**Centralised Investment / Retirement Proposition and Client Categorisation (incorporating PROD)**

***Metrics***

We

* work exclusively in the retail market. Our clients are in general, mass affluent. This is our strategic client categorisation;
* have tactical categorisations - broadly these relate to pre and post retirement situations;
* operate a centralised investment proposition (CIP) which accommodates a business model predicated on an in-house investment proposition requiring model portfolios and fund switching / re-balancing;
* believe that
  + servicing client needs drives our advice model
  + clients in the main have a primary disposition to build, then preserve capital, but ultimately never to run out of income
  + asset allocation and cost control are the key determinants of positive outcomes for clients
  + portfolios should be mainstream, well diversified and liquid
  + products should be mainstream and, as far as possible, remain suitable throughout the client lifecycle

***Tactical categorisation***

*Pre-distribution phase of client life cycle*

The majority of clients are introduced to us at the accumulation stage of life and for these clients, the CIP is used as part of the financial planning advice process. Please refer to our CIP process for that detail.

*Distribution phase of client life cycle*

When a client reaches the distribution stage, we will assess each individual based on their circumstances at that time.

*The CIP is likely to be fit for purpose.*

It is very unusual that a client product/provider will be altered at this time.

*Pre-distribution product map*

|  | **Lifecycle phase** | **Most likely products** | **Reasons** |
| --- | --- | --- | --- |
| 1 | Young accumulators | ISAs, Pensions, Protection plans | Big debts & young families lead to protection needs; mainstream tax efficient investment-based products to accumulate capital |
| 2 | Late accumulators | ISAs, pensions | Although protection plans may still be needed, these should be tailing off unless they serve an IHT purpose; investment accumulation is now crucial. |

*Basis of client assessment at entry into distribution life-cycle*

Our Centralised Retirement Proposition (CRP) is a subset of our CIP and is based on investment risk dynamics for clients.

Our primary premise for all clients is to ensure, as far as possible, that reasonable income needs are realised at all times.

Consequently, our position is that we will always seek to protect those income needs first.

Broadly, we deal with the interaction of income needs and investment needs as follows:

|  | **Income needs serviced** | **Investment needs** | **Probable products** | **Reasons** |
| --- | --- | --- | --- | --- |
| 1 | 100% by guaranteed income | Unconstrained other than by the client’s emotional tolerance to investment risk (ATR). There will be no need to invest for growth other than to keep pace with inflation | ISAs, OEICs, Bonds, SIPPs, Drawdown pensions | It is unlikely clients’ investment profiles will change relative to the pre-distribution phase. In the main clients will be capturing tax breaks to distribute to future generations |
| 2 | Only essential living costs are covered by guaranteed income | Investment needs are more complex, and dependent on the relative importance of clients’ discretionary income needs. In this case consideration will need to be given to capacity for loss (CFL) as well as ATR. Assets that are not applied in supporting income needs will be unconstrained as in 1 above | As above, but will also need to be considered. | In this situation Bonds will, in all probability be used for income distribution rather than estate planning. Annuitisation of pensions will be considered dependent on the importance of discretionary income to clients. |
| 3 | No income is guaranteed other than SPs and this doesn’t cover essential income needs | Again, investment needs are likely to be complex. Investment asset allocations will be dependent on the size of the asset pool, the deployment of assets to satisfy income needs, and inherent client ATR | As above | As above |

There is no one size fits all process employed and regular reviews are a key part of the CRP and integral within our culture throughout every life stage.

*Regarding investment pathways:*

Investment pathways are meant for non-advised clients. However, please note the definition of a non-advised client is one who hasn’t received any investment drawdown advice in the last 12 months. Providers assure us that if there is an adviser tagged to the drawdown account, the client won’t be approached. Our position is to take that decision away from the provider by keeping clients fully informed.

With effect from 1 February 2021, investment pathways are a default provider option for clients going in to an investment decision when in pension drawdown.

As advisers we consider this option alongside our firm specific retirement planning solution for clients.

Our findings are that the options providers provide

* Bear no asset allocation resemblance to ours;
* Bear no fund resemblance to ours;
* Take no account of our overall cross-product client retirement management strategy;
* Solutions that cost no more than 75bps;

Our position regarding investment pathways is therefore as follows:

* To layer a second strategy alongside ours for the sake of cost, is very unlikely to be beneficial to the client;
* The cost of the pathway ignores advice costs, which is critical to managing retirement income for our clients;

In spite of this we will consider the investment pathway option on a case-by-case basis.

***The ATR and CFL risk dynamic***

Again broadly, our view of the above can be categorised as follows

Example

| **Risk Level** | **Risk descriptions** | **Risk consequences** | **Ideal for** |
| --- | --- | --- | --- |
| None | There is no risk to capital. Typically, investments will be savings and deposits. | Capital is secure and accessible (not always immediately) but there is an inevitable loss in value after the effects of inflation. | People who are not investors, but just looking to protect their capital. |
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| Low | Small rises and falls in value. Over time expectation would be to grow to cover inflation but not much more. | Investments will be accessible. In the short-term small capital losses may occur, but in the longer term, small returns above inflation are expected but not guaranteed. Large capital growth is not expected even in the long term. | People who have sufficient money to cover lifestyle expenses and are investing to just to protect the after-inflation value of their investments or make up a small shortfall. |
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| Medium | Significant but not large rises and falls in value. Over time expectation would be to grow to cover inflation by some margin. | Investments will be accessible. In the short term, capital losses may occur, but in the longer term, significant returns above inflation are expected, but not guaranteed. | People who need significant growth in capital over the longer term, typically those still working and saving to retire. Also, for those that don’t need significant growth, but also wish to take more than inflation risk |
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| High | Large rises and falls in value would be expected. Over time the expectation would for large growth, but with chances of significant losses. | Investments may not always be immediately accessible. Losses may take some time to be recovered, and in some circumstances initial values may not be recovered. Over longer time periods large gains would be expected but not guaranteed. Investments would be particularly susceptible to catastrophes such as the 1987 and 2007 crashes | People who need to make large profits mainly over the relatively short term (although 5 years +). Alternatively, people with significant growth requirements but with very long time horizons, or people who don’t need to take risk but just want to. |
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| Gamblers | Expectation would be for very large growth but with equally large losses also possible. | Investments will often not be immediately accessible. Gain can be very large in relatively short time spans. Total loss of capital is a realistic outcome too. | People with excess capital which if lost would not impact on standard of living, and who enjoy the emotional effect of gambling. |
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*Our approach to using assets to support income needs*

We use cash flows to determine the sustainability of our clients income and capital needs.

Our cash flow analysis is predicated on an investment return metric to satisfy the income / capital need of the client.

We subsequently test this metric against a clients’ attitude to risk using Oxford Risk. Oxford risk will identify the clients’ emotional tolerance to risk and estimate an appropriate asset allocation.

We then test the Oxford risk asset allocation outcome against our cash flow asset allocation and agree a pathway forward with the client, adjusting needs or asset allocations with the client if necessary.

***The importance of annual reviews***

Whatever the objective the most important part of our CRP is regular reviews so that any financial plan that is put in place can be adjusted if required; for instance, a year of poor performance may require a temporary reduction or suspension of withdrawals.

Annual reviews are critical as they impose overall security and control over the viability of our CIP / PRP on an annual basis, at client specific level by assessing suitability of product and of funds.

***The use of cashflows at entry into distribution and beyond***

We believe cash flows are essential to managing income expectations in retirement. The key purpose of cashflows is to ensure clients do not run out of money. From a risk perspective this translates into the regulatory concept of Capacity for Loss (CFL).

For this reason, we begin our cash flow programme approximately 10 years prior to anticipated retirement age in clients who are going to need assets to supplement income in distribution.

For the same cohort of clients, we continue to monitor the sustainability of income through cash flows on an annual basis.

We utilise cashflow forecasting software – the current method of forecasting growth within the system uses a linear projection and we have parameters to follow for different risk levels as shown in table below. In addition, we will stress test any assumptions by using market correction simulations built in to the software. In general, the correction of the market will be 10 yearly from year of forecast and the drop in value will correspond with the risk table figure. Another simulation which is often used is to reduce the level of expected annual growth - if 5% per annum is expected growth then simulate what would happen if 3% growth was actual and how does capital last.

Example

|  |  |  |  |
| --- | --- | --- | --- |
| **Risk Score** | **Expected Average Annual Return** | **Expected Average Annual Volatility** | **Stress Test Market Crash Assumption** |
| 3 - Low Risk | 3% | +/-  6% | -10% |
| 4  -  Low - Medium | 4% | +/-  8% | -15% |
| 5  -  Medium | 5% | +/- 10% | -20% |
| 6  -  Medium - High | 5.5% | +/- 12% | -25% |
| 7  -  High | 6% | +/- 15% | -30% |

We have no set rule applying to cash buffers in retirement. Short term expenditure is always left in cash, but income withdrawals would only be moved to cash for a cautious customer or if deemed to be a very volatile market. The research we have seen shows that cash buffers do not really make much difference when it comes to sequencing risk and a better strategy is regular reviews and adjusting income withdrawals if required.

We believe that the majority of clients will decrease spending as they get older and there is a later life stage around circa 80 years old when cashflow forecasting shows reduction of expenditure. However, this can of course vary for some clients and there may well be gifting to family to consider along with potential for care home costs.

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