

FOR FINANCIAL
ADVISERS ONLY

DECUMULATION INVESTMENT STRATEGIES

MANAGING THE DESCENT

SHEFFIELD LIFE & PENSIONS SOCIETY | NOVEMBER 2016



OLDMUTUAL
WEALTH

LEARNING OUTCOMES

1. UNDERSTANDING THE INVESTMENT CHALLENGES OF MANAGING DECUMULATION INVESTMENTS
2. TARGETING INFLATION PLUS RETURNS
3. MANAGING VOLATILITY – MYTHS & REALITIES

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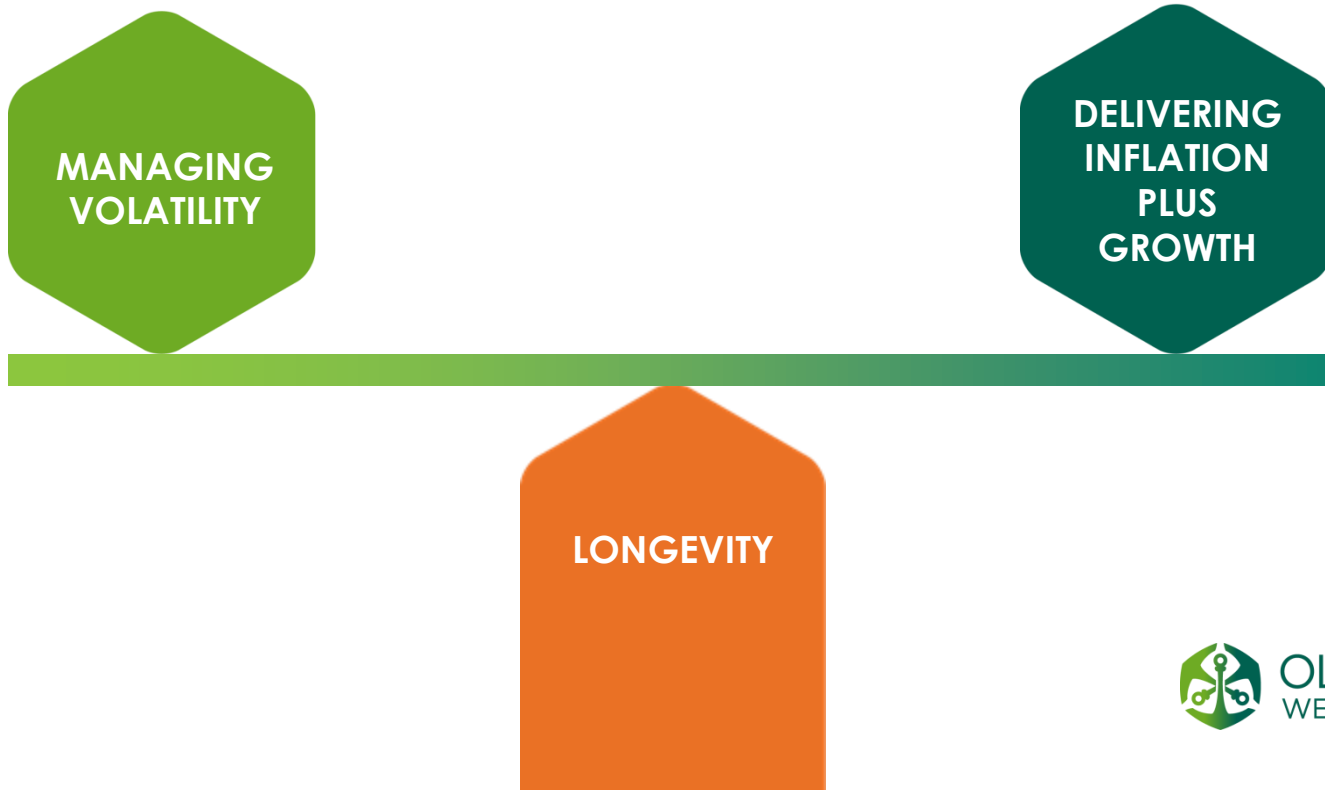
THE PERILS OF THE DESCENT



'85% OF FATALITIES HAPPEN ON THE DESCENT OF EVEREST'

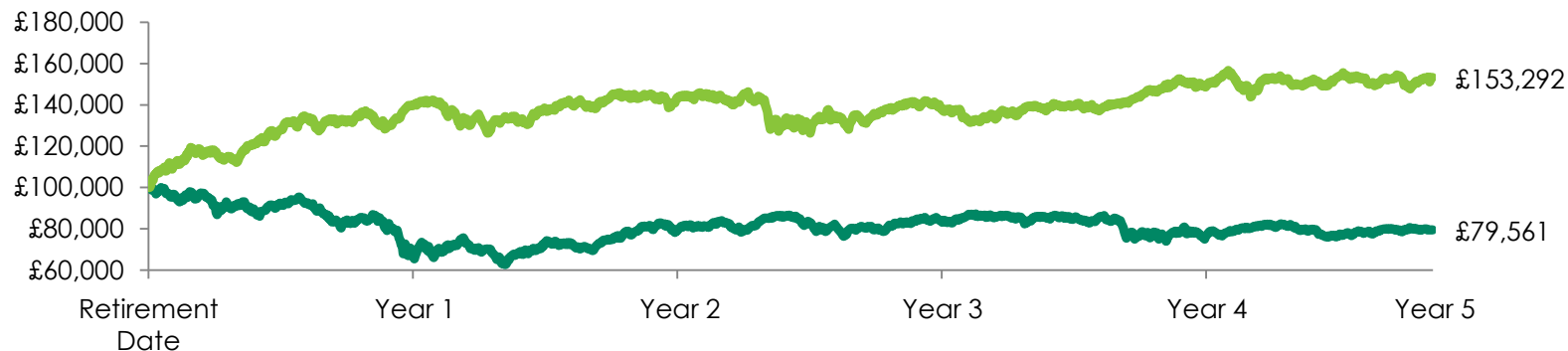


DECUMULATION **BALANCING ACT**



2007 RETIREE vs 2009 RETIREE

- 2007 retiree at market high vs 2009 retiree at market low
- Both starting with £100,000 taking annual withdrawals of £5000



'[If] the client gets a risk profile of three in the accumulation stage [and]... you are giving them a three in decumulation then that might not be right for them because of sequencing risk and pound cost ravaging.'

LEARNING OUTCOMES

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UK INFLATION RISKS RISING

0.6%

August 2016

0.7%

2016 estimate

2.2%

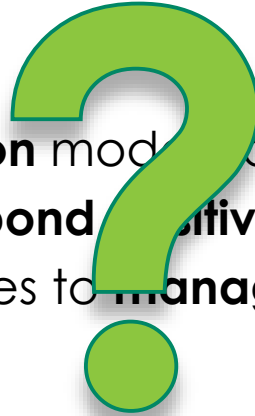
2017 estimate

'THE FALL IN STERLING IS LIKELY TO PUSH UP ON CPI INFLATION IN THE NEAR TERM...'

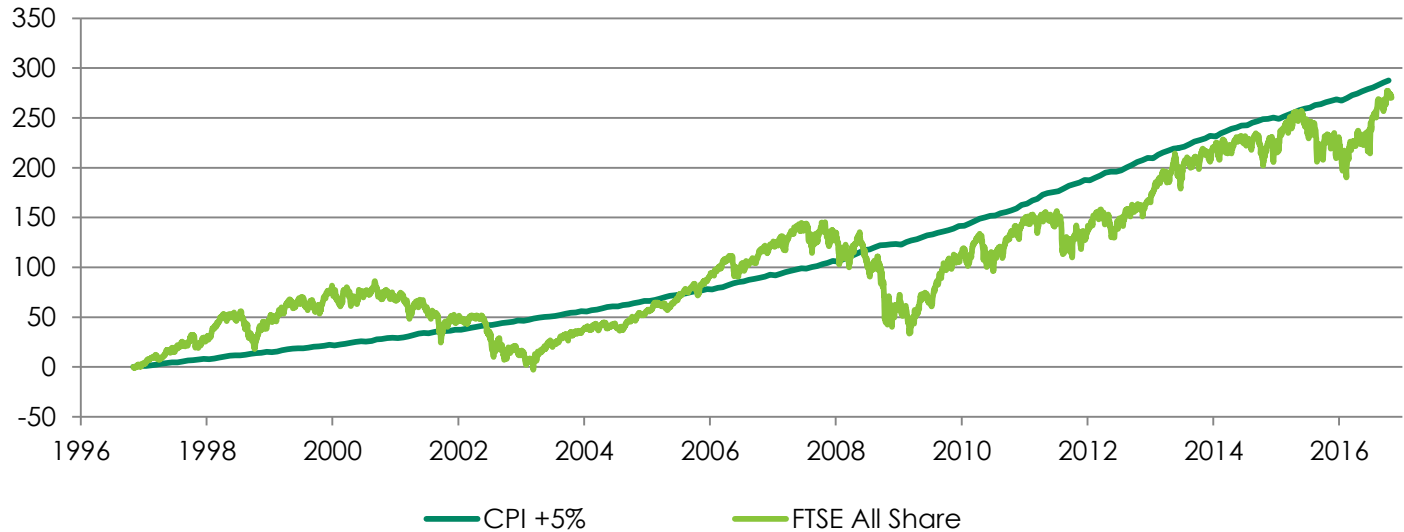
SO WHAT IS OUR INFLATION PREDICTION?

We focus on:

1. Creating an **asset allocation** model to deliver **CPI+ returns**
2. Investing in assets that **respond positively to inflation**
3. Using investment techniques to **manage volatility**



INFLATION AND EQUITY RETURNS



**OVER THE LONG TERM EQUITIES DELIVER INFLATION PLUS RETURNS
OVER THE SHORT TERM EQUITIES DELIVER VOLATILITY**

INFLATION PLUS RETURNS

Fixed Income

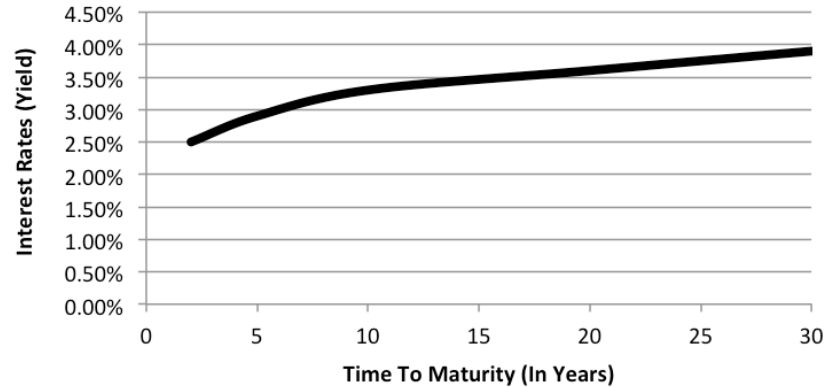
'Inflation-linked bonds are only good if inflation exceeds expectations, because if everyone expects it then they buy them, the price goes up and the total return isn't great.'

**FIXED COUPONS ARE ERODED BY INFLATION
INFLATION LINKERS BECOME EXPENSIVE**

INFLATION PLUS RETURNS

Fixed Income

Normal Yield Curve



**LOOK HARDER FOR OPPORTUNITIES:
GLOBALLY AND ALONG THE YIELD CURVE**

INFLATION PLUS RETURNS

Commercial Property



**PROPERTY IS A REAL ASSET - PRICES & YIELDS ARE LINKED TO INFLATION
...BUT IS LIQUIDITY AN ISSUE?**

INFLATION PLUS RETURNS

Alternative Yield

QUESTIONS TO CONSIDER:

1. Is it likely to provide genuine diversification benefits?
2. What is the underlying investment?
3. How will it respond to inflation?
4. Is it liquid?



**A SECTOR DEFINED BY “WHAT IT IS NOT” ...
...RATHER THAN BY “WHAT IT IS”**

INFLATION PLUS RETURNS

Alternative Yield

- **Health Warning**
 - Limit total exposure and exposure to each opportunity
 - Carry out enhanced due diligence
 - Higher levels of monitoring



INFLATION PLUS RETURNS

Alternative Yield - Examples

**SEQUOIA
ECONOMIC
INFRASTRUCTURE**
INCOME FUND LIMITED

CATCo 
Reinsurance Opportunities Fund Ltd.

LEARNING OUTCOMES

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3. **MANAGING VOLATILITY – MYTHS & REALITIES**

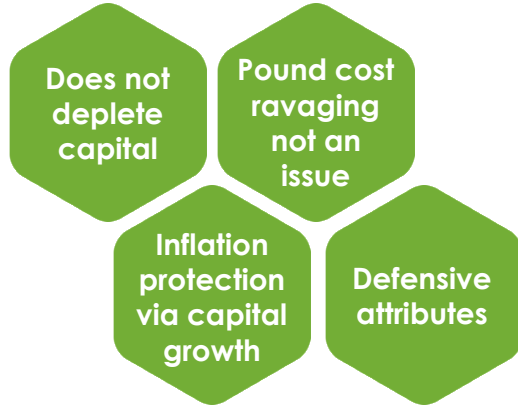
MYTHS OF MANAGING VOLATILITY

- Natural Yield
- Cash Reserve Strategy
- Smooth Returns



NATURAL YIELD

ADVANTAGES



NATURAL YIELD IS A **VITAL COMPONENT OF TOTAL RETURN**

DISADVANTAGES



	1995	2016
UK Gilts	8.20%	1.24%
CPI	2.40%	0.30%

CASH RESERVE STRATEGY

ADVANTAGES

- No fluctuation in short term income
- Behavioural comfort of holding money in cash
- Seen to help insulate against Sequence of Returns risk
- Easy for clients to understand

DISADVANTAGES

- Challenging to administer
 - When to top up?
 - How to top up?
 - Cash Reserve Management
- Long term effects of cash drag

CASH RESERVE STRATEGY

ACADEMIC OPINION

Journal_{of}
Financial Planning.

‘As soon as equities are introduced into the portfolio or the withdrawal rate goes above 3 percent, the use of a buffer zone strategy of any sort...
is more likely than not to leave the investor worse off’

CAN CASH BE USED DYNAMICALLY?

SMOOTHED RETURNS



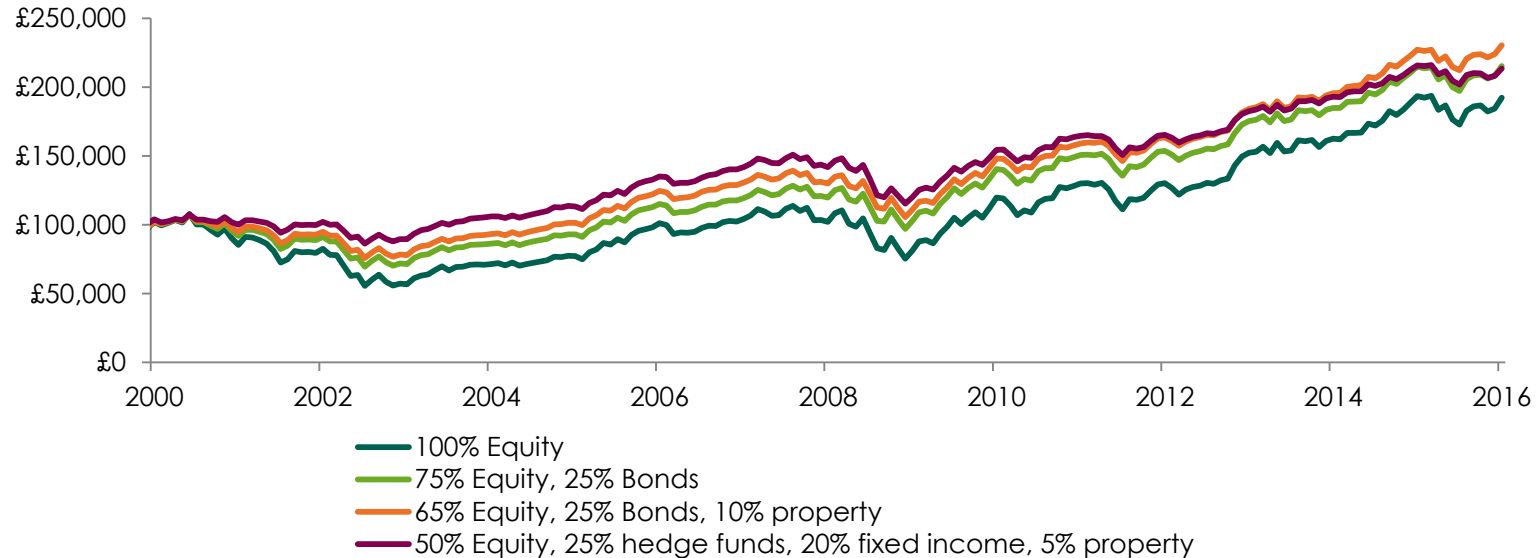
DOES SMOOTHING REALLY HELP IF IT IS WITHDRAWN WHEN MARKETS ARE VOLATILE?

MANGING SHORT-TERM VOLATILITY



MANAGING THE DIPS - DIVERSIFICATION IS KEY

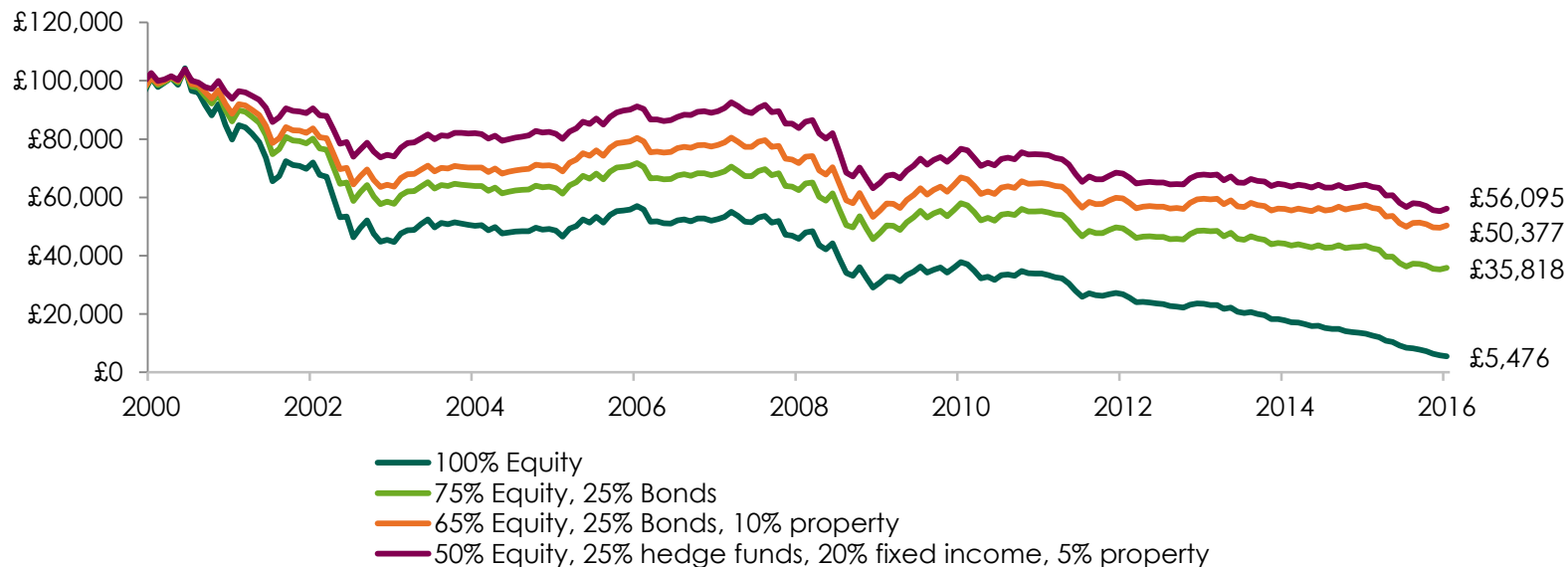
DIVERSIFICATION REALLY WORKS...



For illustrative purposes only. Past performance is not a guide to future performance. The value of investments can go down as well as up and is not guaranteed. Income drawdown: £100k hypothetical portfolio entering an income drawdown arrangement in 2000. 5% p.a. withdrawal, escalating by 2.5% (annualised), monthly withdrawals. ~15-year period incorporating a whole range of equity market conditions. No mitigation of worst 5 or 10 months. Equity market as defined by MSCI AC World Index.

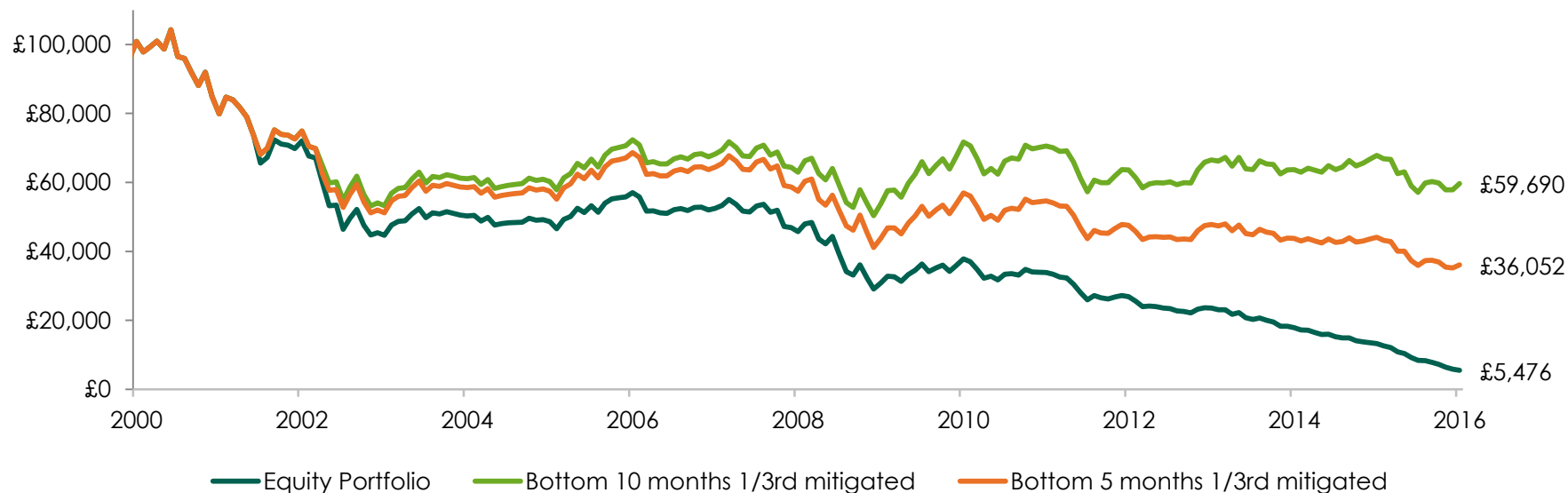
WIDER DIVERSIFICATION

...AND EVEN MORE SO IN DECUMULATION



DYNAMIC RISK MANAGEMENT

CUSHIONING THE DROPS



ALIGN TO CLIENT OBJECTIVES

TYPICAL CLIENT OBJECTIVES

Income of
around 4%

Flexibility to
make
ad-hoc
withdrawals

Protect
income
against
inflation

FUND MANAGER'S OBJECTIVES

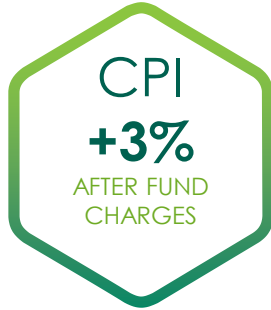
Beat
sector/top
quartile?

Maximise
investment
returns?

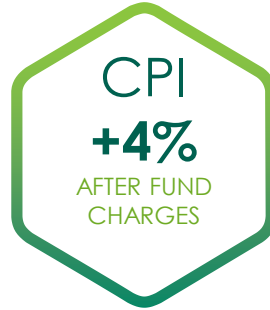
3 year
volatility
measure?

CLIENTS IN DECUMULATION SHOULD HAVE **A STRATEGY ALIGNED TO THEIR GOALS**

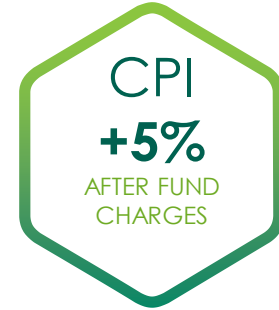
INTRODUCING GENERATION



GENERATION TARGET 3



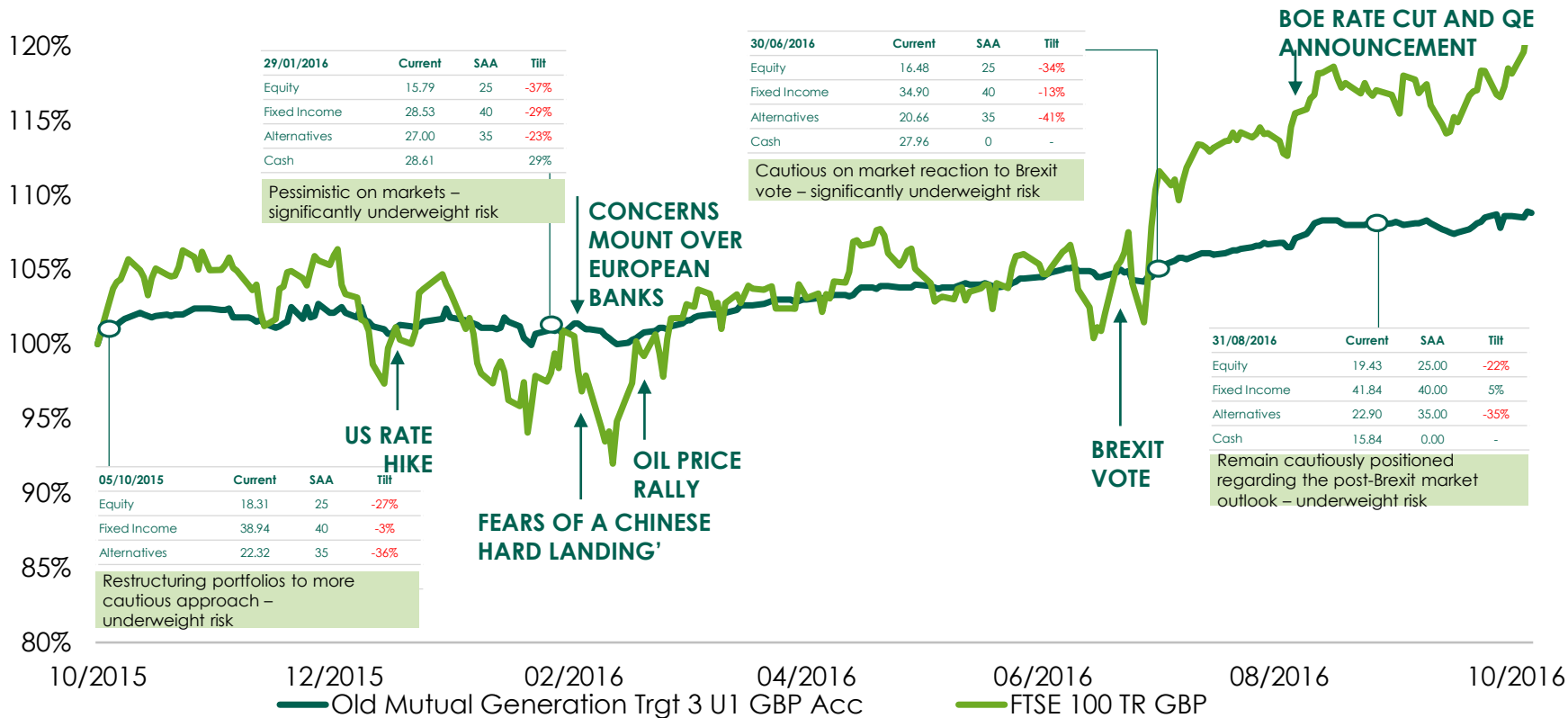
GENERATION TARGET 4



GENERATION TARGET 5

- **DESIGNED FOR CLIENTS** WISHING TO TAKE INCOME
- **CAPITAL-PRESERVATION** AT ITS CORE
- ENGINEERED TO MITIGATE **SEQUENCE OF RETURNS RISK**

GENERATION 3 VS FTSE 100



Source: Morningstar, OMGI as at 05/10/2016;

Chart shows performance of Old Mutual Generation Target 3 fund since Anthony Gillham became manager – 01/10/2015 to 29/07/2016.

THE GENERATION PORTFOLIOS - SUMMARY

DESIGNED SPECIFICALLY FOR AT-RETIREMENT CLIENTS TO
MITIGATE THE RISKS DURING DECUMULATION

INFLATION
LONGEVITY
SEQUENCE OF RETURNS

FOCUS ON CAPITAL-PRESERVATION AND RISK-
MANAGEMENT

TOTAL RETURN FOCUS, TARGETING INFLATION PLUS RETURNS

CPI +3%
CPI +4%
CPI +5%
NET OF FUND CHARGES

QUESTIONS

APPENDIX

1. Uses of Generation in a financial planning process
2. Detail on multi-asset team
3. Current Generation holdings data
4. Performance data
5. Current positioning
6. Ratings against external risk profilers

PENSIONS LIFESTYLING

Should you stick with a lifestyle pension or move your pot in case the bond bubble bursts as you approach retirement?



Why 'lifestyle funds' are no longer the best choice for pensions



GENERATION ALLOWS INVESTORS TO STAY INVESTED IN GROWTH ASSETS WHILE MANAGING VOLATILITY INTO THEIR RETIREMENT YEARS

CASH RESERVE STRATEGY

ADVANTAGES

- Effects of inflation/charges/low interest rates on cash element
- How much to hold?
- Topping-up in falling markets
- What is the correct process?
- Cash drag

DISADVANTAGES

- Targets inflation plus returns net of charges
- Designed to cushion against short term volatility and sequence of returns risk
- Can be used alongside an accumulation portfolio

REPLACING CASH WITH GENERATION COULD HELP **EXTEND THE LONGEVITY OF A DECUMULATION PORTFOLIO'S INCOME**

DEFINED BENEFITS TRANSFER

Clients in DB schemes will have experience of:

- No investment volatility in DB scheme
- Inflation linked increases to income
- Focus on outcome

Generation is designed to:

- Reduce investment volatility
- Targets inflation plus returns
- Focus on customer outcomes

GENERATION COULD HELP TO DELIVER PEACE OF MIND FOR CLIENTS TRANSFERRING FROM DB SCHEMES

DISCOUNTED GIFT TRUSTS

SETTLOR

Takes fixed regular withdrawals for life.

Cannot waive withdrawals without IHT consequences.

BENEFICIARIES

Trustees can access the remaining trust fund on beneficiaries' behalf after settlor's death.

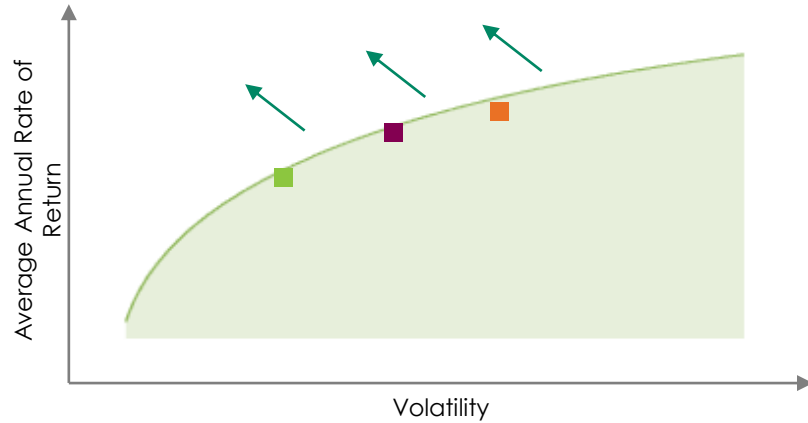
TRUSTEES

Have a fiduciary duty to the settlor and the beneficiaries.

Should maintain a diversified portfolio.

MAINTAINING WITHDRAWALS WHILST AVOIDING 'POUND COST RAVAGING' **COULD HELP TRUSTEES FULFILL DUTIES TO SETTLOR & BENEFICIARIES**

DAMPENING VOLATILITY



USING GENERATION AS PART OF AN ACCUMULATION PORTFOLIO COULD HELP **REDUCE PORTFOLIO VOLATILITY WHILE MAINTAINING AN INFLATION PLUS RETURN**

CONTROLLING CORRELATION

	Barclays Global Aggregate GBP hedged	FTSE 100	HFRX Global GBP	MSCI AC World	Old Mutual Generation Target 3
Barclays Global Aggregate GBP hedged	1.00	0.05	-0.10	0.08	0.16
FTSE 100	0.05	1.00	0.81	0.91	0.62
HFRX Global GBP	-0.10	0.81	1.00	0.79	0.72
MSCI AC World	0.08	0.91	0.79	1.00	0.57
Old Mutual Generation Target 3	0.16	0.62	0.72	0.57	1.00

	Drawdown
Barclays Global Aggregate GBP hedged	-0.82%
FTSE 100	-10.78%
HFRX Global GBP	-6.75%
MSCI AC World	-8.95%
Old Mutual Generation Target 3	-2.59%



ANTHONY **GILLHAM**



PAUL **CRAIG**

A HIGHLY EXPERIENCED INVESTMENT TEAM

STRONG MULTI-ASSET TEAM

DEPTH AND BREADTH OF TALENT

BEN MOUNTAIN & ANTHONY GILLHAM

CO-DIRECTORS OF MULTI-ASSET, OLD MUTUAL WEALTH INVESTMENT DIVISION

MULTI-ASSET PORTFOLIO MANAGERS

MANAGED PORTFOLIO SERVICE - WEALTHSELECT & QUILTER CHEVIOT

ECONOMIST/STRATEGIST

QUANT TEAM

FUND RESEARCH TEAM

GENERATION HOLDINGS

EQUITIES

Amadeus It Hldgs	Direct Equity
Beiersdorf Ag	Direct Equity
Bureau Veritas S	Direct Equity
Essilor Intl	Direct Equity
Geberit Ag-reg	Direct Equity
Grifols Sa	Direct Equity
Industria De Diseno Textil Sa	Direct Equity
Nestle Sa-reg	Direct Equity
Roche Hldg-genus	Direct Equity
Safran	Direct Equity
SAP Se	Direct Equity
Syngenta-2nd	Direct Equity
Vinci Sa	Direct Equity
BT Group Plc	Direct Equity
Burberry Group	Direct Equity
Imperial Tobacco	Direct Equity
Next Plc	Direct Equity
Sage Group	Direct Equity
Taylor Wimpey Pl	Direct Equity
Hermes Asia Ex Japan Equity Fund	Equity Funds
Old Mutual Asian Equity Income Fund	Equity Funds
OM Asian Equity Income Fund	Equity Funds
Wells Fargo Emerging Markets Equity Inc	Equity Funds
OM Global Equity Income Fund (irl)	Equity Funds

EQUITIES (CONTINUED)

Polar Capital Financials Income	Equity Funds
Montanaro UK Income Fund	Equity Funds
Old Mutual UK Equity Income Fund	Equity Funds
OM Multi Manager Trust Om Equity 1	Equity Funds
JPM US Equity Income	Equity Funds
STOXX Europe 600 Sep16	Equity Index
Mini Msci Emg Mkt Sep16	Equity Index
Mini Tpx Idx Fut Sep16	Equity Index
FTSE 100 Idx Fut Sep16	Equity Index
S&P500 Emini Fut Sep16	Equity Index

FIXED INCOME

JPM Income Opportunity Plus	Absolute Return
British Pound Currency Future Sept 16	Currency
Jpn Yen Currency Future Sep16	Currency
JPY Exposure for TFSEC_006556	Currency
USD Exposure for TFSEC_006556	Currency
USD Exposure for TFSEC_006557	Currency
OM Local Currency Emerging Market	EMD
M&G Optimal Income	Flexible
OM Bond 1 (twentyfour)	Flexible
ISHR \$ Tips	Government
Long Gilt Future Sep16	Government
DuPont Cap Management OM Bond 3	High Yield
Nordea 1 - European High Yield Bond	High Yield

FIXED INCOME (CONTINUED)

Pareto Nordic Corporate Bond	High Yield
Wells Fargo Short-Term High Yield	High Yield
Wells Fargo US High Yield	High Yield
Fidelity Om Bond 2	Investment Grade
Kames Capital Sterling Corporate Bond	Investment Grade
Wellington Global Credit Plus	Investment Grade

ALTERNATIVES

AQR Global Relative Value	Alternative Beta
Blackstone/GSO Loan Financing	Alternative Income
Catco Reinsurance Opp Fund	Alternative Income
Fair Oaks Income Fund Ltd	Alternative Income
Hadrian's Wall Secured Investment Ltd	Alternative Income
Honeycomb Investment Trust Plc	Alternative Income
Sequoia Economic Infrastructure Income	Alternative Income
Sqn Asset Finance Income Fund	Alternative Income
Old Mutual UK Specialist Equity Fund	Long/Short
Henderson UK Property (A Acc)	Property
Henderson UK Property (A Inc)	Property
M&G Property Portfolio	Property

REAL RETURN

Goldman Sachs Strategic Commodities	Commodities
RARE Infrastructure Value Fund	Infrastructure

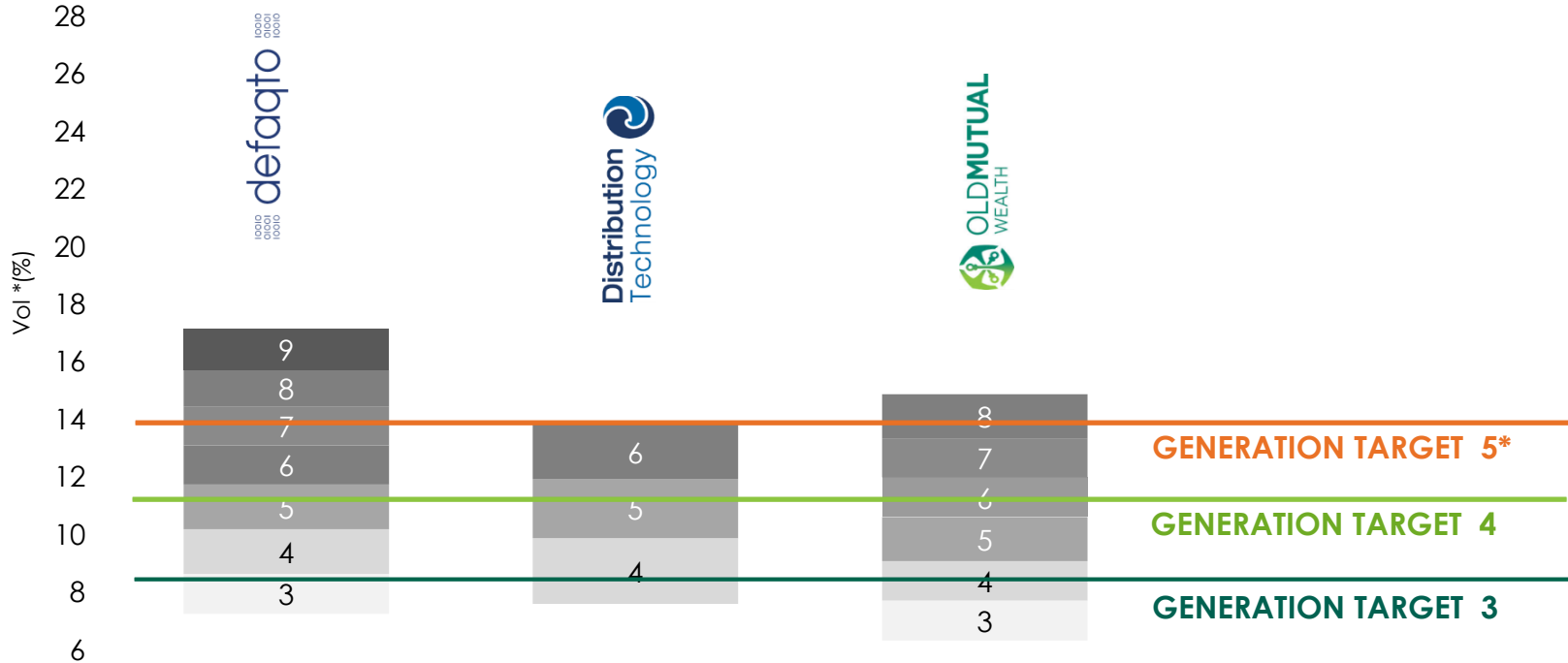
CASH

GS Sterling Liquid Reserves Fund	Money Market
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GENERATION 4 PORTFOLIO POSITIONING

Portfolio	Current	SAA	Tilt
Equity	32.60	50	-35%
Fixed Income	24.75	20	24%
Alternatives	26.93	30	-10%
Cash	15.75	0	-

HOW THE FUNDS ALIGN TO RISK RATING TOOLS



*The volatility of all the risk systems is 'normalised' to eValue against Q2 assumptions. So the volatility shown on the axis is unimportant, what matters is the look across from one risk system to another – i.e. The straight line.

IMPORTANT INFORMATION

Please remember that past performance is not a guide to future performance. The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. Exchange rates may cause the value of overseas investments to rise or fall. The Fund may invest principally in units in collective investment schemes.

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