



# DECUMULATION INVESTING

CLIENT GUIDE  
CAPITAL AT RISK



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# Definitions

## Decumulation

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Accumulation is not decumulation.

We are all familiar with the word accumulation in the context of investing, where money is saved and invested to build wealth over time. Conversely, decumulation refers to gradually spending or withdrawing money, most commonly during retirement, to cover expenses such as living, travel, or other financial needs.

## Diversified Portfolio

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A diversified portfolio means spreading your investments across different types of assets, such as equities, bonds, and other investment options such as infrastructure and commodities. The goal is to reduce the risk of losing money if one type of investment does poorly and others do well during different market conditions, helping offset the risk of holding an individual investment.

## Yield

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Yield, in investing, refers to the income earned from an investment over a specific period of time, usually expressed as a percentage of the investment's price. It's essentially how much money you make from an investment, often through dividends for stocks or interest payments for bonds.

## Maximum Drawdown

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Maximum drawdown is a measure that tells us about the most significant drop in value a portfolio has experienced over its history. In simpler terms, it shows you the worst-case scenario: how much money you would have lost if you had invested at the highest point of the market, and then sold at the very lowest point before it started to recover.

## Volatility

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Volatility refers to how much and how often the value of your investment portfolio changes over time. If a portfolio has high volatility, its value can go up and down quite dramatically in a short period. On the other hand, a portfolio with low volatility has smaller and less frequent changes in value, making your investment journey smoother.

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# Explaining Decumulation Investing

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Decumulation is a crucial financial strategy for retirees to make sure they have enough money to support themselves after they stop working without running out of funds and to maintain quality of life during retirement.

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Throughout your working life, you've dedicated yourself to saving diligently with the goal of securing a comfortable, or possibly even early, retirement. Your strategy centered around accumulating assets and wealth, whether through buying and selling property, investing in ISAs, savings accounts, pensions, or Self-Invested Personal Pensions (SIPPs).

The aim was always to enhance your personal wealth with each investment. During any challenging periods for your investment portfolio, you could make additional deposits from your salary, allowing you to acquire assets at more favorable prices. This approach not only mitigated the impact of downturns but also compounded the growth of your portfolio over time.

However, as retirement approaches, a fundamental shift in focus becomes necessary. After years of learning the importance of saving for the future, the time arrives to start enjoying the fruits of your labour. This shift marks a significant transition from an accumulation-focused portfolio to one centered on decumulation—a change that encompasses both psychological adjustments and alterations in your investment strategy.

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# Accumulation to Decumulation & the Risks

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While the primary goal of accumulating assets is to increase your wealth, the main objective of decumulation is to ensure that you sustain your income level throughout retirement. Therefore, your investment strategy should closely monitor and manage risk.

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## Navigating Sequencing Risk

### **Ensuring a Confident, Stable Income Stream**

Smooth, linear returns are rare in the realm of investments. The fluctuation in investment performance, coupled with the timing of withdrawals, presents what is known as sequencing risk. This risk underscores the importance of a robust plan aimed at minimising the impact of market downturns on your portfolio. Investments that provide lower volatility and drawdown can help mitigate sequencing risk during market declines and help ensure a more stable portfolio from which to draw an income.

## Addressing Longevity Risk

### **Securing Income for the Years Ahead**

With life expectancy on the rise, the need for retirement pots to last longer than ever is a pressing concern. Longevity risk looms large, influencing your future income needs as you navigate the uncertainties of extended lifespan. Planning for potential healthcare expenses in old age is vital to safeguarding your financial security over the long term.

## Confronting Inflation Risk

### **Safeguarding Purchasing Power**

As time passes, the cost of living invariably climbs, eroding the purchasing power of your money. Inflation poses a challenge to investors seeking to maintain a secure, long-term income stream. It's essential to account for inflation when crafting your investment strategy to ensure your financial resources retain their value over time.

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# What a Decumulation Portfolio Should Achieve

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The defining aim of any decumulation investment strategy should be the need to support regular withdrawals.

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While your adviser will be more than happy to help with the psychological aspects, and guide you through the process of moving from accumulation to decumulation, we're here to ensure that your portfolio is suitable for spending rather than saving. In short, moving away from a portfolio focusing on growth, to one that can support your lifestyle heading into retirement.

To be able to achieve this, we believe the three main investment characteristics necessary to support regular withdrawals are...



## Taking the sting out of market falls

In retirement, defending capital becomes crucial due to sequencing risk, as retirees lack the luxury of waiting for market valuations to rebound as they did during accumulation phases. Maximum drawdowns signify the peak-to-trough decline in an investment's value, highlighting the importance of protecting capital to sustain a reliable income stream throughout retirement. By prioritising capital preservation strategies, retirees can mitigate the adverse effects of market volatility and safeguard their financial security in the long run.



## Smoothing out investment returns

We strive to maintain steady valuations within your portfolio, though we can't eliminate market ups and downs entirely. By smoothing out these fluctuations as much as possible, we aim to provide you with the reassurance needed to fully savor your retirement.



## Diversified source of income

While it's not a necessity, having a natural yield can offer a straightforward method to access funds during decumulation without directly impacting your total capital. However, it's crucial to ensure that the portfolio doesn't over-reach for yield, as this could negatively harm the first two factors.

# How IBOSS Portfolios Provide these Characteristics

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At IBOSS, risk management has always been as critical as achieving returns within our philosophy, and is especially essential in a decumulation strategy. To support this approach, we employ fully diversified portfolios and place a particular focus on three key investment elements.

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## Low Volatility

Low volatility means that the value of the investment remains relatively stable over time, experiencing fewer big swings or fluctuations. This stability is achieved by carefully selecting investments that are less sensitive to market ups and downs.

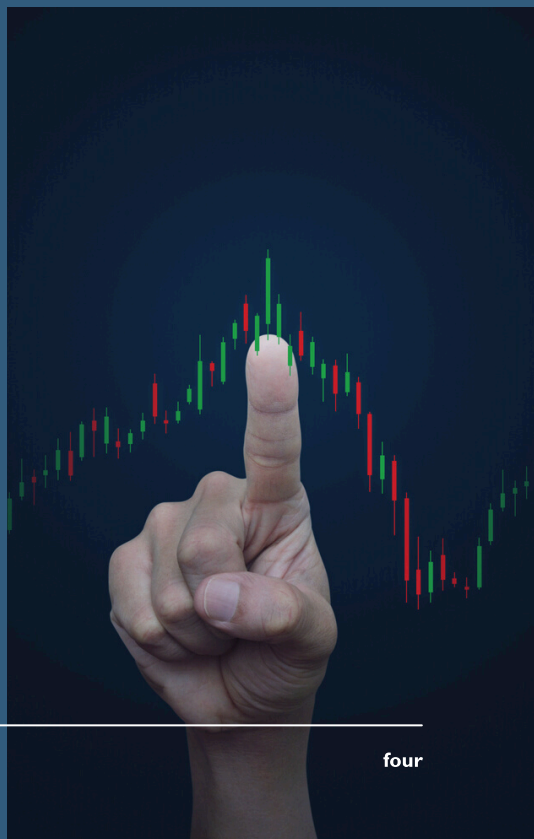
## Low Drawdown

Low drawdown is crucial, especially for those in retirement, as it measures the potential drop in value from the investment's peak to its trough. To manage this, our investment managers strategically balance the portfolio to protect against significant losses, ensuring a smoother and less risky financial journey.

## Attractive Yield

The income or profits that an investment generates on its own. Our managers focus on funds that not only offer reliable returns but also maintain a steady income stream. This strategy is designed to enhance the overall profitability of your portfolio without needing to sell assets.

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# How We Can Support a Decumulation Plan

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We acknowledge that investment management is just one facet of a comprehensive decumulation plan, but we believe our portfolio range can assist advisers in effectively managing your investments and support regular withdrawals as part of that plan.

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## Diversified Income Source

Whilst a yield can be an attractive characteristic it is important that the yield is diversified.

One thing that remains consistent across all our ranges is that we offer truly diversified portfolios, both in terms of where the assets are geographically located and how they're invested. Diversification can help manage risk and potentially increase the chances of steady growth in your investments, while reducing the impact of market fluctuations.

The goal is to reduce the risk of losing money if one type of investment does poorly and others do well. In decumulation, investors are withdrawing funds rather than accumulating them, so the scope for the portfolio to grow back is therefore reduced. This makes it especially important to minimise the ups and downs of the market.



# Why IBOSS?

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IBOSS has a demonstrably strong track record in this space dating back to 2008. We have shown to be highly responsible custodians for client monies, allowing them to take a healthy yearly withdrawal whilst still maintaining the value of their initial investments.

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## Tailored to Your Risk Profile

Every investor is unique, that's why we offer seven different decumulation portfolios that are suitable for a diverse range of client risk profiles. Your adviser will guide you through understanding your capacity for loss and attitude to risk, ensuring your investments align perfectly with your comfort level.

## Flexible Allocation

Whether you're looking to focus solely on decumulation or wish to mix in elements of accumulation, we have three other portfolio ranges that offer the flexibility to manage multiple pots of assets. This approach allows you to balance income generation with growth potential, tailored to your individual retirement needs.

## Competitive Pricing

Our decumulation portfolios are attractively priced to ensure you maximise your retirement savings without compromising on service or performance.

## Service

As a team, we offer a first-class service, not simply an investment product. IBOSS Asset Management was also originally founded by a group of financial advisers, so possess first-hand knowledge and experience of clients' demands when it comes to retirement expectations.

The portfolios are monitored daily and rebalanced quarterly, but the team have the ability to make intra-quarter changes should they deem them necessary. Clients also have the option to receive free quarterly communications. We strive to ensure our client facing material is jargon-free, making it easy for you to engage with, whilst creating a level of involvement that makes you feel part of your own investment journey, even after you have retired.

**Past performance is not a reliable indicator of future performance. Please see important information for risk warnings.**



# Important Information

This communication is designed for informational purposes only and is not intended as investment advice. These investments are not suitable for everyone, and you should obtain expert advice from a professional financial adviser. Please note that the content is based on the author's opinion at the time of writing/publish date. Our views and opinions regarding certain investment themes and topics can alter over time as the macroeconomic background changes and other industry news is made publicly available, this is not intended as investment advice.

Past performance is not a reliable indicator of future performance. The value of investments and the income derived from them can fall as well as rise, and investors may get back less than they invested.

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