

Investment Choices for Clients in Decumulation

Looking at different strategies based on clients' needs

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This guide presents a comprehensive multi-strategy approach to managing decumulation risks in retirement. Designed specifically for UK financial advisers, it outlines how to balance guaranteed income with flexible, market-driven growth to meet clients' essential and discretionary needs throughout retirement.

A single decumulation strategy often falls short of addressing the myriad risks that can erode retirement savings over time

In retirement, delivering clear, transparent, and value-driven advice is essential to empower clients to safeguard their income and enjoy a secure, fulfilling future. Our role is to design products for use in decumulation strategies that preserve capital and provide value through all stages of retirement.

In today's complex and volatile market environment, a single decumulation strategy often falls short of addressing the myriad risks that can erode retirement savings over time.

Here, we explore different strategies – from constant withdrawal approaches and natural income methods to annuity-based solutions and dynamic bucket-style allocations – and how these can contribute to a diversified decumulation framework that aligns with the FCA's regulatory standards.

We consider how, by adopting a multi-strategy framework, advisers can tailor retirement income solutions to different phases of the retirement cycle, providing practical steps and real-world examples, to help ensure a sustainable and secure retirement.

At a glance

- Understand key decumulation risks: sequencing, longevity, market volatility, and inflation
- Explore different investment strategies and see real-life examples of where each strategy can be applied to enhance client outcomes
- Discover how to build a resilient retirement plan that adapts to market conditions and individual circumstances
- Find out how Keyridge Asset Management's solutions can form part of this plan

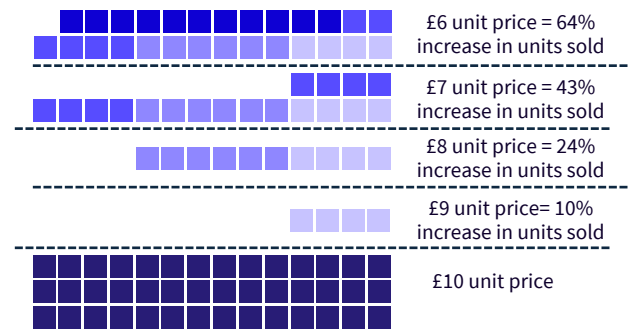
Planning for retirement: new risk considerations

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

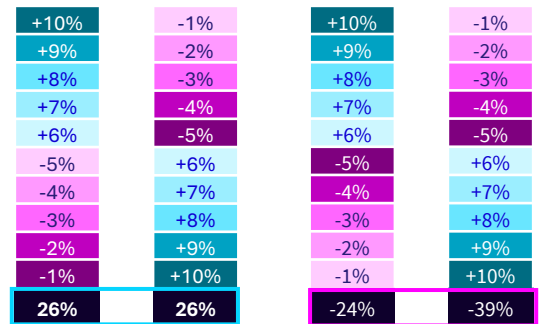
This occurs if you withdraw an ongoing income from your investment while markets are falling. Think of it as your client's portfolio taking a double hit, one from the market, one from the income. As the investment falls, if the income required stays the same, the overall percentage you need to take, 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.

Investment strategies: exploring the range of options

There is a wide variety of investment strategies that can be considered when defining a retirement plan, with varying levels of flexibility, complexity and certainty of income

1. The sustainable withdrawal rate

Sustainable withdrawal strategies include constant dollar, constant percentage, and floor and ceiling approaches.

2. The cash buffer

Keeping a portion of your retirement portfolio in liquid, cash-like instruments (such as high-yield savings accounts, money market funds, or short-term bond funds).

3. Natural income

Designed to generate a steady stream of income directly from their underlying assets – such as interest from bonds, dividends from equities, rental income from real estate, and sometimes income from alternative assets. They distribute that income on a regular (monthly) basis without the need to sell assets to generate cash, mitigating pound cost ravaging.

4. Annuity, income and growth

Blending an annuity with other investments to create an income/growth portfolio. This can offer the best of both worlds, especially for those clients needing greater certainty of income but still requiring some flexibility.

5. Pot investing ('bucket-style')

Pot investing, or 'bucket-style' approach, uses a multi-fund strategy where each fund has a distinct risk profile. The idea is to split your retirement portfolio into three equal parts – one low risk (say risk profile 3), one moderate (risk profile 5), and one higher risk (risk profile 7).

Each strategy has unique strengths and weaknesses depending on the retiree's stage and personal circumstances



Investment strategy: the sustainable withdrawal rate

Also known as the '4% rule', this is arguably one of the most well-known withdrawal strategies, despite the question of whether the 4% figure can still be considered 'sustainable'

The 4% rule was introduced to the market in the early 1990s and was considered a good 'rule of thumb' for those looking to withdraw a sustainable amount of money at retirement. The initial research was based on historical US market and bond returns between 1926 and 1976. Since then, there have been differing implementations added throughout the years to improve on the standard strategy. A few are highlighted below:

Investment approach (the constant 'dollar' approach)

You begin by withdrawing a fixed sterling amount in your first year of retirement, in this case taking 4% of the investment pot. In the following years, you adjust that amount only for inflation to maintain the same purchasing power.

Advantages:

- Mitigates inflation uncertainty; by increasing the fixed withdrawals each year with inflation, it preserves purchasing power, which helps manage inflation risk.
- Predictability: provides a steady, fixed income (adjusted for inflation) that makes budgeting easier.
- Simplicity: it's straightforward – withdraw the same amount each year.

Example:

Initial portfolio: £1,000,000

Withdrawal rate: 4% of initial portfolio = £40,000 in year 1

Inflation adjustment: if inflation is 2% annually, then:

Year 2 withdrawal = $\$40,000 \times 1.02 = \$40,800$

Year 3 withdrawal = $\$40,800 \times 1.02 \approx \$41,616$... and so on

Disadvantages:

- Market insensitivity: during market downturns, the fixed withdrawal might force you to sell more units at low prices (pound cost ravaging), accelerating portfolio depletion.
- Rigid income: it does not capture extra growth in good years, meaning you might 'miss out' on additional income when markets perform well.

Investment approach (the constant percentage approach)

Instead of a fixed 'dollar' amount, and to mitigate pound cost ravaging, you withdraw a fixed percentage of your portfolio's current value each year. This means the withdrawal amount fluctuates with market performance – rising when your portfolio grows and falling when it shrinks.

Advantages:

- Aligns withdrawals with portfolio value: since withdrawals are a fixed percentage of your current portfolio, they automatically adjust when the portfolio declines. This reduces the chance of depleting your portfolio during downturns (mitigating sequencing risk).
- Adaptive to market conditions: in good market years, withdrawals increase, and in bad years, they decrease. This flexibility helps maintain the sustainability of your portfolio over the long run, addressing both market risk and longevity risk.
- Sustainability: by always taking a percentage of the current value, you naturally scale your income to what the portfolio can support.

Example:

Initial Portfolio: £1,000,000 | **Withdrawal Percentage:** 4% each year

Scenario A: Year 1: 4% of £1,000,000 = £40,000

Year 2: The portfolio grew to £1,100,000 at the end of year 1, then year 2 withdrawal = 4% of £1,100,000 = £44,000

Scenario B:

Year 1: 4% of £1,000,000 = £40,000

Year 2: The portfolio dropped to £900,000 at the end of year 1, then year 2 withdrawal = 4% of £900,000 = £36,000

Disadvantages:

- Income volatility: your annual income can vary considerably, making it harder to plan a fixed lifestyle budget.
- Uncertainty: in strong bull markets, withdrawals may increase significantly, which could become problematic if followed by a market downturn.

Investment strategy: the sustainable withdrawal rate

Investment Approach (Floor and Ceiling Approach)

This method combines elements of both fixed and variable withdrawals. You set a minimum (floor) and maximum (ceiling) withdrawal amount which is agreed at the beginning with the client. Each year, you calculate the withdrawal (often using a constant percentage approach) but then 'cap' the result so that it never falls below the floor or rises above the ceiling. Whereas this introduces some uncertainty in income, similar to the constant percentage amount, the agreed-upon floor and ceiling amount still provides greater certainty to the income your clients will receive (similar to the constant 'dollar' approach).

Example:

Initial Portfolio: £1,000,000

Desired Withdrawal Base: 4% of initial portfolio = £40,000

Set Floor and Ceiling:

Floor = -5%

Ceiling = +10%

Scenario A (a bad market):

Year 1: 4% of £1,000,000 = £40,000

Year 2:

If the portfolio drops to £960,000 at the end of year one:

4% of £960,000 = £38,400

Floor = Year 1 income (£40,000) * (1 - 5%) = £38,000

As £38,400 is more than the floor, £38,400 is taken

Year 3:

Floor = Year 2 income (£38,400) * (1 - 5%) = £36,480

If the portfolio drops to £900,000 at the end of year one:

4% of £900,000 = £36,000

Floor = Year 1 income (£40,000) * (1 - 5%) = £38,000

As £36,000 is less than the floor, £38,000 is taken

Year 3:

Floor = Year 2 income (£38,000) * (1 - 5%) = £36,100

Scenario B (a good market):

Year 1: 4% of £1,000,000 = £40,000

Year 2:

If the portfolio grew to £1,040,000 at the end of year one:

4% of £1,040,000 = £41,600

Ceiling = Year 1 income (£40,000) * (1 + 10%) = £44,000

As £41,600 is less than the ceiling, £41,600 is taken

Year 3:

Ceiling = Year 2 income (£41,600) * (1 + 10%) = £45,760

If the portfolio grew to £1,200,000 at the end of year one:

4% of £1,200,000 = £48,000

Ceiling = Year 1 income (£40,000) * (1 + 10%) = £44,000

As £48,000 is greater than the ceiling, £44,000 is taken

Year 3:

Ceiling = Year 2 income (£44,000) * (1 + 10%) = £48,400

Advantages:

- Balanced flexibility: combines predictability with market sensitivity – your income will not drop below a set minimum or exceed a set maximum.
- Risk management: helps to mitigate the risk of running out of money by capping withdrawals during strong market years and ensuring a minimum income during downturns.

Disadvantages:

- Complexity: more challenging to implement and monitor compared to the other methods, since you must determine appropriate floor and ceiling values.
- Potential misalignment: the chosen limits may be arbitrary; if the floor is set too high or the ceiling too low, you might either overdraw or underutilise your portfolio relative to your needs.
- Reduced flexibility: it might not fully capture the nuances of your evolving spending needs or market conditions over time.

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.

Investment strategy process

1 Assess your retirement income needs

Estimate your annual expenses in retirement. This figure becomes the baseline for how much liquidity you'll need.

2 Determine the size of the cash buffer

Decide on the number of years' worth of expenses to hold in cash. Many advisers recommend a buffer of two to five years' worth of expenses.

For example: if your annual expenses are £40,000, a 3-year cash buffer would require £120,000 in cash or cash-like instruments.

3 Allocate assets accordingly

Cash-like instruments: place the buffer in assets that are highly liquid and low risk. Options include savings accounts, money market funds, or ultra-short-term bond funds. The focus here is on capital preservation and ease of access rather than high returns.

Invested portfolio: the remainder of your portfolio is invested in a diversified mix of assets designed to achieve growth and outpace inflation over the long run. This might include a mix of equities, bonds, and other asset classes depending on your risk tolerance and time horizon.

4 Rebalance and monitor

Regular rebalancing: over time, as you draw down from your cash buffer and the value of your invested portfolio changes, you'll need to rebalance. For example, if the market performs well, the percentage allocated to equities may exceed your target, prompting a re-allocation back into cash to maintain your buffer.

Rolling buffer: many retirees adopt a rolling cash buffer strategy – each year, after drawing down from the buffer, you 'replenish' it using gains or additional income, ensuring that you always maintain several years' worth of expenses on hand.

5 Withdrawal strategy

When making withdrawals, first use funds from the cash buffer. This helps to avoid selling investments in a down market, which can lock in losses. Only when the cash buffer is insufficient do you sell assets from the invested portfolio.

Advantages:

- Liquidity for immediate needs: having cash on hand covers living expenses without forcing you to sell assets during a market downturn, which can help avoid realising losses.
- Reduced sequence of returns risk: by relying on the cash buffer for short-term needs, you reduce the risk of having to sell investments at inopportune times when the market is down – a key factor in decumulation risk.
- Flexibility: the strategy allows you to adapt to changing market conditions. If the market is performing poorly, you can rely on your cash buffer while waiting for better investment opportunities.
- Peace of mind: knowing that you have several years' worth of expenses readily available can reduce anxiety and help you stick to a long-term investment plan.

Disadvantages:

- Cash drag: cash or cash-like instruments typically earn lower returns than equities or bonds. Holding too large a cash buffer may limit overall portfolio growth, especially over long retirement horizons.
- Inflation risk: the real value of cash can erode over time due to inflation. Even if held in a high-yield account, the returns may not fully offset inflation in some economic environments.
- Rebalancing complexity: maintaining a rolling buffer requires disciplined monitoring and rebalancing, which can add complexity to portfolio management.
- Opportunity cost: money held in cash is not fully invested in growth assets, which might lead to missed opportunities during strong market performance.

A cash buffer strategy for retirement is a balanced approach to managing both short-term liquidity and long-term growth. By keeping several years' worth of expenses in a low-risk, liquid form, you protect yourself against adverse market conditions and reduce the risks of decumulation. However, it requires a careful balance – ensuring that not too much is held in low-yield cash, while still preserving a sufficient buffer to avoid forced sales during market dips. Regular rebalancing and monitoring are key to maintaining the strategy over the long term.

Investment strategy: natural income

Investment approach

These funds are designed to generate a steady stream of income directly from their underlying assets, such as interest from bonds, dividends from equities, rental income from real estate, and sometimes income from alternative assets. They distribute that income on a regular (monthly) basis, mitigating pound cost ravaging. Because the income is 'natural' (i.e. produced by the portfolio itself) investors should often receive a predictable cash flow during retirement.

Investment strategy/fund selection notes

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.

Investment strategy: annuity, income and growth

Investment approach

Where an income fund may suit certain clients in retirement, for those with greater need for certainty may opt instead for an annuity. An annuity alone would mitigate all decumulation risks and provide a steady income for clients throughout their entire retirement. What has put potential investors off in the recent past has been having to sacrifice their investments for an annuity, and the actual annuity rates themselves, although the latter has been less of a concern over the last few years. However, there is no certainty that this will continue.

An emerging trend has been to blend an annuity with other investments to create an income/growth portfolio. This has offered the best of both worlds, especially for those clients needing greater certainty of income but still requiring some flexibility. The annuity and any state pension covers the clients' essential needs, the natural income fund supplies additional, regular lifestyle income (discretionary spending) and the growth fund aims to generate capital appreciation as well as being a secondary source of income/capital if needed.

Below, we explain the use of a lifetime annuity; however, for those looking to potentially blend different strategies for clients based on where they are in retirement (which we discuss later), the lifetime annuity can be substituted for a fixed term annuity.

Investment strategy process: building a goals-based portfolio

1 Client assessment and goal setting:

- Determine essential vs. discretionary needs: work with the client to separate their 'needs' (essential expenses like housing, food, healthcare) from 'wants' (lifestyle choices, travel, leisure).
- Risk and time horizon evaluation: assess the client's risk tolerance, time horizon, and liquidity requirements to tailor the allocation.
- Income requirements analysis: work with your client to calculate the desired guaranteed base income, additional lifestyle income, and the potential for growth to cover inflation and unexpected expenses.

2 Asset allocation and component selection:

- Guaranteed income component (annuity and state pension): purchase a lifetime income annuity designed to provide a fixed monthly payment that covers the client's essential needs on the excess amount the state pension doesn't cover. This component reduces the risk of outliving essential funds.
- Natural income component (multi-asset income fund): invest in a diversified, income-focused fund that generates regular distributions from dividends, interest, and rental income. This fund is selected for its track record of smooth, predictable monthly payouts.
- Growth component (growth-focused fund): allocate a portion of the portfolio to a growth fund (or mix of funds) that focuses on capital appreciation through equities or growth assets. The purpose is to maintain or grow the overall portfolio over time, ensuring that the client's pot is replenished and has additional flexibility if extra income is needed.

3 Determining allocation proportions:

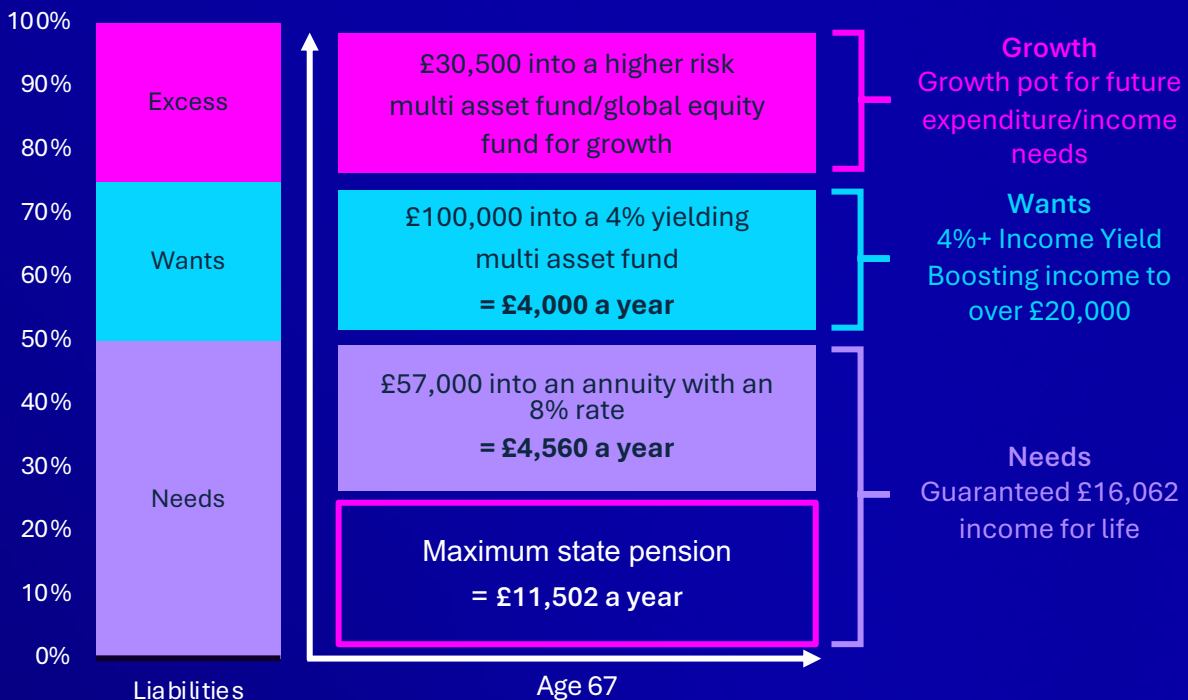
- These percentages can be adjusted based on the client's specific income needs, risk tolerance, and expected longevity.

4 Ongoing monitoring and adjustments:

- Regular reviews: monitor performance, inflation, and changes in the client's circumstances. Adjust allocations if, for example, the growth fund outperforms or if the natural income stream needs to be rebalanced.
- Dynamic rebalancing: consider periodic rebalancing to ensure the growth fund continues to contribute capital appreciation without sacrificing the income generated by the natural income fund.

Investment strategies: exploring the range of options

A client with £250,000 at retirement has a minimum requirement to have at least £16,000 in income a year, once their remaining mortgage is paid off. They take their 25% tax free allowance to clear their debts, leaving £187,500 left to invest. They will be receiving the maximum state pension available to them.



Advantages:

- **Income security:** the annuity provides a guaranteed income floor for essential expenses, mitigating the risk of running out of money for basic needs.
- **Flexibility:** the natural income fund offers regular monthly income that can adapt to lifestyle changes, while the growth fund provides potential capital appreciation.
- **Risk mitigation:** by splitting the portfolio into different components, the strategy reduces sequencing risk. The annuity shields the client from market downturns, and the natural income fund minimises forced selling during volatile periods. The strategy also mitigates longevity risk as the annuity provides an income for life.
- **Capital preservation and growth:** the growth fund replenishes the portfolio over time, which is especially important if inflation erodes purchasing power or if unexpected expenses arise.
- **Diversification of income sources:** multiple income streams reduce reliance on any single asset class or market condition, helping to smooth overall decumulation outcomes.

Disadvantages:

- **Complexity in management:** the strategy requires careful coordination between the three components, which may involve more active management and regular reviews.
- **Costs and fees:** annuities can have high fees, and active management of multi-asset income and growth funds can increase overall costs.
- **Potential for income gaps:** if either the natural income fund or the growth fund underperforms, there may be shortfalls in discretionary income or in the ability to supplement income if needed.
- **Inflation exposure:** while the annuity and natural income funds may include inflation adjustments, the growth fund's returns might not always keep pace with inflation, potentially affecting the overall value of the portfolio.
- **Rigidity in asset allocation:** once the annuity is purchased, that portion of the portfolio becomes illiquid. If the client's needs change, reallocation may not be possible without incurring penalties or losses.

Investment strategy: pot investing ('bucket-style')

Investment approach

Pot investing, or a 'bucket-style' approach, uses a multi-fund strategy where each fund has a distinct risk profile. The idea is to split your retirement portfolio into three equal parts – one low risk (such as risk profile 3), one moderate (risk profile 5), and one higher risk (risk profile 7). When weighted equally, the overall portfolio's risk averages to a moderate level (risk profile 5). Income is taken exclusively from the low-risk fund, while the moderate and higher-risk funds are left to grow. At the end of each year, the portfolio is reviewed and rebalanced back to the original allocations, which replenishes the low-risk 'income bucket'.



Investment strategy process: building a goals-based portfolio

- 1 **Client assessment and goal setting**
 - Income needs analysis: determine the client's essential and discretionary income requirements.
 - Risk tolerance and time horizon: evaluate the client's willingness to accept market fluctuations, and how long they expect their retirement to last.
 - Overall asset size: establish the total retirement portfolio size.
- 2 **Portfolio allocation**

Divide the portfolio equally: allocate the portfolio into three equal parts:

 - A low-risk fund (risk 3), designed to generate steady, natural income (e.g. from quality bonds, or low-volatility multi-asset funds).
 - A moderate-risk fund (risk 5): a balanced multi-asset fund that offers a mix of income and modest growth.
 - A high-risk fund (risk 7): a growth-oriented multi-asset fund or global equity portfolio, that seeks capital appreciation.
- 3 **Income generation**
 - Withdrawal mechanism: withdraw the client's required monthly income exclusively from the low-risk fund. This minimises the need to liquidate volatile assets during market downturns.
- 4 **Annual rebalancing**
 - At the end of each year, review the portfolio's performance.
 - Rebalance to restore target allocations: if the low-risk fund has been depleted by withdrawals and market performance, transfer gains from the moderate and high-risk funds back into the low-risk fund to restore the original risk profile.
 - This process replenishes the income-generating bucket and offers flexibility to rebalance depending on market conditions. Review and discussion can happen with clients on markets and each buckets performance during their annual review and whether a rebalance needs to take place.
- 5 **Ongoing monitoring and adjustments**
 - Performance reviews: regularly assess growth, performance, and the sustainability of withdrawals.
 - Adjust target withdrawals if needed: if market conditions change drastically (for example, prolonged low yields), consider modifying the withdrawal rate or adjusting the risk mix. The introduction to buckets allows for individual adjustments to either the income or growth element depending on market conditions.



Advantages:

- A more sustainable income stream: by always withdrawing from the low-risk bucket, the strategy helps to protect the income stream from market volatility.
- Growth and replenishment: the moderate and high-risk funds are left to grow, and through annual rebalancing, their gains help restore the low-risk income fund.
- Risk consistency: rebalancing keeps the overall portfolio risk steady, aligning with the client's risk tolerance.
- Decumulation risk mitigation: this structure helps minimise sequencing risk since the income bucket is less exposed to market swings, and the regular rebalancing process helps avoid depleting the portfolio too quickly.

Disadvantages:

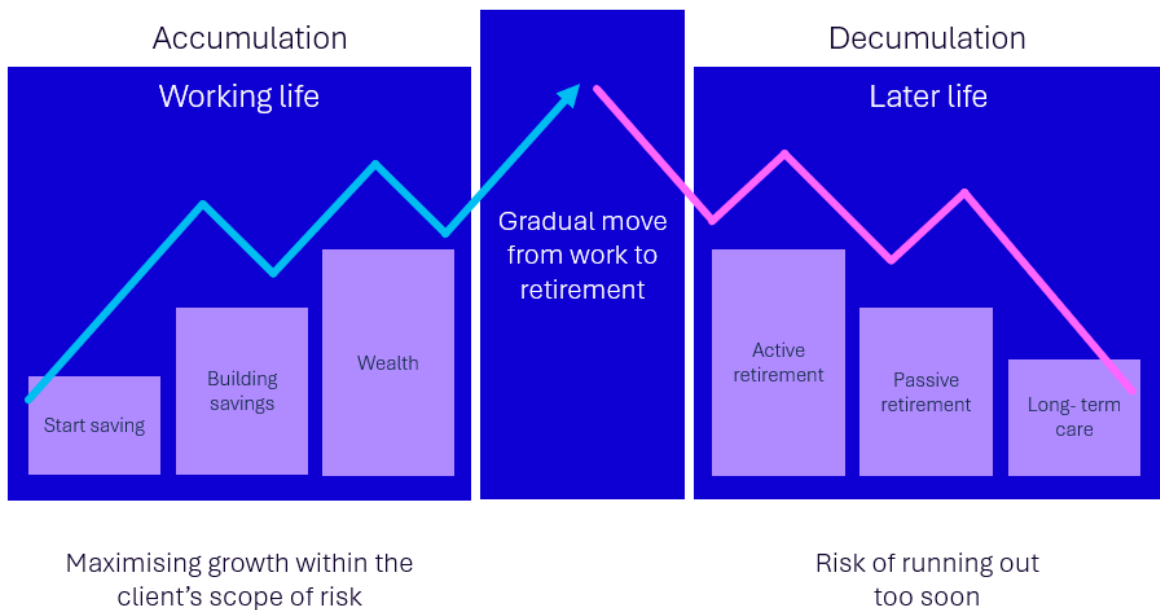
- Complexity: this strategy is more complex to implement and requires diligent, ongoing monitoring and periodic rebalancing.
- Transaction costs and fees: frequent rebalancing may incur higher transaction costs, which can eat into returns.
- Potential for lower income yield: the low-risk fund might generate lower yields compared to riskier income sources, potentially necessitating adjustments if market yields fall too low.
- Discipline required: clients must adhere to the withdrawal and rebalancing plan without deviating in reaction to short-term market fluctuations.

The need for a multi-strategy approach at retirement

The options here are not exhaustive; there are many others to consider. The focus is on choice and mixture of strategy when clients enter retirement

In the current UK regulatory landscape, it is increasingly important for financial advisers to offer a range of decumulation strategies tailored to individual clients. The FCA's Consumer Duty and other regulatory guidelines emphasise clear, fair, and client-centric advice, meaning that advisers must not rely on a one-size-fits-all approach. Instead, offering a suite of decumulation strategies – ranging from flexible natural income funds and dynamic withdrawal methods to bucket-style allocations and, when appropriate, annuity solutions – enables advisers to meet varying client needs while adhering to best practice standards and regulatory expectations.

UK advisers must consider that retirement is not a single phase but a journey with distinct stages. In early or active retirement, when clients often have higher spending needs and wish to maintain an active lifestyle, a strategy that emphasises income generation from multi-asset natural income funds combined with a growth component could be ideal. This approach provides a steady monthly cash flow to cover lifestyle expenses, while the growth element may help to manage longevity risk by replenishing the portfolio over time. As clients transition into a mid or passive retirement phase, the focus shifts toward capital preservation and sustainability. At this stage, integrating more secure components – such as partial annuitisation – can offer a stable income floor while still allowing growth funds to build up capital to cover potential long-term care costs later in life. In the late or later-life stage, where rising healthcare and long-term care costs become a priority, an increased emphasis on guaranteed or lower-risk income products is beneficial to ensure essential needs are met.



Advisers should adopt a multi-strategy framework that addresses these distinct stages while complying with the FCA's requirements to act in the best interests of consumers. In early retirement, the priority is to generate sufficient cash flow and preserve capital through income funds and growth investments. As clients age, the strategy can gradually incorporate more conservative elements – such as annuities or lower-risk natural income funds – to provide security during periods of reduced earning capacity and increased expenses.

By tailoring the decumulation strategy to the evolving needs of retirees, financial advisers can effectively manage risks such as sequencing risk, market volatility and longevity risk, ultimately providing a transparent and sustainable income solution throughout retirement.

Example: where strategies could be utilised

Different phases of retirement call for different priorities.
Here's how some of these strategies might rank at various stages

Early/active retirement

High income needs, an active lifestyle, and the potential for higher spending

- 1 Natural income approach**
A well-designed natural income fund provides consistent monthly payouts to cover discretionary spending without depleting principal.
- 2 Bucket-style multi-asset funds**
Drawing from a dedicated low-risk bucket minimises market-triggered forced sales, and regular rebalancing supports the value of the capital amid higher spending.
- 3 Hybrid strategy**
Guaranteed income covers essentials while flexible income from the natural income fund supports an active lifestyle. The growth fund helps replenish the pot.
- 4 Cash bucket approach**
A cash reserve can cover short-term needs and fees, but by itself it may not generate enough income for an active lifestyle.
- 5 Floor and ceiling approach**
The defined bounds offer some flexibility, though if spending needs are high the rigid limits might constrain income.

Mid/passive retirement

Lower income needs and a greater focus on capital preservation, with less active lifestyle spending

- 1 Constant percentage approach**
Income variability is more acceptable if overall spending is lower, and withdrawals automatically adjust to preserve capital.
- 2 Hybrid strategy**
Still robust, with guaranteed income plus flexible natural income and growth components – good if the client prefers a mix of security and growth.
- 3 Bucket-style multi-asset funds**
Effective if rebalancing is maintained, though the active management may be less necessary if spending is more moderate.
- 4 Natural income approach**
Provides a steady income stream but may need supplementation if yields are too low; overall, it works well when spending is more flexible.
- 5 Cash bucket approach**
A modest cash reserve is useful for near-term needs and to avoid asset sales, although a larger portion of the portfolio can be in income-generating assets when spending is moderate.

Late retirement/later life

Potential for increased essential spending (e.g. healthcare), increased capital preservation concerns, and possibly rising withdrawals

- 1 Hybrid strategy (with a greater emphasis on the annuity)**
Increasing the annuity portion or emphasising the guaranteed income part is especially valuable for covering rising essential costs like long-term care.
- 2 Bucket-style multi-asset funds (modified to be more conservative)**
cash flow in later years while preserving remaining assets.
- 3 Cash bucket approach**
A larger liquidity reserve becomes important to avoid selling assets during market lows, preserving capital for essential expenses.
- 4 Floor and ceiling approach**
Establishing minimum income thresholds ensures that essential needs are met while preventing over withdrawal that could erode capital rapidly.
- 5 Natural income approach**
A natural income fund that consistently produces cash can be helpful, but if yields fall short it may not fully cover rising living or healthcare costs.

Each strategy has unique strengths and weaknesses depending on the retiree's stage and personal circumstances. In general, strategies that combine guaranteed income (like an annuity) with flexible income sources (such as natural income funds or carefully managed bucket approaches) tend to be more robust for decumulation because they help shield the portfolio from adverse market timing (sequencing risk) and preserve capital while still providing a predictable income stream. For UK financial advisers, the key is to balance simplicity with sufficient diversification and rebalancing discipline so that the strategy remains practical and effective over a long retirement horizon.

Considering options for your clients

At Keyridge Asset Management, our role is to design products for use in decumulation strategies that preserve capital and meet investors' needs through all stages of retirement. In the next section, we look at our actively managed, globally-diversified multi-asset funds, which are designed to help advisers and their clients meet their objectives through long-term capital growth and/or income. We also highlight some of our key underlying strategies held in the multi-asset funds.

Our offering includes:

- Five risk-targeted WS Canlife Portfolio Funds that aim to achieve long-term capital growth (over at least five years) while seeking to remain within a defined risk band.
- A monthly income fund, the WS Canlife Diversified Monthly Income Fund, for those looking for a steady income on a monthly basis.
- The WS Canlife Sterling Liquidity Fund, a portfolio of high-quality money market assets with a focus on capital preservation, acting as a vehicle for short-term cash requirements.
- The WS Canlife Global Equity Fund, a core exposure to the global equity market that flexibly blends top-down macro views and bottom-up stock selection.

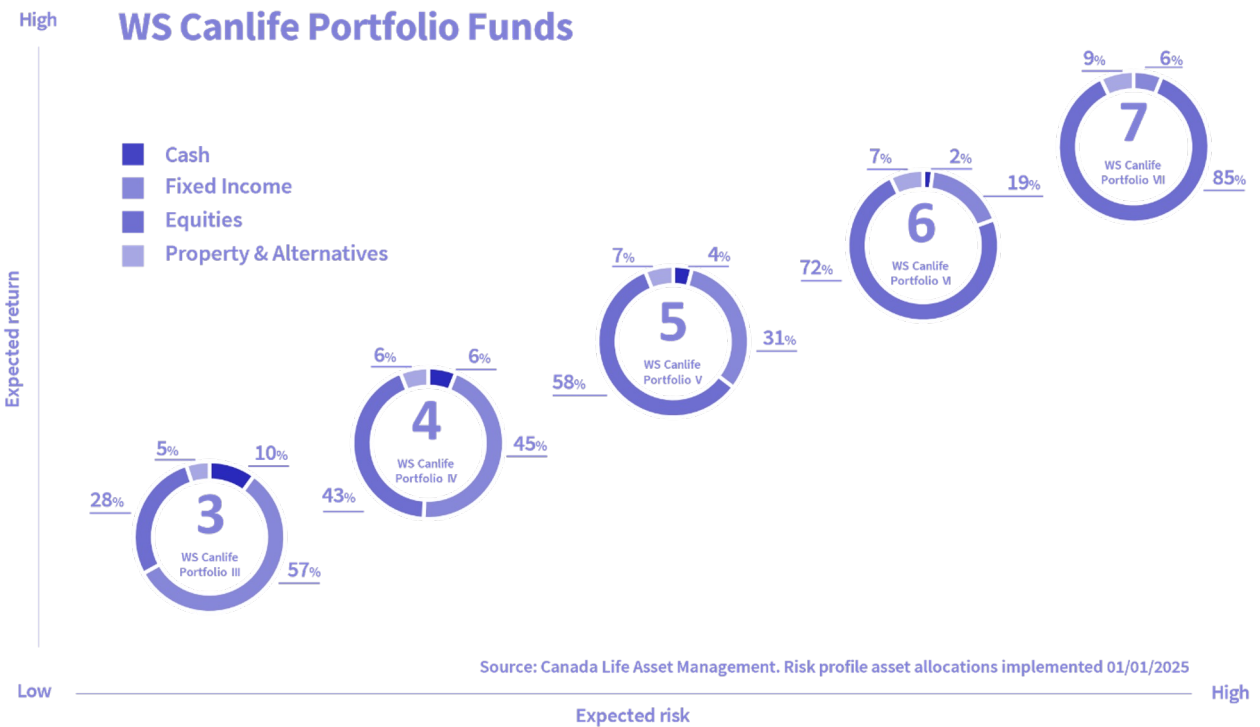
Each strategy has unique strengths and weaknesses depending on the retiree's stage and personal circumstances

WS Canlife Portfolio Funds

Risk targeted multi asset funds, delivering ongoing suitability for your clients

As advisers increasingly segment their client base and outsource investment management, there is a need for investment solutions that are designed to meet client objectives and offer some flexibility in continuing to do so as their circumstances change. By providing a range of risk-targeted funds, investors can be secure in the knowledge that their investments will continually be managed within defined risk boundaries.

Our Portfolio Funds are risk-targeted funds of funds that are aligned to Dynamic Planner’s risk profiles 3 to 7 and have also been risk-rated by FinaMetrica, Synaptics and Defaqto in order to meet the long-term needs of the majority of investors and provide ongoing suitability. Each of the five Portfolio Funds invests in a globally diversified blend of geographies and investment types with the aim of matching your client’s risk and reward requirements and serving as a core holding within a portfolio.



OEIC Portfolio Funds

	Ongoing Charge Figure (OCF)	Annual Management Charge (AMC)	Dynamic Planner Rating	Defaqto Rating	Synaptic Rating
WS Canlife Portfolio III	0.65%	0.45%	3	3 defaqto Cautious RISK RATED	4
WS Canlife Portfolio IV	0.65%	0.45%	4	4 defaqto Cautious Balanced RISK RATED	5
WS Canlife Portfolio V	0.65%	0.45%	5	5 defaqto Balanced RISK RATED	6
WS Canlife Portfolio VI	0.65%	0.45%	6	6 defaqto Balanced Growth RISK RATED	7
WS Canlife Portfolio VII	0.65%	0.45%	7	8 defaqto Adventurous RISK RATED	9

All fund details relate to the C Acc share class as at 31/12/25.

WS Canlife Diversified Monthly Income Fund

A multi-asset solution that targets steady income through paying monthly dividends

Our 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).



In order to achieve this:

Target an annual portfolio yield exceeding 4%

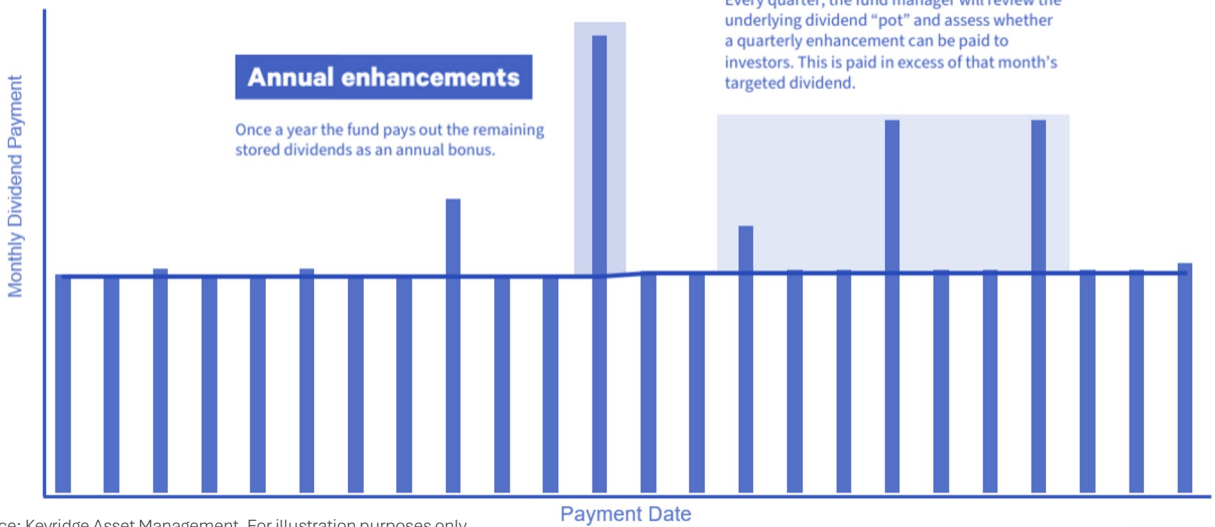
- A steady monthly income paying a fixed amount per unit per month
- Aim to increase this payment annually in line with inflation

Aims to maximise the total return on a risk-adjusted basis

- Optimise the blend between income and capital growth opportunities
- Construct a lower correlated, multi-strategy allocation within the fund to grow capital

A stable, steady, monthly income for investors

Quarterly enhancements



Source: Keyridge Asset Management. For illustration purposes only

	Ongoing Charge Figure (OCF)	Annual Management Charge (AMC)	Dynamic Planner Rating	Defaqto Rating	Synaptic Rating
WS Canlife Diversified Monthly Income C Inc	0.67%	0.50%			

Source: Canada Life Asset Management as at 31/12/25. PA Awards rating, Defaqto rating, Dynamic Planner rating and Synaptic rating correct as at 31/12/25.

WS Canlife Sterling Liquidity Fund

The fund is designed as a vehicle for short-term cash requirements

The managers construct the portfolio using high-quality commercial paper, certificates of deposit, floating rate notes and short-dated bonds, with the aim of delivering an enhanced return relative to short-term bank deposits.

As well as fund manager Steve Matthews' longstanding expertise in sterling bond and money markets, we are also able to utilise the Canada Life Asset Management Credit Research Team, which has in-depth knowledge of individual corporates and sectors, drawing on the firm's long experience in annuity management.

This results in a portfolio of high-quality money market assets with a focus on capital preservation. The term and size of the investments is determined by their credit rating.* All counterparties are monitored and regularly reviewed by the Credit Research Team, to provide additional oversight.

Typically, the fund will consist of between 40 and 80 issuers, including allocations to AAA-rated covered bonds and government/agency assets as an additional level of liquidity to support overnight deposits and short maturities.

*Credit ratings are internal and assigned by Canada Life Asset Management. Ratings will generally be in line with the major external rating agencies and should not be higher than the highest rating of these. Canada Life Asset Management will assign ratings to bonds that do not have an external rating.

The funds aim to invest in a variety of different securities, each of which contribute to their aims and objectives in different ways.

These include:

- 1 Provide T+1 liquidity through overnight deposits
- 2 Provide yield by introducing carefully selected longer-dated assets into the portfolio
- 3 Seek additional yield over bank deposits, by adding highly liquid government and covered bonds
- 4 Help secure price stability through addition of selective floating rate notes (FRNs)
- 5 Maintain maturity ladder with Certificates of Deposit and Commercial Paper



WS Canlife Sterling Liquidity Fund

Legal Structure	OEIC/UCITS
Launch Date	30/06/17
Sector	IA Standard Money Market
Benchmark	SONIA
Rating	Fitch AAf/S1
Aims to	Provide a return in line with sterling money market rates combined with a high degree of capital security
Typical number of issuers	40-80
Rating	Between AAA and A* (AAA and A at the point of purchase)
Liquidity	T+1
Dealing Frequency	Daily (12 noon)
OCF/AMC	0.15%/0.15%
ISIN	GB00BYW8XV16 (I Acc)
SEDOL	BYW8XV1 (I Acc)

WS Canlife Global Equity Fund

A core exposure to the global equity market

The Fund uses a blend of top-down macro views and bottom-up stock selection to identify investment ideas in which we have the highest conviction. It is flexible, pragmatic and mindful of prevailing macroeconomic and market conditions, for example: employment, inflation and gross domestic product.

Fundamental analysis – specific holdings are determined through research that is undertaken by the equities team, including company visits and conferences. The choice spans a variety of industries, services and geographical locations, allowing the manager to gain targeted exposure.

Sector selection – sector allocations are important in order to ensure balance and diversification. Typically, macro and market views are considered to balance the portfolio across factors such as growth, cyclical and defensiveness. Additionally, the desired exposure to trends such as in bond yields and commodity prices are key considerations. This approach to portfolio.

construction aims to deliver a diversified source of return from both a capital and income perspective.

Stock selection – typically across companies of all sizes, from large, well-known corporations to smaller-scale operations. The stock selection process itself takes into account several factors. These include the company’s market position, quality of its brand and underlying assets, how it fits in with current market and economic trends, and the specific drivers behind earnings and dividend growth.

The managers will also conduct a thorough analysis of a company’s valuation, being sure to understand its earnings forecasts and any changes to a company’s strategy or management team. The stock selection is the result of collaboration between the investment managers and the regional specialists resulting in high conviction ideas from around the world. Each regional specialist recommends individual stocks based on their view of their respective market, with the investment manager making the final decision.

A core exposure to the global equity market

- Blend of top-down and bottom-up investing
- Not reliant on any one factor – **avoids stylistic bias**
- **Active aware** – Whether we hold them or not, we always have a view on the largest companies in the benchmark. This provides **discipline** to stock selection and an additional level of **risk management** to the fund

Strong risk parameters and sell discipline

- Aim to manufacture a high quality of performance with low drawdowns and less volatility

Diversified global portfolio

- Takes the best ideas from across the market-cap and geographic spectrum

Fund Facts

OEIC Launch date	30/05/2012
Fund managers	Mike Willans & Bimal Patel
Typical number of holdings	~80
Legal structure	OEIC
Dealing frequency	Daily (midday)
Base currency	GBP
Benchmark	Bloomberg Developed Market Large & Mid Cap TR Index
Sector	IA Global
ISIN	GB00B78SPK99
OCF	0.59% (C Acc)

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**Our investment team are
steadfast in taking the
longer-term view on behalf
of your clients**

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 views expressed in this document are those of the fund manager at the time of publication and should not be taken as advice, a forecast or a recommendation to buy or sell securities. These views are subject to change at any time without notice.

The multi-asset funds 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.

The WS Canlife Sterling Liquidity Fund is a UCITS scheme and a standard variable net asset value (VNAV) money market fund (MMF). The MMF is not a guaranteed investment, nor does it receive external support to guarantee its liquidity. Unlike bank deposits, investment in MMFs can fluctuate and investors' capital is at risk.

Keyridge Asset Management Limited, trading as Irish Life Investment Managers and trading as Setanta Asset Management, is authorised and regulated as an investment firm by the Central Bank of Ireland. Keyridge Asset Management Limited is registered in Ireland. Registered office is Beresford Court, Beresford Place, Dublin 1 (Company registration number: 116000). Keyridge Asset Management Limited is authorised and regulated by the Financial Conduct Authority to provide investment services in the UK through a UK branch.

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