

Drip Feeding from Growth to Income

Utilising income funds to help
prepare for retirement

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Can income funds help prepare for retirement?

Utilising an income fund with steady targeted dividend payments may help in preparing clients for retirement, while managing risks found at decumulation.

With an increasing focus on retirement income planning strategies following the FCA's review, finding the right strategies for clients' income needs and wrapping them into your investment proposition has been key for many firms. There is a commonly held view that accumulation and decumulation strategies must be separate, using accumulation for maximising growth (within the client's risk boundaries) and decumulation for making sure their money lasts the client's lifespan. Examples of this approach include investing in a well-diversified growth fund and, when the client retires, opting for an annuity, income fund, or lowering risk and selling units to generate income. These strategies share one characteristic – they typically change abruptly at the point of retirement.

However, outcomes for clients often depend on market conditions at the moment this switch occurs – a form of 'timing the market.' The phrase: 'It's time in the market and not timing the market which counts' is very apt here. In a falling market, portfolio values may decline sharply, reducing available income, while annuity rates may fluctuate significantly.

We looked at what would happen if instead of timing the change to decumulation, investors opted for the 'pound cost averaging' style of switching from accumulation to decumulation. Instead of a one-off switch, the investor's pot slowly shifts over time from pure accumulation to decumulation.

Drip feeding from growth to income

In its simplest form, the strategy is straightforward: start with a pure growth strategy and, as the investor gets closer to retirement, 'drip feed' a percentage of their holdings from growth into income, specifically an income fund with the aim of providing steady income on a regular basis. There are currently several funds within the IA 20 - 60 sector that do this. As you increase your allocation each year, you are also increasing the number of units you own. The regular dividend payments received from the income fund, are then reinvested across the entire portfolio, enhancing pound cost averaging, as well as further increasing the number of units held in the income fund to enhance payments as the investor gets closer to retirement.

Pound cost averaging benefits the client and also provides a projection on expected income payments they should receive when they reach retirement. This helps manage the risks of market timing, the uncertainty of income projection and brings the ability to have a deeper conversation on retirement income expectations with clients. There is the added benefit of potentially having the client's entire capital available throughout retirement. It can also benefit those clients who have not yet decided when they want to retire.

Over the new few pages, we compare two options at retirement: either switching back into a lower-risk drawdown portfolio (selling off units to provide an income) or providing enough units in the income fund to sustain the client for their needs without having to sell down.

Summary

Drip feeding into an income fund during accumulation:

- Increased the chance of money lasting in decumulation for those who sold out and moved to a lower-risk fund at retirement
- Provided a level of income from monthly dividend payments which covered what would have been taken from a drawdown portfolio without having to sell off units, reducing decumulation risks
- Provided a future projection of income based on units held which could be discussed with the client annually to determine if it met their future income expectations

Case Study: Preparing for retirement while in accumulation



- Martin is 42-year-old medium risk client who currently hopes to retire at the age of 67 when his state pension starts.
- He has a salary of £75,000 which has historically risen each year by inflation.
- He currently has £75,000 in his retirement account.
- By utilising his employer's pension scheme, he is able to invest a total of 15% of his income each month (9% initial contribution from the employer and then matching like for like up to 15%, costing Martin only 3% of his income each month).
- His mortgage is on track to be paid off by 65 and he has agreed with his adviser that an income of £39,000 (what was left after his mortgage payments) will be enough for him at retirement.
- He and his adviser agree a long-term inflation expectation of 2% which would increase his income need to £63,984 in 25 years.

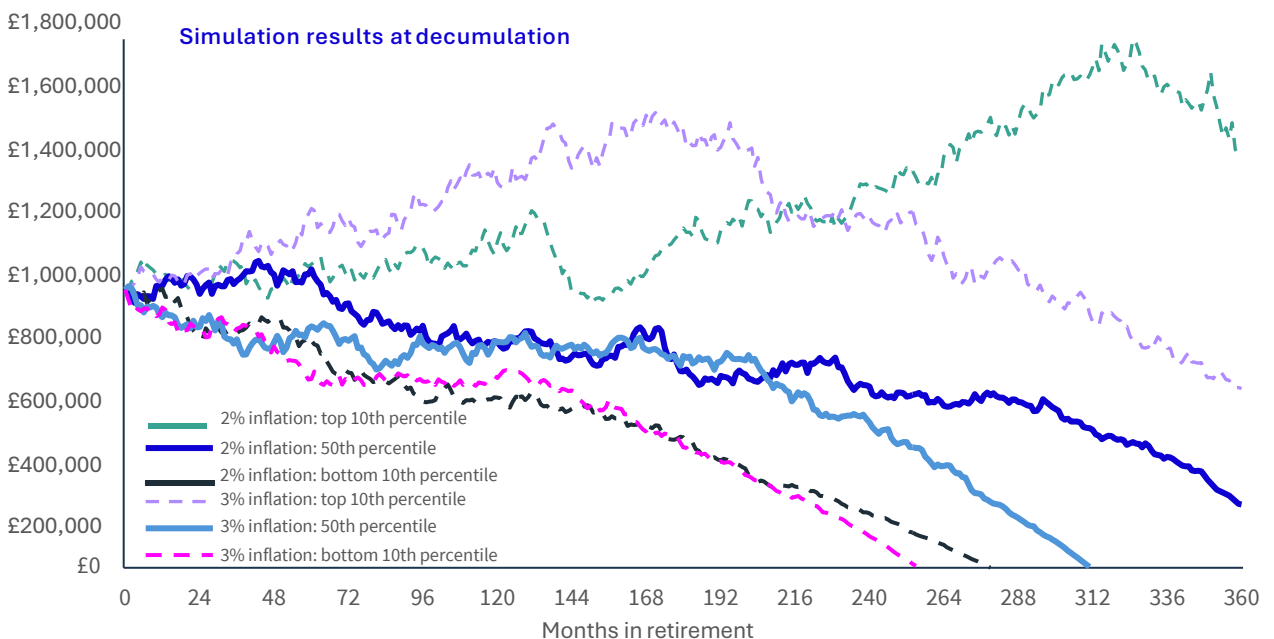
Option 1: Invest into a growth fund and at retirement move into a lower-risk fund and cancel off units to supply an income

- As a medium-risk investor, Martin's investment was allocated to the 40-85 sector, which achieved average returns over the next 25 years
- He continued monthly contributions, which grew each year as his salary grew (at an inflation rate of 2% annually). By the end of the 25 years, his pot grew to approximately £950,000. This was then transferred into a lower-risk investment within the 20-60 sector
- He became eligible to draw his state pension, now valued at £410.09 per week (based on an annual increase of 2.5% over the 25 years)
- After state pension, he needed a further £42,658.83 annually, which would grow with inflation throughout his retirement

Based on our simulation, Martin's retirement pot had a 63% chance of lasting over the next 30 years, with a 50% chance of having circa £200,000 left in his pension on death. Had inflation been just 1% higher at 3% instead of 2% at retirement (with the state pension increasing annually by 3%), his retirement pot would've had just a 25% chance of lasting over the next 30 years. This strategy also does not take into consideration decumulation risks, with Martin susceptible to sequencing risk and pound cost ravaging when actively selling off units to provide an income.

Assumptions Used	
Initial Investment	£75,000
Recurring monthly investment	£937.50
Inflation	2%
Accumulation	
Average return*	6.38%
Average volatility*	9.68%
Time frame	25 years
Decumulation	
Average Return#	4.63%
Average Volatility#	6.98%
Time frame	30 years
Income at retirement	£63,984

* Assumptions were based on the average return and volatility of the IA Mixed 20-60 sector and the Mixed 40-85 sector over a 20-year period



Option 2 : Invest into a growth fund and, when he is 20 years from retirement, allocate 5% of his pot into a 4% yielding income fund, increasing by 5% each year.

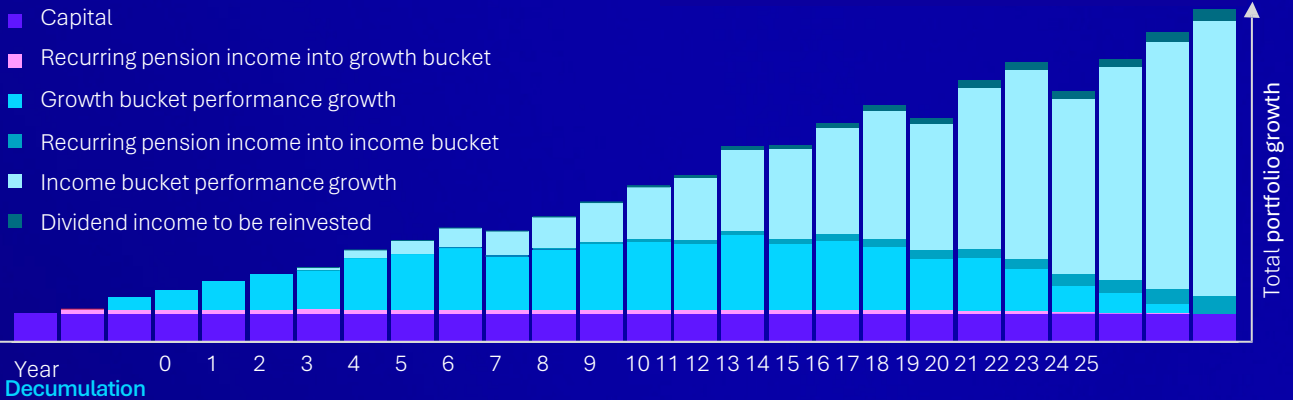
Accumulation

As a medium risk investor, Martin’s investment ended up in the 40- 85 sector which achieved average returns over the next 25 years. He continued to invest monthly which grew each year as his salary grew (at an inflation rate of 2% annually). As he started to invest in the income fund, the steady level of dividends paid resulted in his portfolio being less affected by shorter-term market movements as the payments remained the same each year.

Even though he was invested in a lower-returning fund, his portfolio was able to grow on average to £1,057,957, 10% more than investing in just a growth fund.

Assumptions Used

Initial Investment	£75,000
Recurring monthly investment	£937.50
Inflation	2%
Accumulation (SAME AS OPTION 1)	
Accumulation (INCOME TO DRIP FEED)	
Average price return	2.00%
Average volatility	7.97%
Yield (reviewed annually)	4.00%
Decumulation (SAME AS OPTION 1)	

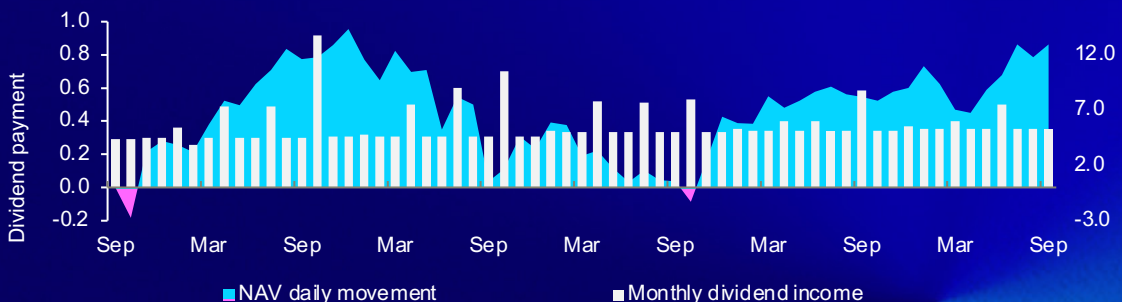


a) At retirement invest in a lower risk profile fund and draw down units for income

- At retirement, Martin’s investment was worth £1,062,847. This was transferred into a lower-risk investment within the 20-60 sector.
- His state pension kicked in, now valued at £410.09 per week (based on an annual increase of 2.5% over the 25 years)
- After state pension, he needed a further £42,658.83 annually, which would grow with inflation throughout his retirement. Based on our simulation, his retirement pot had an 81% chance of lasting over the next 30 years, with a 50% chance of having £610,268 left in his pension on death. Had inflation been 3% instead of 2% at retirement (with the state pension increasing annually by 3%), his retirement pot would have had a 65% chance of lasting over the next 30 years, 21% higher than investing in growth alone.

b) At retirement stay invested in the income fund and use the dividends as income

- As Martin had been moving into an income fund over the last 20 years, each year at his review, he was shown how much natural income would be achieved from the number of units he held. At retirement, he had amassed over 700,000 units, paying £42,379 at year one of retirement. There would be no need to adjust his investment portfolio or have any delay in receiving his first payment. This income, coupled with the potential of not having to touch his underlying capital (mitigating sequencing risk by not having to sell down units), offered another alternative to Martin at retirement. By selecting an income fund with a targeted steady income, it allowed Martin greater confidence that his income would be more predictable, even when markets went down (per the example chart below).



For illustration purposes only

Investment strategy: the cash buffer approach

Investment approach

The cash buffer strategy involves keeping a portion of your retirement portfolio equal to several years' worth of living expenses in liquid, cash-like instruments (such as high-yield savings accounts, money market funds, or short-term bond funds). The majority of the assets are invested in higher-growth assets (e.g. equities, bonds or diversified funds) to provide long-term growth. This approach aims to provide immediate liquidity to cover income needs, allowing the bulk of the portfolio to grow over time while mitigating immediate pound cost ravaging.

- 1 Diversification of income sources**

Ensure the fund generates income from multiple asset classes – such as high-quality dividend equities, investment-grade bonds, real estate (via REITs), and even alternative income sources. This mix can help smooth out fluctuations because a downturn in one area may be offset by stable or rising income in another.
- 2 Targeted income payments**

Look for funds that have a consistent, monthly distribution record. Stable and predictable income is key for budgeting in retirement. Funds that use smoothing techniques or employ a 'stable value' strategy for the fixed-income portion can be especially attractive.
- 3 Yield sustainability**

Don't just look at the current yield; assess whether the income level is sustainable over the long term. Examine historical yield stability and consider the quality of the income-producing assets (e.g. consistent dividend-paying stocks, bonds with strong credit ratings). Also, factor in the impact of fees and whether the yield is quoted on a net basis.
- 4 Cash buffer considerations**

Check whether the fund maintains a small allocation to cash or liquid assets. This buffer can help cover periodic fees, market volatility, and ensure that there's no need to liquidate income-generating assets during a downturn.
- 5 Risk management for decumulation**

Since decumulation focuses on preserving the portfolio while funding withdrawals, assess if the fund's strategy explicitly addresses sequencing risk and volatility drag. Look for funds that actively manage risk (for example, through rebalancing or smoothing techniques) to mitigate the effect of market downturns on income stability.

Advantages:

- Stable cash flow without asset sales: income is generated naturally from the portfolio's holdings, reducing the need to sell investments during market downturns (mitigating sequencing risk).
- Diversification of income sources: a multi-asset mix means that income isn't solely dependent on one type of asset. If bond yields fall, dividend-paying equities or real estate might compensate.
- Predictable monthly payments: receiving income on a monthly basis can simplify budgeting and help with planning living expenses.
- Capital preservation: by relying on natural income rather than forced withdrawals (i.e. selling assets), the portfolio's principal can be preserved longer.

Disadvantages:

- Yield sensitivity to market conditions: income levels depend on the performance of the underlying assets. In low-yield environments (such as when interest rates are very low), monthly distributions might not be sufficient to cover all expenses.
- Potential for lower growth: a portfolio designed primarily for income may sacrifice some capital appreciation. This might be a disadvantage if you need both income and growth to combat inflation over a long retirement.
- Complexity and management: multi-asset funds often involve active management to maintain their income profile. This can result in higher fees compared to simpler, passive investment strategies.
- Risk of income variability: although designed for natural income, distributions can fluctuate due to changes in dividends, interest rates, or rental incomes, requiring ongoing monitoring.

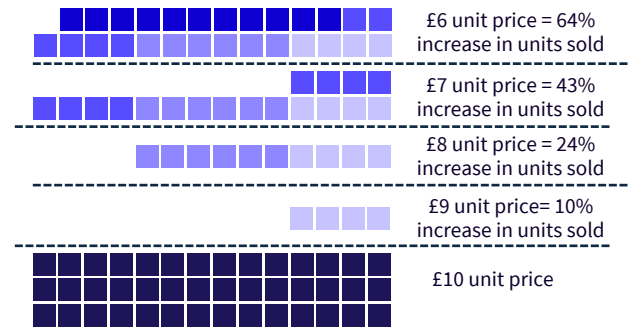
Planning for retirement: new risk considerations

Unlike the growth stage, retirement introduces new risks to clients who are actively taking an income. Understanding these risks allows for creating more sustainable income solutions for clients

Pound cost ravaging: taking a double hit to your fund

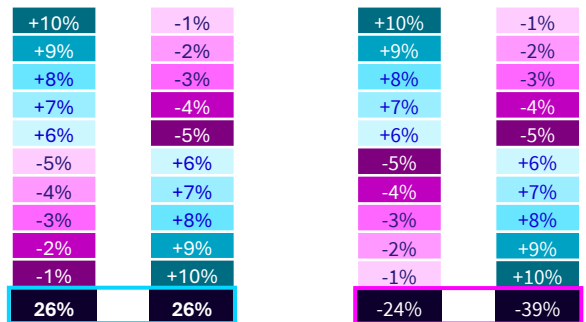
This occurs if you withdraw an ongoing income from your investment while markets are falling. Think of it as your client's portfolio taking a double hit, one from the market, one from the income. As the investment falls, if the income required stays the same, the overall percentage you need to take, and therefore the number of units you need to sell, increases. This 'ravages' your portfolio – in the end, it drains your capital faster than if market prices are constant. It's the exact opposite of the benefits that are obtained through pound cost averaging.

Increase in number of units sold when markets fall



Sequencing risk: the need to be the best economist

Sequencing risk is the risk that the order of your investment returns matters – one that starts off badly in retirement (such as having a series of years where you suffer losses) will hurt your portfolio more than if the identical losses are experienced further along. At accumulation, the sequence of returns doesn't matter as the end result is the same. However, withdrawing during down market years locks in losses and reduces the chances to recover during rebounding markets.



Longevity risk: living longer is costing more

Longevity risk is the likelihood that you will live longer than expected. If your retirement savings are based on an assumed life expectancy but you end up needing to use the money for many more years, then you will deplete your savings. Plainly speaking, it's the fear of outliving your savings.

*Source: [ons.gov.uk](https://www.ons.gov.uk) life expectancy calculator

Man aged 67: average life expectancy of 85 years*

Chance of a man aged 67 years living to...

92 years	96 years	100 years
1 in 4 chance	1 in 10 chance	2.6% chance

Woman aged 67: average life expectancy of 88 years*

Chance of a woman aged 67 years living to...

94 years	98 years	100 years
1 in 4 chance	1 in 10 chance	5.5% chance

Other risks to consider:

Inflation rate risk: the possibility that higher prices will decrease the purchasing power of your money. Even if the nominal value of your portfolio does not change, inflation means that you will be able to buy less in the future.

Market risk: the total risk of losses due to the volatility of the stock market and the bond market. Drastic market falls can decrease the value of your portfolio significantly.

Liquidity risk: the possibility that you will be unable to liquidate investments promptly or at a fair value if you need to raise funds to meet routine income or unexpected emergency situations.

Tax risk: the chances that changes to taxation laws or unexpected taxation duties will decrease the net income that flows to you from your retirement savings.

Behavioural risk: the risk of emotionally-driven investment choices like selling during a market downturn that can be harmful to your investment strategy.

Concentration risk: the possibility that the bulk of your portfolio will be concentrated within one asset or asset class, which can lead to higher losses if the investment does not perform well.

The WS Canlife Diversified Monthly Income Fund

The WS Canlife Diversified Monthly Income Fund offers a straightforward and cost-effective solution to clients looking for greater confidence in how much income their investment pays on a monthly basis.

The fund offers you simplicity, significant time savings and – crucially – the reassurance that the fund managers will focus on achieving a regular income without sacrificing the potential for capital gains over time.

The Fund aims to provide a monthly income from securities that generate dividends, coupon payments and rental income, together with potential for long-term capital growth (at least five years).

Targeting steady income with monthly dividends

- Aims to deliver a yield of 4% or more annually
- Aims for a steady monthly income payment
- Potential for quarterly and annual enhanced income
- Potential for real growth in dividends and capital

Directly invested multi-asset allocation

- Directly invested
- Focus on businesses with strong revenue generation
- Multi-asset and multi-region exposure
- Risk management implemented through top-down asset allocation and bottom-up security analysis

Total Return Since Inception

Fund: **47.0%** Benchmark: **29.0%**



Launch date	28/06/2019
Fund manager	Craig Rippe & Jordan Sriharan
Fund size	£94.1m (as at 31/12/25)
Number of holdings	135
Legal structure	OEIC
Dealing frequency	Daily (midday)
Dividend frequency	Monthly
Base currency	GBP
Benchmark	IA Mixed Investment 20-60% Shares
ISIN	GB00BK5BDK84 Acc GB00BK5BDD18 Inc
OCF	0.67% (C Acc & C Inc)

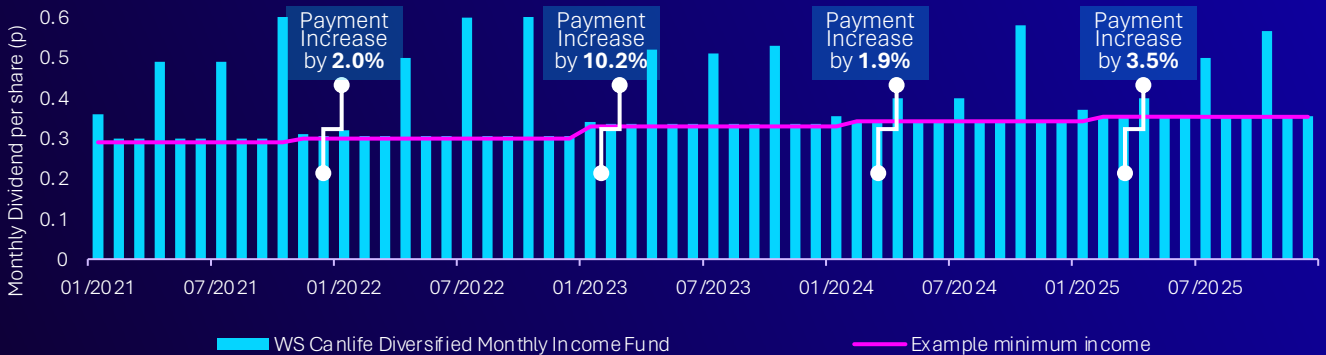
Quartile Ranking

1 yr 3 yrs 3yrs
2nd **2nd** **1st**

Within the IA Mixed Investment 20-60 Shares Sector

Discrete Annual Performance to 31 December (%)	01.01.2025 – 31.12.2025	01.01.2024 – 31.12.2024	01.01.2023 – 31.12.2023	01.01.2022 – 31.12.2022	01.01.2021 – 31.12.2021
WS Canlife Diversified Monthly Inc C Acc	11.1	7.0	7.7	(5.4)	14.6
IA Mixed Investment 20-60% Shares	10.2	6.2	6.9	(9.7)	6.3

Historical Monthly Dividend Payments



Past performance is not a guide to future performance. Income from investments may fluctuate. Currency fluctuations can also affect performance. Performance: Morningstar, bid to bid, with income re-invested for C share class. All data expressed as at 31/12/2025. Fund returns based on accumulation units.

KEYRIDGE

ASSET MANAGEMENT

Important information

An investment should not be contemplated until the risks of investment and tax implications have been considered fully.

Past performance is not a guide to future performance. The value of investments may fall as well as rise and investors may not get back the amount invested. Income from investments may fluctuate. Currency fluctuations can also affect performance.



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The WS Canlife Diversified Monthly Income Fund may invest in property funds that may be illiquid and subject to wide price spreads, both of which can impact the value of the funds. The value of the property is based on the opinion of a valuer and is therefore subjective.

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