

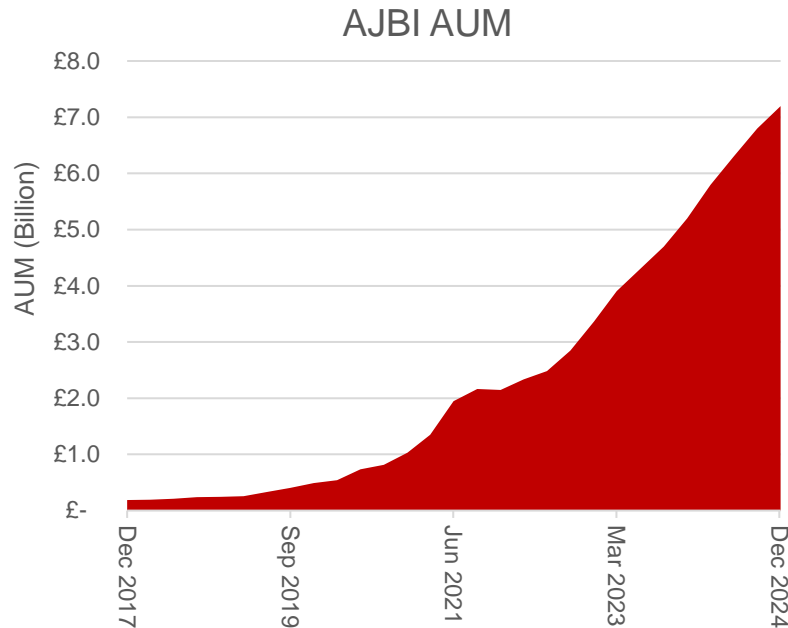
Retirement Income Investing

James Flintoft – Head of Investment Solutions

Retirement income investing

- AJ Bell Investments
- Investment journeys
- Investment Solutions
 - Natural vs higher income
 - Diversification
- Outlook

- Established in 2016
- Assets Under Management (AUM) = **£7.2 billion**
- Funds and MPS available via AJ Bell Investcentre and a variety of third-party platforms
- Money Marketing
 - ✓ 2024 Winner – Best Investment Solutions Provider
- Professional Adviser Awards
 - ✓ 2024 Winner – Best Balanced Fund
- Citywire Investment Performance Awards
 - ✓ 2023 Winner – Best Growth Strategy
 - ✓ 2022 Winner – Best Medium Firm



Risk and income targeted solutions



Growth

I want my investment value to increase over time

6x Growth Funds

6x Passive MPS

6x 'Pactive' MPS

6x Active MPS



Responsible Growth

I want to invest in sustainable companies

1x Responsible
Screened Growth Fund

6x Responsible MPS



Income

I want to receive an income from my investment

2x Income Funds

2x Passive Income MPS

2x Active Income MPS

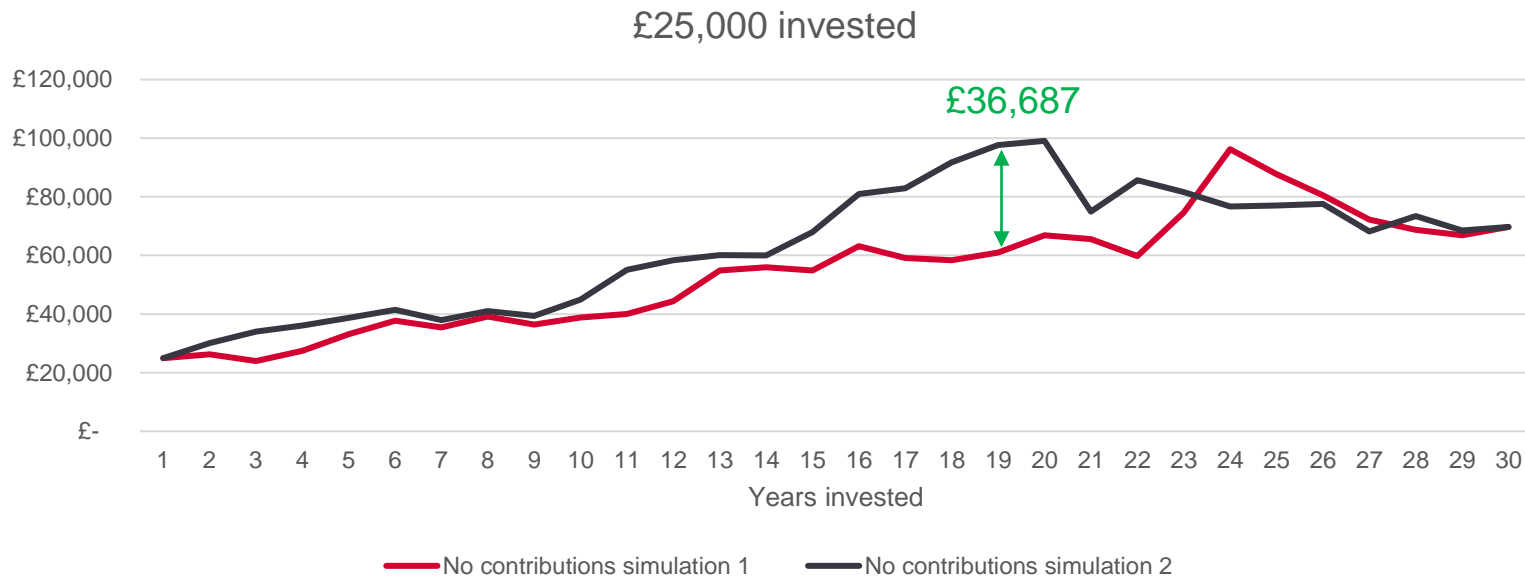
Simple, transparent and low-cost solutions

Investment journeys

Key considerations

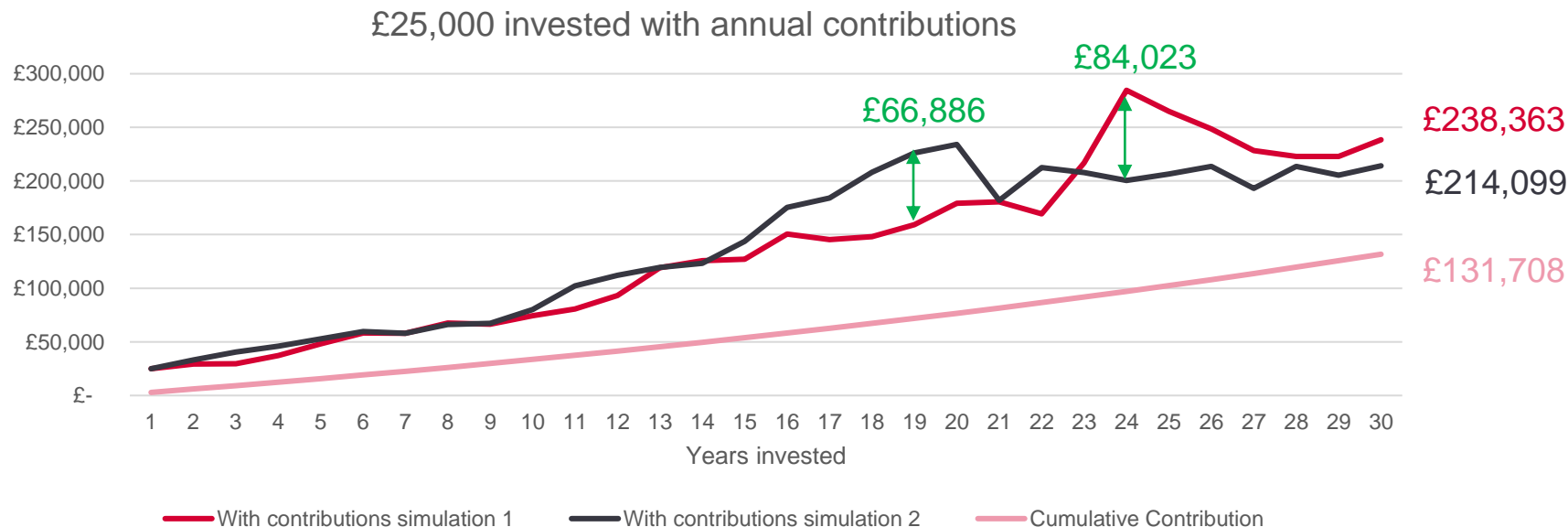
- Capacity for loss
- Attitude to risk
- Sequencing risk
- Longevity risk

Two return series with the same characteristics



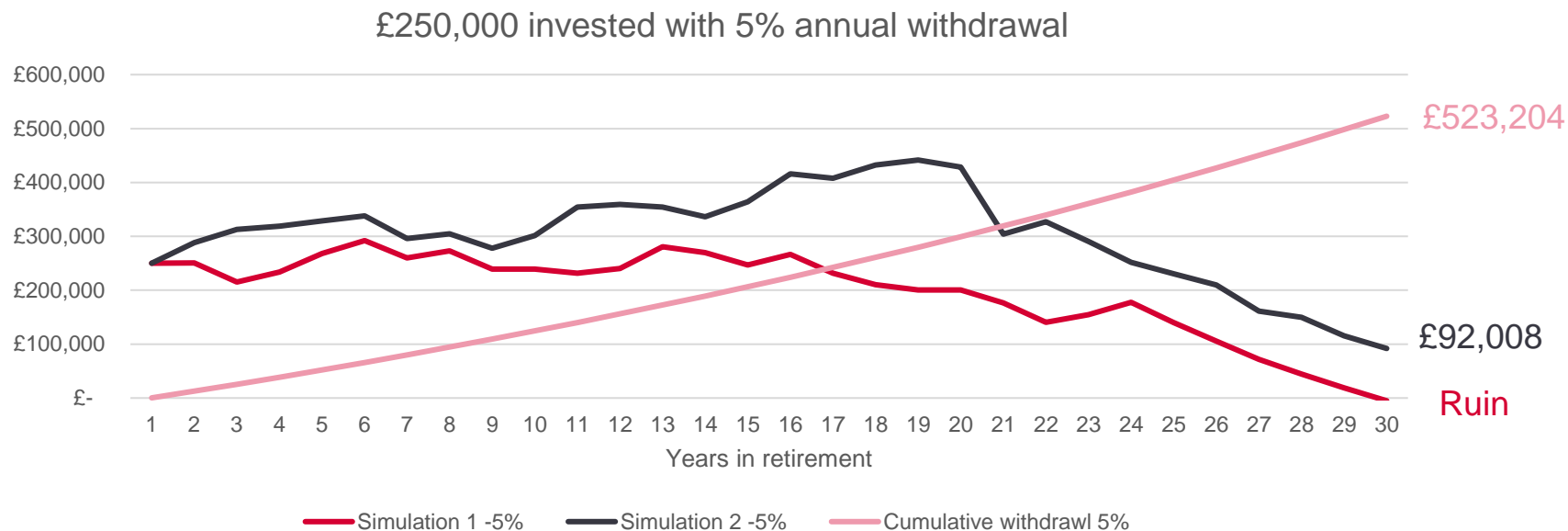
Source: AJ Bell simulation, 5% average return, 11% volatility, same total return

Contributions have an impact



Sequencing and drawdown

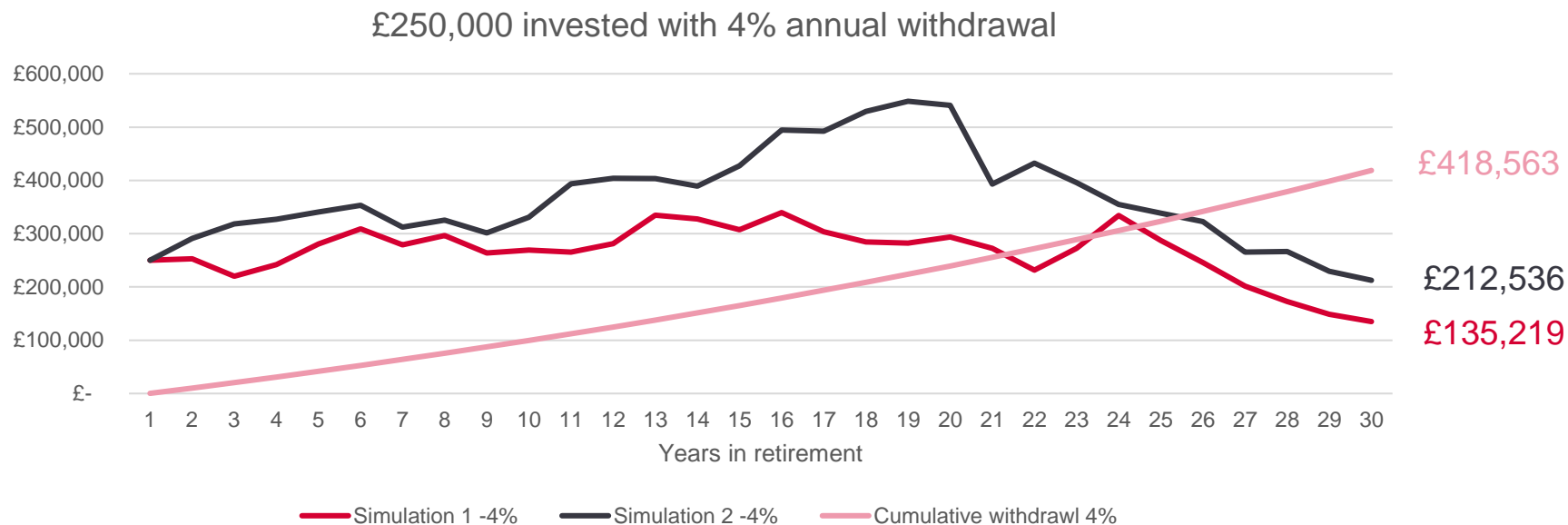
Withdrawal rates matter



Source: AJ Bell simulation, 5% average return, 11% volatility, percentage of initial capital withdrawn annually uplifted for 2.5% inflation

Sequencing and drawdown

Withdrawal rates matter



Only get you so far

£250,000 invested			
After 30 years	Simulation 1	Simulation 2	Total withdrawn
5% withdrawal	Ruin	£92,008	£523,004
4% withdrawal	£135,219	£212,538	£418,583

FCA Retirement Income Advice Thematic Review 2024

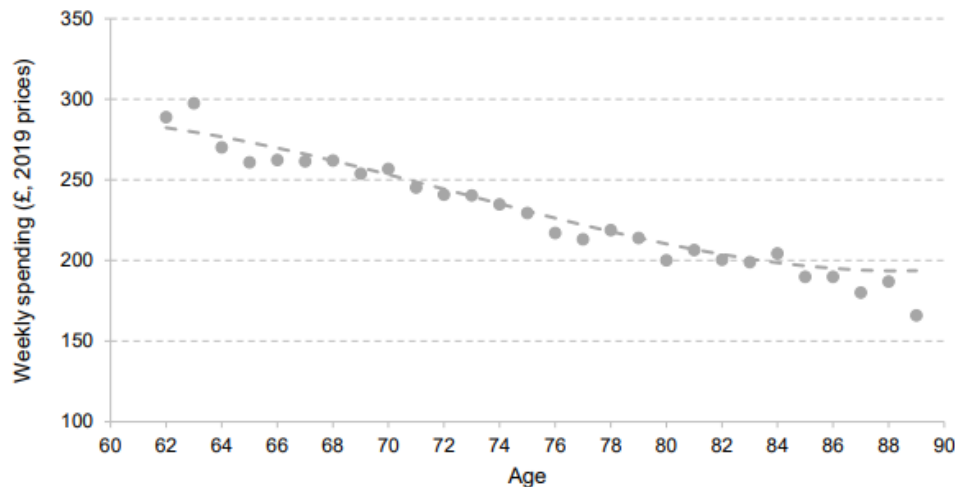
Use of withdrawal guide rates

- 2.7** The data survey indicated firms use a range of different withdrawal guide rates to help calculate sustainable income. While some firms had a standard rate (house view) to use as a guide for income withdrawal advice, others did not and used CFM instead:
- 276 out of 962 firms stated they had a standard rate and of these:
 - 45 firms used 3%
 - 199 firms used 4%
 - 32 firms used 5%
 - 686 firms stated they had no standard rate
 - 810 firms stated they used some form of CFM
 - 111 firms stated they did not use CFM or have a standard rate

CFM = Cash Flow Modelling

Advocate the use of Cash Flow Modelling

- Spending patterns change
- Clients are individuals
- Starting portfolio values vary



Investment Solutions

Different approaches



Accumulation units

Unit encashment
Sell units to fund withdrawals

Unit encashment
Sell units to fund withdrawals

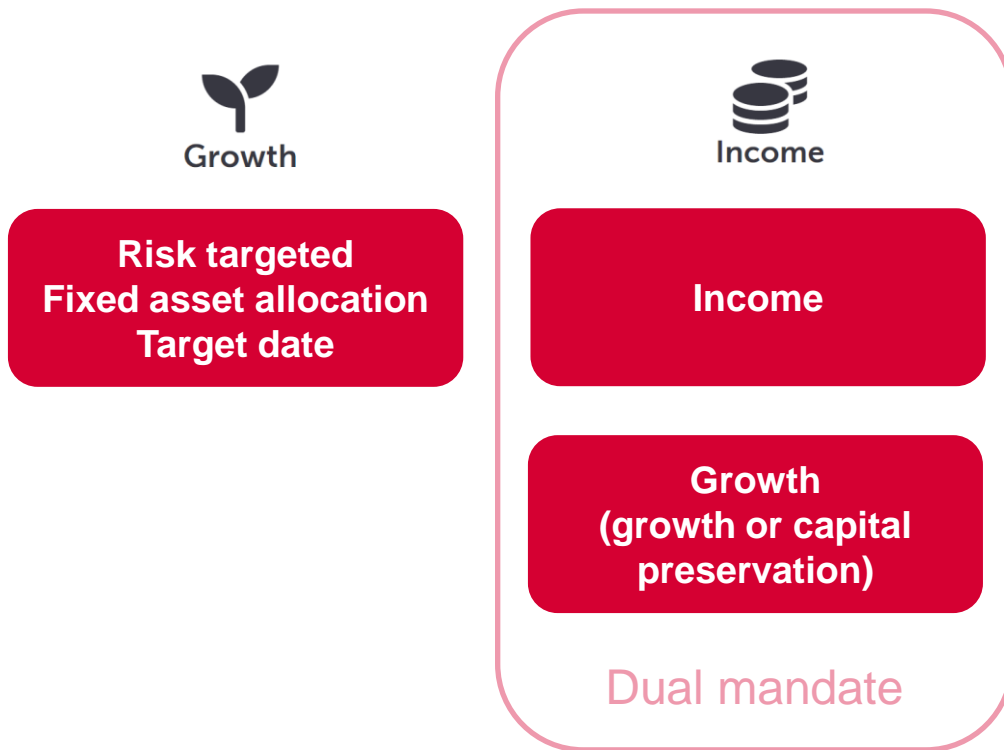
Income units

Natural income
With or without unit sales

Targeted income
Seek income and retain units

Objectives

The differentiator



Different objectives

Lead to different portfolios



Equities

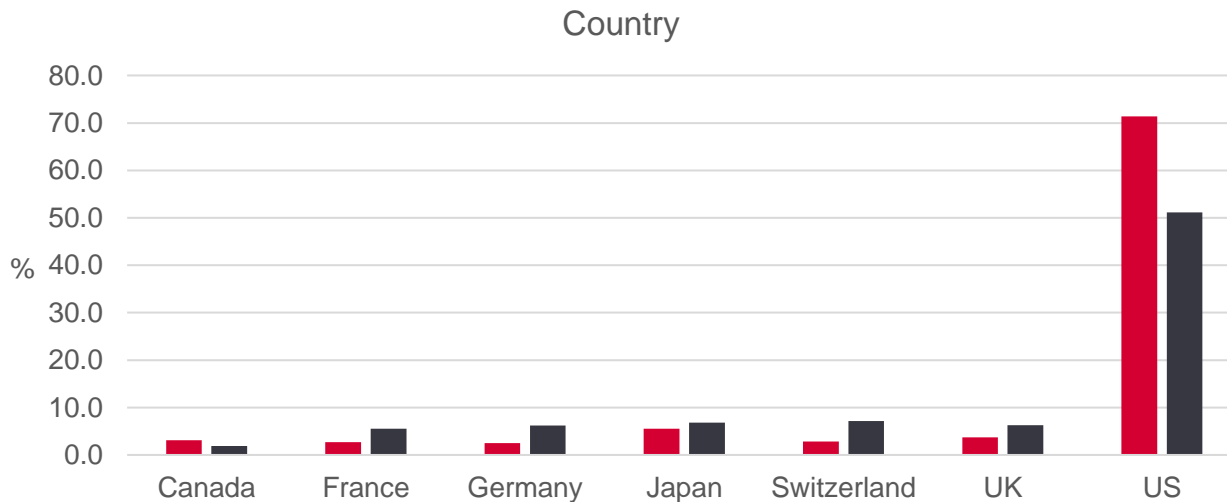
- Country/regional
- Sector
- Factor
 - Style – growth vs value
 - Yield
 - Quality
 - Size
 - Momentum
 - Volatility
 - Liquidity



Natural vs higher income

World case study

	# Holdings	Yield
 iShares MSCI World ETF	1,424	1.4%
 iShares MSCI World Quality Dividend Advanced ETF	229	2.5%

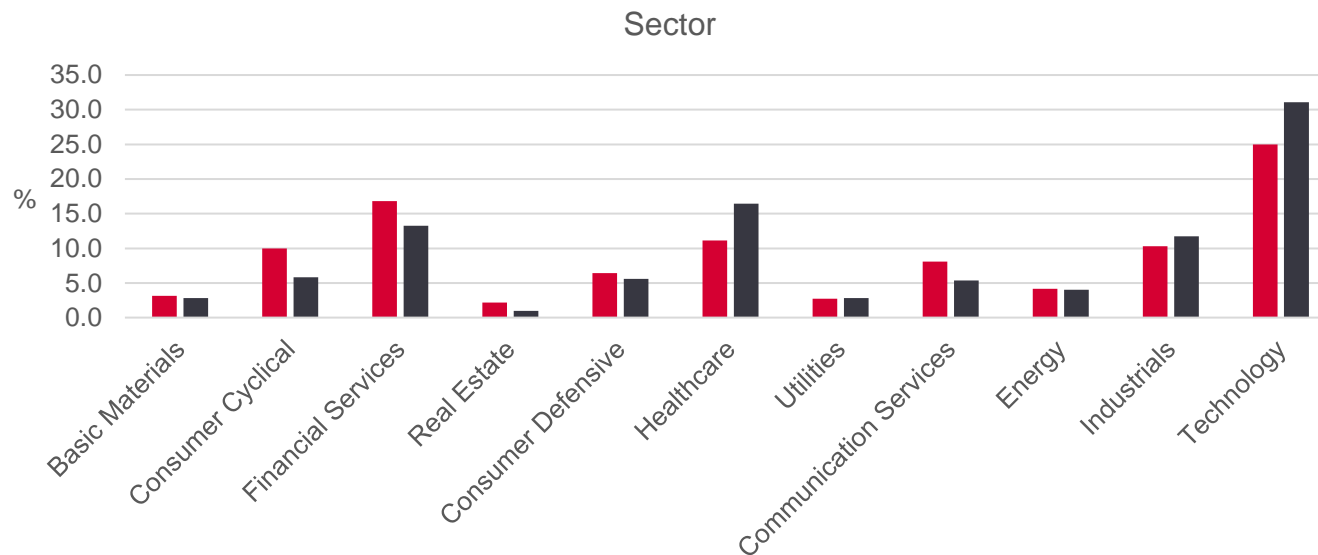


World case study



iShares MSCI World ETF

iShares MSCI World Quality Dividend Advanced ETF



World case study

Top 10	Sector	iShares MSCI World ETF
Apple Inc	Technology	4.91%
NVIDIA Corp	Technology	3.90%
Microsoft Corp	Technology	3.90%
Amazon.com Inc	Consumer Cyclical	2.65%
Meta Platforms Inc	Communication Services	1.85%
Alphabet Inc	Communication Services	2.47%
Tesla Inc	Consumer Cyclical	1.10%
Broadcom Inc	Technology	1.10%
Berkshire Hathaway Inc	Financial Services	1.04%
JPMorgan Chase & Co	Financial Services	1.02%

Top 10	Sector	iShares MSCI World Quality Dividend ETF
Apple Inc	Technology	2.80%
SAP SE	Technology	2.67%
Johnson & Johnson	Healthcare	2.65%
Verizon Communications	Communication Services	2.48%
Cisco Systems Inc	Technology	2.44%
Novartis AG	Healthcare	2.44%
NVIDIA Corp	Technology	2.32%
The Home Depot Inc	Consumer Cyclical	2.31%
Qualcomm Inc	Technology	2.16%
Allianz SE	Financial Services	2.11%

World case study



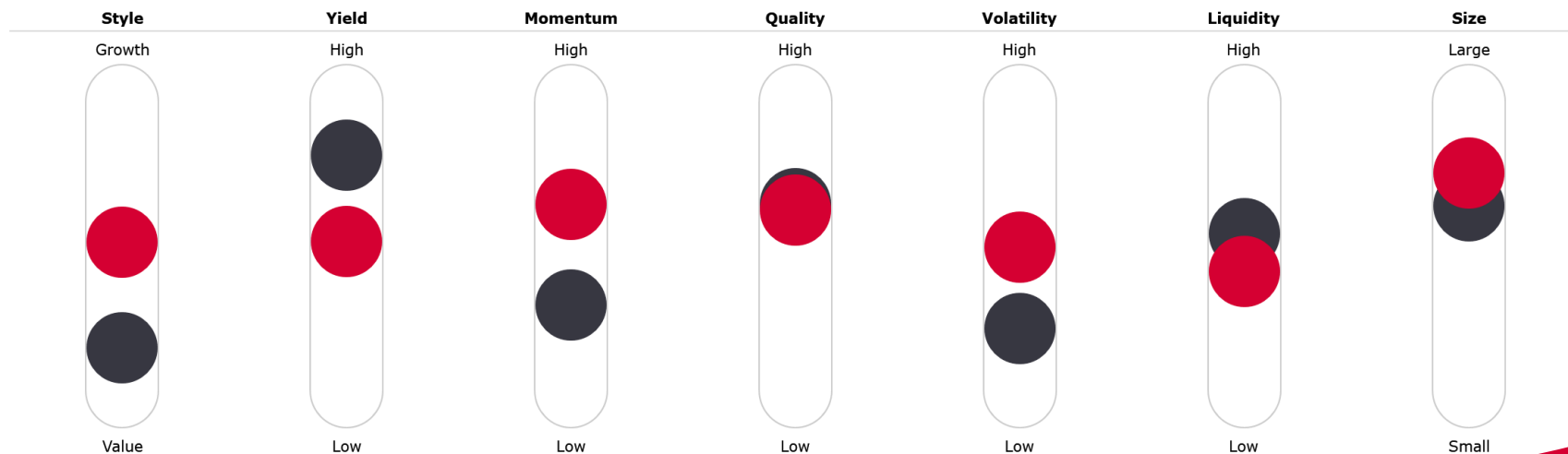
iShares MSCI World ETF



iShares MSCI World Quality Dividend Advanced ETF

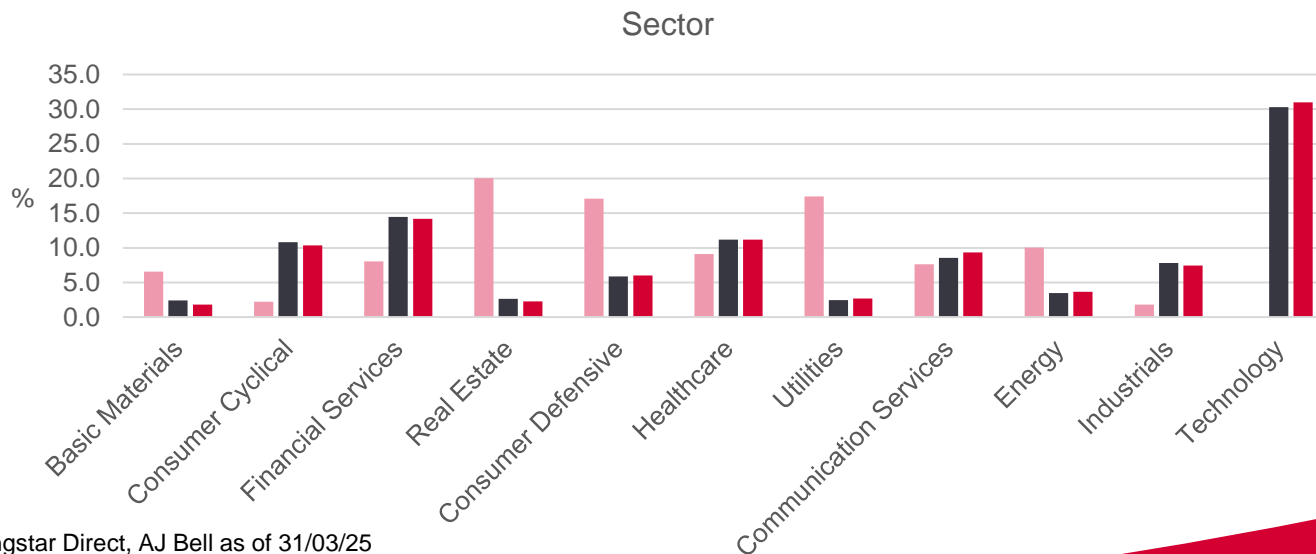
Factor Profile

Portfolio Date: 28/02/2025



US case study

		# Holdings	Yield
	SPDR S&P 500 ETF	503	1.3%
	Fidelity US Quality Income ETF	113	1.9%
	Invesco S&P 500 High Dividend Low Volatility ETF	52	3.6%



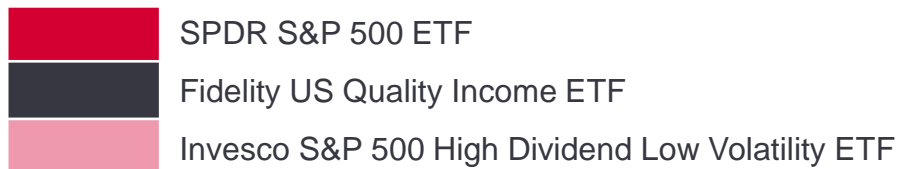
US case study

Top 10	Sector	SPDR S&P 500 ETF
Apple Inc	Technology	7.02%
Microsoft Corp	Technology	5.87%
NVIDIA Corp	Technology	5.58%
Amazon.com Inc	Consumer Cyclical	3.77%
Meta Platforms Inc	Communication Services	2.65%
Berkshire Hathaway	Financial Services	2.05%
Alphabet Inc	Communication Services	3.45%
Broadcom Inc	Technology	1.65%
Tesla Inc	Consumer Cyclical	1.52%
JPMorgan Chase & Co	Financial Services	1.44%

Top 10	Sector	Invesco High Dividend Low Volatility ETF
Crown Castle Inc	Real Estate	3.41%
Altria Group Inc	Consumer Defensive	3.38%
Verizon Communications	Communication Services	3.22%
VICI Properties Inc	Real Estate	2.69%
LyondellBasell Industries	Basic Materials	2.67%
Realty Income Corp	Real Estate	2.63%
Pfizer Inc	Healthcare	2.59%
AT&T Inc	Communication Services	2.54%
Dow Inc	Basic Materials	2.48%
Healthpeak Properties Inc	Real Estate	2.42%

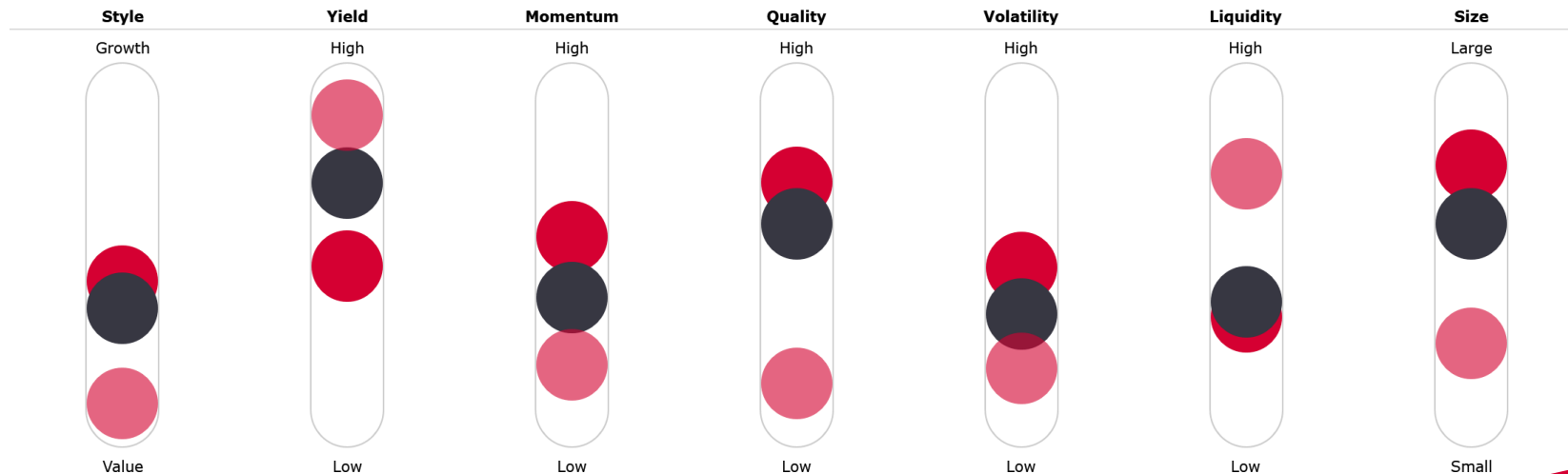
Top 10	Sector	Fidelity US Quality Income ETF
Apple Inc	Technology	6.52%
Microsoft Corp	Technology	5.44%
NVIDIA Corp	Technology	5.19%
Alphabet Inc	Communication Services	3.34%
Meta Platforms Inc	Communication Services	2.64%
JPMorgan Chase & Co	Financial Services	1.81%
Eli Lilly and Co	Healthcare	1.75%
Visa Inc	Financial Services	1.72%
Broadcom Inc	Technology	1.69%
Exxon Mobil Corp	Energy	1.54%

US case study



Factor Profile

Portfolio Date: 28/02/2025



Conclusion

World Quality Dividend

vs World equity

- 229 holdings (from 1,424)
- Some improved sector balance
- Two of the 'Magnificent 7'
- Value bias
- Lower momentum
- Lower volatility

US Quality Income

vs S&P 500

- 113 holdings (from 503)
- Similar sector profile
- Five of the 'Magnificent 7'
- Mild value bias
- Lower momentum
- Lower volatility

US High Dividend Low Volatility

vs S&P 500

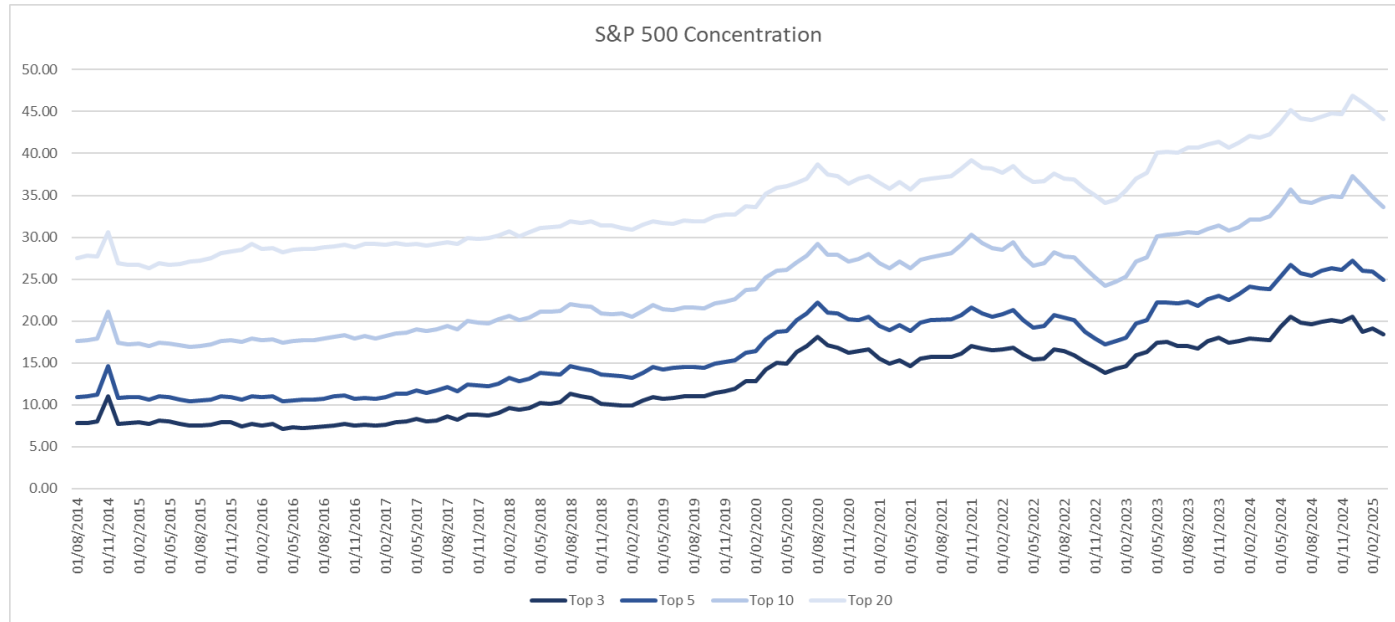
- 52 holdings (from 503)
- Large sector drift
- No 'Magnificent 7'
- Large value bias
- Small cap bias

Conclusion

- Using a growth fund but taking income i.e. income share classes
- Remove the 'tracking error' of high income strategies
- Helps compliment unit encashments
- However, is concentration risk too high in market cap indices?
 - World index 71.4% US
 - 'Magnificent 7' dominates

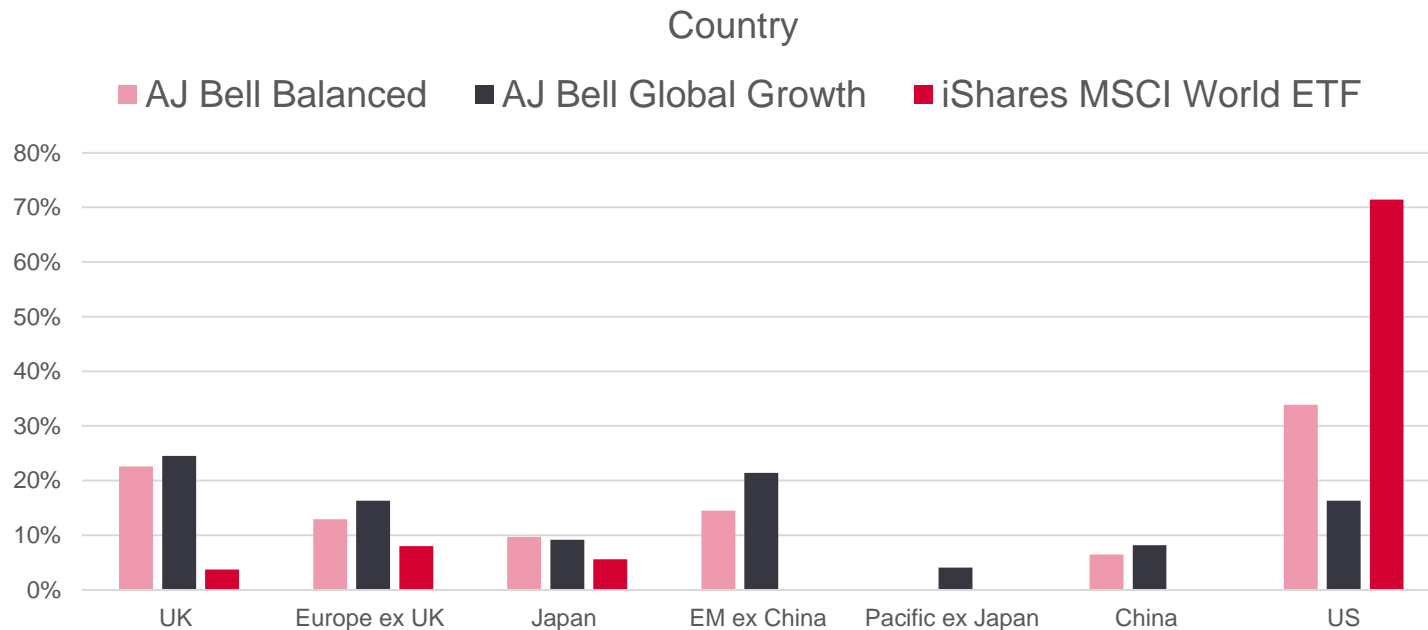
Concentration risk

Well documented in the US



Diversification

Alternatives to US concentration



"In choosing a portfolio, investors should seek broad diversification, Further, they should understand that equities--and corporate bonds also--involve risk; that markets inevitably fluctuate; and their portfolio should be such that they are willing to ride out the bad as well as the good times." ~ **Harry Markowitz**

US uncertainty

Equity dispersion

Growth vs inflation

Opportunity ahead?

Questions

Thank you

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