AJBell Investcentre

RETIREMENT PORTFOLIO SERVICE

Retirement investing made easy

ADVISER GUIDE

For professional intermediaries only. Not for distribution to retail clients.

Easy, transparent, low-cost investing

Currently looking after £80.3 billion of assets on behalf of 503,000 customers, AJ Bell is one of the largest investment platforms in the UK. AJ Bell Investcentre is the platform we designed specifically for financial advisers, providing them with outstanding service, a comprehensive investment range and smart tools at a fair price. In so doing, we have built a platform that helps you look after your clients in the most time- and cost-efficient way possible.

Managed by the experienced team at AJ Bell Investments, the Retirement Portfolio Service employs our portfolio managers, who are highly respected in the world of investments, with decades of experience behind them. Because of our commitment to communication, we understand the importance of transparency, meaning we speak in plain English and let you know consistently how we are managing your client's investments. Put simply, we aim to give you what you need – not what you don't.

Meanwhile, our commitment on cost means we promise to pass on cost savings to our customers on the day that we make them. Since every pound we save is a pound more in your client's savings, it's a commitment we take seriously.

Simple to understand and explain, with complete transparency throughout the service and our commitment to deliver solutions at low-cost, the AJ Bell Retirement Portfolio Service is here to make income in retirement appear easy.

Benefits of the Retirement Portfolio Service

- Managed by an experienced investment team, with a long-term approach.
- A focus on lowering costs wherever possible
- Smart rebalancing minimises the need to buy and sell investments. This reduces dealing costs, and ensures your client has a reliable cash buffer.
- If assets need to be sold, underlying investments are easily realised and can be bought or sold in fractions. This reduces overheads and saves time.

The value of your clients' investments can go down as well as up and they may not get back what they put in.

Less administration for you. More time for your clients.

By offering the Retirement Portfolio Service exclusively to advisers, we take the hassle out of researching, building and maintaining your own Central Retirement Proposition.

What's more, using the discretionary permissions of AJ Bell Investments means you no longer need to obtain individual client authority for each portfolio amendment or rebalancing – leaving you free to focus on adding value to your clients through the financial planning process and the hand-holding that comes with any long-term investment strategy.

With you still in control

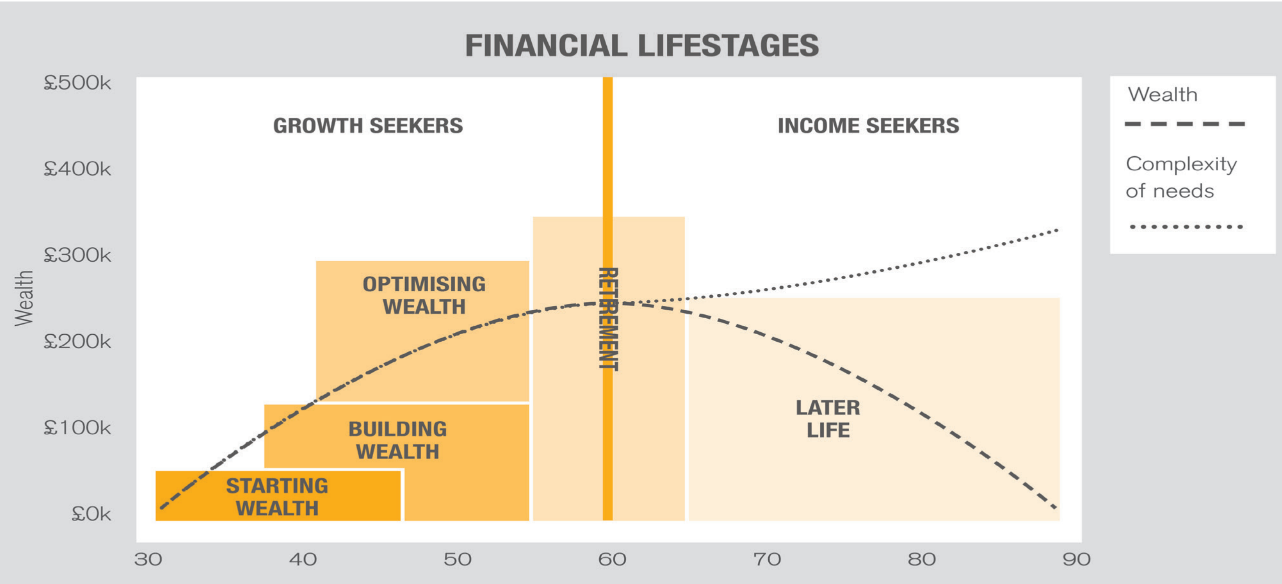
Whilst we reduce the administrative burden of managing investments, you retain overall control of your client's accounts. The responsibility for managing cash and distributing income remains, at all times, with you.

Initial investments are quick and simple to instruct via our Retirement Portfolio Service, and can be topped up at any time with additional monies should the need arise.

By working in partnership, we help deliver everything that you need – including all the information, tools and documentation you need to meet your client's needs and your regulatory requirements.

Managing risk in retirement

As a financial adviser, much of your time will be spent helping clients build up an investment pot that adequately provides for their future. But what about the clients who have reached retirement? The strategies they've followed up to this point may have worked well as they invested for growth, but what happens when they start taking an income and the world becomes that bit more complex?



Source: the lang cat

At AJ Bell, we think many accumulation strategies should retire when the client does. The question is, what do you replace them with? Our solution is the **Retirement Portfolio Service (RPS)** – a low-cost Centralised Retirement Proposition designed specifically for clients who are either at or approaching the decumulation phase of their investment journeys.

Designed in conjunction with advisers from around the UK, the Retirement MPS brings together a range of strategies used to help clients deal with the complexities of investing in later life.

Where the complexity comes from

It may not have felt like it, but investing for growth is comparatively easy. Clients are tucking away savings on a regular basis, are generally in good health and support their lifestyles from income generated from employment or their business interests.

With retirement comes a change – most notably with the need to take income from investments or even start nibbling away at the savings built up in the past. When this happens, clients are exposed to the risk that they survive longer than their savings do and to sequencing risk, a risk not previously faced.

Sequencing risk

At its simplest, sequencing risk acknowledges that the 'order' in which investment returns are experienced can have a larger impact on the end result if investments are being sold along the way. If investments are sold after a fall in value, the remaining funds would need to work harder to make that loss up – especially if those losses come early on in the journey.

For clients drawing down on their investments, this means that the early years of retirement can be particularly precarious, given that this is when sequencing risk is at its highest.

How to protect against sequencing risk

Sequencing risk can never be completely removed, but there are some strategies that can be used to manage it and lower the anxiety clients can face when exposed to it. Here are some of the tactics currently being used by the advisers we speak to regularly.

Use the ‘4% Rule’

Backtesting shows that if a pension pot was invested in the RPS, at outset, and no more than 4% of the initial amount* is removed from the portfolio in any given year, there hasn’t been a series of returns from markets over the last century that results in the monies running out over a 30-year retirement life. That includes two World Wars and periods of high inflation as seen in the 1970s.

*increased in line with inflation. Figures refer to simulated past performance and past performance is not a reliable indicator of future performance. Simulated past performance is calculated gross of fees.

‘Bucketing’ with a cash reserve

By splitting the investment pot into a series of simpler strategies, ‘bucketing’ helps clients understand what is going on with their funds. Typically, the monies are split into three ‘buckets’, each of which is designed to be used over a different time period.

Short-term cash bucket

Since sequencing risk is at its highest in the early years, the immediate income needs of the client are held in cash.

Medium-term bucket

Built primarily of lower risk investments such as government and corporate bonds, plus some exposure to income producing shares, the medium-term bucket is designed to generate a consistent level of income and to hold its capital value.

Longer-term bucket

Consisting of more risky assets like shares and property, the longer-term bucket should grow in value as well as generating an income that also grows over time.

Natural income

The ‘natural income’ strategy involves choosing investments that should produce an income to fund the client’s lifestyle. This reduces the need to nibble away at the capital and so lowers the risk of having to sell the investments after a fall in value – which is the source of sequencing risk.

‘Smart Rebalancing’

Less prevalent, but just as powerful in reducing sequencing risk, is the idea of banking profits along the way. Since later life can last a long time, it is inevitable that over the retirement journey, there may be periods of strong gains as well as times in which investment values fall sharply. With ‘Smart Rebalancing’, the need to sell after a fall is reduced by taking profits only after any gains have been banked. If neither of the conditions are met, the portfolio is not touched, giving any investment losses the benefit of time to recover.

The AJ Bell Investcentre Retirement Portfolio Service

Our Retirement Portfolio Service combines a straightforward, income-focused investment style with a smart rebalancing mechanism that manages income needs and your client's cash flow in the most efficient way possible whilst minimising the associated costs in areas such as dealing.

It does this using the 'bucketing' principle, creating a blended portfolio using equal weights of our 'AJ Bell Income' and 'AJ Bell Income & Growth' funds – meaning there is no charge for rebalancing the Retirement Portfolio Service since our fee is earned within each fund. This blended portfolio is then combined with a cash buffer that provides immediate liquidity for your client's short-term income requirements.

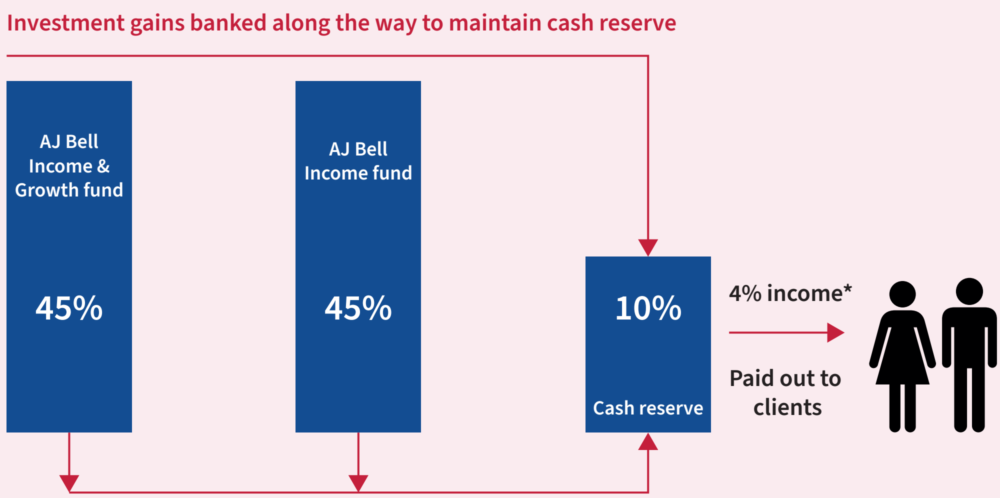
By keeping 10% in cash, for those clients adopting the '4% Rule', the Retirement Portfolio Service naturally holds around two and a half years of income. This surety of immediate income helps to reduce client anxiety and adopt a long-term investment horizon – a necessity for any drawdown strategy.

Since both funds are also designed to produce a yield of around 4% every year, the natural income from each serves to 'top up' the initial cash bucket up over time, giving clients ongoing visibility that their immediate needs are well covered. With lower stress levels and sight of cash immediately available, the temptation to sell down investments at an inopportune time is also reduced.

But what really differentiates the Retirement MPS from other on-platform solutions in the market is our Smart Rebalancing process where each portfolio is assessed on a regular basis to bank gains as they arise.

Putting it all together

Combining four well-known retirement income strategies in a single solution, the Retirement Portfolio Service from AJ Bell provides a simple, transparent, low-cost way to manage your client's investment needs in later life.



4% income yield prolongs the life of the cash reserve.
The target yields are not guaranteed and can fluctuate.

*4% of the initial monies invested, increasing in line with our future inflation expectations.

What the Retirement Portfolio Service invests in

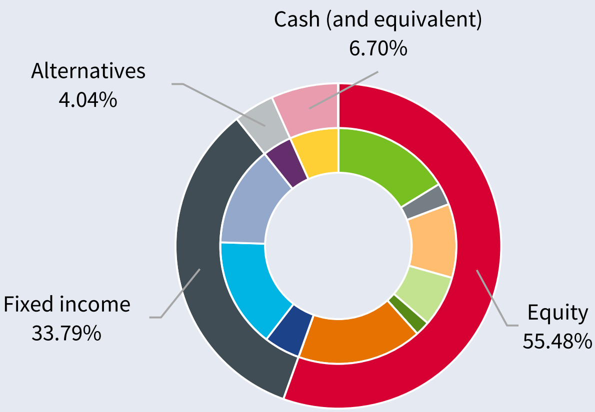
In addition to the cash reserve, the Retirement Portfolio Service is supported by the use of two of our income producing funds. Both designed to deliver the 'natural yield' component of the service, each fund has a specific objective of generating an annual yield between 3–5% each year*, whilst either preserving capital (in the case of the AJ Bell Income Fund) or protecting capital in real terms (in the case of the AJ Bell Income & Growth Fund) over a typical investment cycle.

*The target yields are not guaranteed and can fluctuate.

Investing in a combination of actively- and passively-managed funds, the current asset allocation for each fund is shown below.

AJ Bell Income fund

Asset allocation(2)

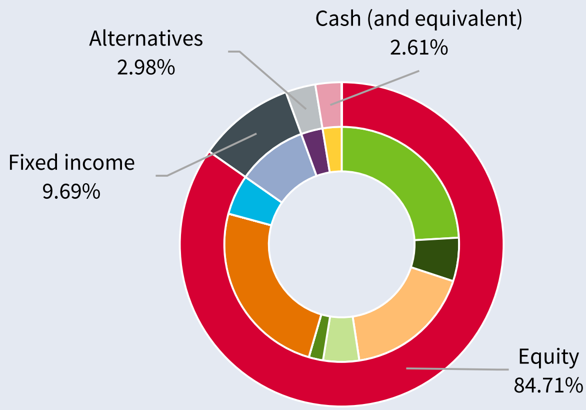


16.22%	UK equity	3.01%	Europe ex-UK equity
10.13%	North America equity	6.99%	Japan equity
2.00%	Asia Pacific ex-Japan equity	17.13%	Emerging markets equity
4.97%	UK government bonds	15.03%	UK corporate bonds
13.78%	International bonds	4.04%	Property
6.70%	Cash (and equivalent)		

(2) Totals may not sum to 100% due to rounding.

AJ Bell Income & Growth fund

Asset allocation(2)



24.09%	UK equity	5.98%	Europe ex-UK equity
17.54%	North America equity	4.95%	Japan equity
1.97%	Asia Pacific ex-Japan equity	24.69%	Emerging markets equity
5.50%	Global equity	9.69%	International bonds
2.98%	Property	2.6q%	Cash (and equivalent)

(2) Totals may not sum to 100% due to rounding.

Thanks to the fixed OCF of 0.65% on our income funds and no charge for holding cash, you can be sure, the cost of the underlying investments in the Retirement Portfolio Service will never be more than 0.59% p.a. This cost is based on standard initial portfolio weightings.

The assets held within the RPS are subject to AJ Bell Investcentre's tiered annual custody charge. Full details of the charge can be found at: www.investcentre.co.uk/charges.

Target market statement

Designed with the following characteristics and needs in mind, for clients who:

- are in retirement and are taking income, or anticipate needed to draw income from their investments in the short to medium term;
- are willing to accept a level of investment risk and possible loss of capital over the short and medium term;
  and/or
- intend to invest for the medium to long term to achieve their objectives.

The Retirement Portfolio Service comes with some features that clients will benefit from.

- The strategies used within the Service aim to minimise the need for selling investment positions at a loss and thereby reduce sequencing risk.
- The Smart Rebalancing technique rebalances client portfolios dynamically according to their own circumstances.
- There is no Annual Management charge (AMC) for using the AJ Bell Retirement Portfolio Service. Charges are taken from the underlying investments, the VT AJ Bell Income and VT AJ Bell Income and Growth funds. Both funds have a fixed OCF of 0.65%.
- Amounts held in cash are not charged a management fee.

Investment in the Retirement Portfolio Service is not without its risks.

- The Service is designed with a 30-year investment horizon. Clients drawing down income over longer time horizons increase the risk of depleting all of their capital.
- The Retirement Portfolio Service assumes that withdrawals are taken at a rate of 4% of initial monies invested, growing in line with our inflation expectations of 2% p.a. Actual inflation in excess of this level may result in a decline of client's purchasing power.
- Withdrawals in excess of our income drawdown assumptions increase the likelihood of capital being depleted before the 30-year horizon.
- Similarly, withdrawals below our income drawdown assumptions are likely to result in capital being available upon death. Future Inheritance Tax laws are uncertain.
- Unlike annuity products, the Retirement Portfolio Service is not guaranteed and is subject to the investment risks associated with global bonds and equities.

Why not contact us to see how we can help?

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This brochure provides general information about the Retirement Portfolio Service. It should not be read or construed as investment advice. It is your responsibility to assess your client's circumstances and make a personal recommendation that is suitable for their needs.

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