assets such as equities and property must be risk defined so that

investors understand the expected average annual returns and the range of potential returns for any given risk rated portfolio. Risk is often measured as the level of volatility that a portfolio may exhibit. Measures of volatility can be compared against an appropriate benchmark, against an asset without risk, or the maximum percentage of loss an asset has experienced from the top to the bottom of a market fall.

The impact of volatility has additional influence within a retirement income portfolio. This is because lower levels of volatility are beneficial to the consistent payment of income withdrawals.

Once the level of risk has been assessed and agreed a suitable asset allocation model can be selected that provides the investor with an indication of expected returns and the level of income withdrawals that could be sustained by such a portfolio.

Inflation

For any long-term investment portfolio to be able to maintain or beat inflation, the portfolio will need to be composed of real assets such as equities and property but other assets such as gold and index-linked bonds can offer inflation beating diversification.

Natural Dividends

Within the equity, bond and property element of a diversified portfolio, investors are faced with the

INVESTMENT PLANNING

choice of seeking a natural income payment from the dividends, yields and rents of the underlying assets or to focus on growth assets and simply surrender sufficient stock or units to pay a fixed monthly income. As income is often needed as a fixed monthly payment, the later method is most common.

Natural dividends tend not to be consistent or monthly paid and vary through the year. Natural dividends have the advantage of maintaining stock or unit levels but also lead investors to over concentrate on specific, high-dividend paying stock markets of the world such as the FTSE 100 index. This may be attractive to income seeking investors that can accept a varying income.

Diversity

A suitable investment portfolio that seeks to provide a reliable source of income over several decades needs to be broadly based and spread across many asset classes, investment sectors, and geographic regions of the world. A diversified portfolio reduces risk and therefore can deliver more consistent returns. An overly concentrated portfolio puts greater reliance on less assets.

An investment strategy is expected to perform best if the portfolio is regularly rebalanced.

Sustainable Income

Much academic work has gone into the levels of income that can be sustainable from a diversified portfolio so that the portfolio does not materially

decline in value. For many years the sustainable level of income was set at 4% per annum for a typical 60% equity portfolio. With inflation and interest rates now at exceptionally low levels, it is felt that a 3% income is more sustainable.

This means that if an investor were to draw in income in excess of 3% pa, there is a likelihood that the underlying assets would need to be sold off to support the income demands and in doing so the asset value may progressively decline. This may not be a concern to the pensioner whose priority is income and has assets available to spend.

Sequence of Return Risk

A factor that at outset is unknown but will have a meaningful impact on the long-term success of an income paying decumulation portfolio is the order in which future returns occur. If a portfolio that is paying out a needed monthly income enjoyed several early years of rising asset value that more than sustained the income taken, then the investor would have a far more positive experience to one where the portfolio in the early years was exposed to heavy market falls at the same time as income was being withdrawn. As we cannot predict with certainty the sequence of future returns or movements in markets, a strategy that minimises the impact of market volatility on a decumulation portfolio in the important early years is a factor that would improve the portfolios ability to deliver on its key objectives. The sequence of returns risk is an important factor in building a decumulation portfolio as has been demonstrated by much academic research. (*Suarez, Suarez, and Walz (2015) and Clare, Seaton, Smith and Thomas (2016).*)

INVESTMENT PLANNING

Sequence of Returns Risk

Early negative or positive rates of return for an investment in withdrawal can have a lasting impact on both long-term capital values and long-term viability of income.

The tables below demonstrate the importance of the sequence of positive and negative rates of return on equivalent initial investments with the same average returns. Investment A and B also have the same yearly returns, but Investment B has the order of these returns reversed.

Example 1: Investments A and B have an average return of 5%. Investment A has positive initial returns while Investment B's initial returns are negative. With an initial investment of £800,000 and a yearly income of £30,000 the value of the investment after 10 years is £155,726 larger for Investment A than Investment B due solely to the sequence of the positive and negative returns.

Investment	£800,000	Yearly Withdrawal	£30,000.00
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Investment A				
Period	Initial Value	Return	Withdrawals	Final Value
Year 1	£800,000	20%	£30,000	£930,000
Year 2	£930,000	10%	£30,000	£993,000
Year 3	£993,000	12%	£30,000	£1,082,160
Year 4	£1,082,160	8%	£30,000	£1,138,733
Year 5	£1,138,733	6%	£30,000	£1,177,057
Year 6	£1,177,057	5%	£30,000	£1,205,910
Year 7	£1,205,910	5%	£30,000	£1,236,205
Year 8	£1,236,205	-8%	£30,000	£1,107,309
Year 9	£1,107,309	-3%	£30,000	£1,044,089
Year 10	£1,044,089	-5%	£30,000	£961,885

Investment B				
Period	Initial Value	Return	Withdrawals	Final Value
Year 1	£800,000	-5%	£30,000	£730,000
Year 2	£730,000	-3%	£30,000	£678,100
Year 3	£678,100	-8%	£30,000	£593,852
Year 4	£593,852	5%	£30,000	£593,545
Year 5	£593,545	5%	£30,000	£593,222
Year 6	£593,222	6%	£30,000	£598,815
Year 7	£598,815	8%	£30,000	£616,720
Year 8	£616,720	12%	£30,000	£660,727
Year 9	£660,727	10%	£30,000	£696,799
Year 10	£696,799	20%	£30,000	£806,159

Investment A	
Final Value (end of year 10)	£961,885
Capital Growth	£161,885
Average return	5%
Total withdrawals	£300,000

Investment B	
Final Value (end of year 10)	£806,159
Capital Growth	£6,159
Average return	5%
Total withdrawals	£300,000

Difference (A-B)	
Final Value	£155,726

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Example 2: Investments A and B have the same initial investment, the same yearly income withdrawal, and the same 5% return in every year except a loss of -15% in one year. Investment A incurs the loss in year 10 and Investment B incurs the loss in year 1.

With an initial investment of £800,000 and a yearly income of £30,000 Investment A is worth £66,159 more than Investment B, the equivalent of over 2 years of income.

Investment £800,000 Yearly Withdrawal £30,000.00

Investment A				
Period	Initial Value	Return	Withdrawals	Final Value
Year 1	£800,000	5%	£30,000	£810,000
Year 2	£810,000	5%	£30,000	£820,500
Year 3	£820,500	5%	£30,000	£831,525
Year 4	£831,525	5%	£30,000	£843,101
Year 5	£843,101	5%	£30,000	£855,256
Year 6	£855,256	5%	£30,000	£868,019
Year 7	£868,019	5%	£30,000	£881,420
Year 8	£881,420	5%	£30,000	£895,491
Year 9	£895,491	5%	£30,000	£910,266
Year 10	£910,266	-15%	£30,000	£743,726

Investment B				
Period	Initial Value	Return	Withdrawals	Final Value
Year 1	£800,000	-15%	£30,000	£650,000
Year 2	£650,000	5%	£30,000	£652,500
Year 3	£652,500	5%	£30,000	£655,125
Year 4	£655,125	5%	£30,000	£657,881
Year 5	£657,881	5%	£30,000	£660,775
Year 6	£660,775	5%	£30,000	£663,814
Year 7	£663,814	5%	£30,000	£667,005
Year 8	£667,005	5%	£30,000	£670,355
Year 9	£670,355	5%	£30,000	£673,873
Year 10	£673,873	5%	£30,000	£677,566

Investment A	
Final Value (end of year 10)	£743,726
Capital Growth	-£56,274
Average return	3%
Total withdrawals	£300,000

Investment B	
Final Value (end of year 10)	£677,566
Capital Growth	-£122,434
Average return	3%
Total withdrawals	£300,000

Difference (A-B)	
Final Value	£66,159

INVESTMENT PLANNING

Volatility Management

Any portfolio that has an objective of paying out a much-needed income must protect itself from heavy losses and volatility particularly in the early years. The build-up of capital in the examples above that originally experienced positive returns allow for the portfolio to create a buffer for income that would be difficult to build if the portfolio suffered early losses.

There are several ways to manage volatility. Reducing the equity content of a portfolio may be the obvious one, but this option will limit the portfolio's ability to achieve the much-needed long-term growth.

There has been significant academic research which evidences that reducing the equity allocation in a retirement income portfolio by more than 10% and holding that allocation in cash does not improve the longevity of the portfolio. However, by replacing the bond allocation with cash, particularly if the income is taken from cash first, can improve portfolio longevity.

Diversity of assets is a useful strategy as is trendfollowing tactical trading which aims to maintain equity exposure but also reduce it at times of market weakness.

Taxation

After taking the allowed 25% tax-free cash from your pension fund, any further withdrawals are taxed as income through the PAYE system. No National Insurance payments are deducted from pension income.

Pension drawdown offers pensioners income flexibility so that each year you can manage withdrawals and tax liabilities to suit your circumstances.

The first time you withdraw income beyond the tax-free cash entitlement it is usually taxed on an emergency tax code until the pension provider receives an updated tax code from HMRC. The new tax code will automatically adjust any overpayments.

Please remember that the value of an investment and the income received can go down as well as up. Past performance is not a guide to future returns.

*Maximise your returns with
a level of risk you're entirely
comfortable with.*



INVESTMENT PORTFOLIOS

In order for a decumulation portfolio to fulfil all of its objectives then a combination of different strategies in a segregated portfolio makes sense. The overall portfolio should be split into three sections aimed at different objectives over varying time horizons.

Short Term Cash Portfolio

The early years income requirements should be provided by the short-term cash section. This would comprise of two to three years of income placed into a cash only portfolio. Drawing income from this section will allow the other investment assets to grow without withdrawal in the sensitive early years. Cash is an asset class unlikely to match or beat inflation so short-term use is appropriate.

If a pension portfolio had a capital value of £800,000 and an annual income of £30,000 was required each year rising by CPI of 2%, then we would suggest £60,600 is placed in the cash section as a minimum.

Medium Term Volatility Managed Portfolio

Research has suggested that the sequence of returns risk for an income portfolio is most pronounced in the first two to three years but can be impactful for up to seven years. We believe that seven years of cash holdings is an inefficient use of capital assets which are needed for growth. An investment management strategy that minimises the volatility of a typical blended portfolio has an important place in the medium term section of a decumulation portfolio.

The medium-term section would be used to supply income for the eight-year period after the cash section has been exhausted. The investments in this

section can be surrendered to cash just ahead of being withdrawn.

For this section we favour the use of low-cost index tracking funds as the underlying asset. The volatility management is provided through diversified asset allocation and the addition of trend-following tactical trading which can move positions between full, partial and zero equity exposure depending upon several market momentum signals. Such portfolios participate in rising equity markets but sell down to a basket of low-risk assets when markets are indicating losses. These strategies exhibit lower volatility, a reduction in sequence of returns risk, and more consistent investment returns.

The Crossing Point Investment Management Guardian range of five risk related portfolios are specifically designed and managed in this way.

The combination of the cash section and the volatility managed section for the first ten years of income significantly reduces the risk to the impact of a poor sequence of returns. With lower levels of volatility, the portfolio is more able to sustain regular withdrawals.

For our pension portfolio of £800,000, we would suggest £240,000 placed in the medium-term volatility managed portfolio for income and growth.

Long Term Capital Accumulation Portfolio

With long-term capital growth an objective of a decumulation portfolio, the section that remains untouched for ten years is the long-term capital accumulation component. This section has a sufficiently long investment horizon so it is not

INVESTMENT PORTFOLIOS

affected by the sequence of returns risk and can offer the portfolio the means to build a strong capital buffer.

This portfolio will be made up of a diversified portfolio of growth assets held in leading unit trusts, OEIC's or investment trusts. It is also worth considering holding a proportion of this section in a natural income focused equity portfolio where the dividends are reinvested for ten years prior to being needed as income by the pensioner.

The Crossing Point Investment Management Heritage and Heritage Dividend range of risk related portfolios are specifically designed for high return capital growth or natural income and capital growth.

For our pension portfolio of £800,000 we would suggest £499,400 is placed in the long-term capital accumulation portfolio.

This three-section approach to the overall decumulation portfolio can deliver the required objectives to an income seeking investor. It can protect against the impact of early losses harming the long-term ability to pay income. It can deliver inflation beating returns and can be flexible in terms of income withdrawals and income tax planning. It can also allow an investor the option of having reduced risk early in their retirement while also

having the potential for increased returns through increased risk for later years.

This combined portfolio has the capacity to cover the income withdrawals so that the beneficiaries of the pension fund do not inherit a diminished asset.

Our Retirement Income Investment Solutions.

We offer clients advice and access to a range of platform-based investment solutions that are designed to match the requirements of either capital accumulation, income taking decumulation, or ethical and sustainable investment. Our range of advised solutions are in the form of:

- Our internally researched and managed Estate Capital portfolios.
- Our semi-internally researched and managed Crossing Point portfolios.
- The whole of market access to external investment companies and insurance companies' products.

All of our investment solutions are researched from the whole of the market with each of the successful holdings meeting our due diligence and selection criteria. These criteria include performance, risk control, technical ratios, consistency, ratings, and cost. We will recommend, where appropriate, internal solutions in order to minimise overall costs to investors.

Estate Capital holds FCA investment advisory permissions and therefore these portfolios are managed on an advisory basis. Crossing Point Investment Management holds FCA discretionary management permissions and therefore these portfolios are managed on a discretionary basis.

The Estate Capital Investment Portfolios

The Estate Capital Investment portfolios were established in 2004 and have been continuously managed by Chris Davies. The portfolios comprise of six risk related strategies. The underlying assets are predominantly open-ended investment companies that are selected through thorough analysis of the leading funds in each asset class, geographic region, or industry sector. The strategies are updated, reviewed, and rebalanced every six months when a new edition of the portfolio is researched and published. All portfolios are benchmarked against the most relevant Investment Association (IA) national average.

Alpha Portfolios

Are designed for capital accumulation through the blending of leading active investment funds across asset class, geographic region, and industry sector. There are four risk related Alpha strategies.

Beta Portfolios

Are designed for capital accumulation through the blending of low-cost index-tracking funds that cover

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asset class, geographic region, and industry sector. There are two risk related Beta strategies.

Crossing Point Investment Portfolios

Crossing Point Investment Management is the sister company of Estate Capital. Crossing Point was established out of collaboration between Estate Capital and leading financial academics from Swansea University. The collaboration included unique academic research on trend-following momentum theory. Estate Capital supported this research from 2015 until 2020 which led to successful MSc and PhD submissions. Estate Capital is a major shareholder in Crossing Point, as are investment managers and academics Tomiko Evans and Professor Mike Buckle.

The Crossing Point portfolios were established in 2020 after 5 years of research. The strategies are managed by Tomiko Evans, Mike Buckle and Chris Davies and offer investors some unique and attractive investment portfolios. The differing solutions offered by Crossing Point are an advance and complement the core offering from Estate Capital internal portfolios.

Our aim was to provide effective low-cost discretionary portfolio management to our clients. Crossing Points fees compare favourable to other discretionary managers. Crossing Points charges are 0.25% pa plus VAT.

Each Crossing Point strategy is designed to deliver a specific investor outcome.

Guardian Portfolios

Guardian Portfolios seek to protect capital assets and are particularly aimed at investors taking income from a pension fund. These portfolios move away from traditional buy and hold strategies by using advanced algorithms that monitor and signal when to buy, hold or sell a range of index tracking funds. This allows the portfolio through tactical trading to fully participate in up markets and reduce or remove equity exposure in down markets. The portfolios provide a more smoothed consistent return at lower risk and lower cost. The portfolios are monitored daily but typically updated monthly if trades are signalled. During periods of market stress trades may be much more reactive and frequent. There are five risk related Guardian strategies and all portfolios are benchmarked against the most relevant Investment Association (IA) national average.

Green Path Portfolios

Green Path portfolios are designed for ethically minded investors seeking capital growth. The underlying assets are low-cost passive index tracking funds or exchange traded funds. These funds fully comply with established environmental, ethical, and social (ESG) selection criteria for sustainability. The portfolios are monitored daily but updated, reviewed, and rebalanced at least every six months. There are three risk related Green Path strategies and all portfolios are benchmarked against the most relevant Investment Association (IA) national average.

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Heritage Portfolios

Heritage Portfolios are capital accumulation strategies using the growth potential of closed ended investment companies, otherwise called investment trusts. Investment trusts were first established in the Victorian period and have enjoyed decades, if not centuries, of investment success. Investment trusts often trade at a discount to the underlying value of their holdings. The Heritage portfolios also hold a range of low-cost index tracking funds that provide access to credit markets. The portfolios are monitored daily but updated, reviewed, and rebalanced at least every six months. There are four risk related Heritage strategies and all portfolios are benchmarked against the most relevant Investment Association (IA) national average.

Heritage Dividend Portfolios

Heritage Dividend Portfolios are income focused portfolios providing a natural dividend distribution to investors. The underlying assets are investment trusts with strong dividend cover and income paying pedigree. The Heritage portfolios also

hold a range of low-cost index tracking funds that provide access to credit markets. The portfolios are monitored daily but updated, reviewed, and rebalanced at least every six months. There are two risk related Heritage Dividend strategies and all portfolios are benchmarked against the most relevant Investment Association (IA) national average.

Estate Capital therefore offers a central investment service that combines both the advisory managed portfolios of Estate Capital and the discretionary managed portfolios of our sister company Crossing Point.

If clients have objectives that are not fully met by either the Estate Capital or Crossing Point range of investment portfolios, we will use our independent status to seek solutions from other providers, investment managers, and insurance companies.

*We take responsibility for
people's life savings. A
responsibility we take very
seriously.*

Financial Advice & Wealth Management



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