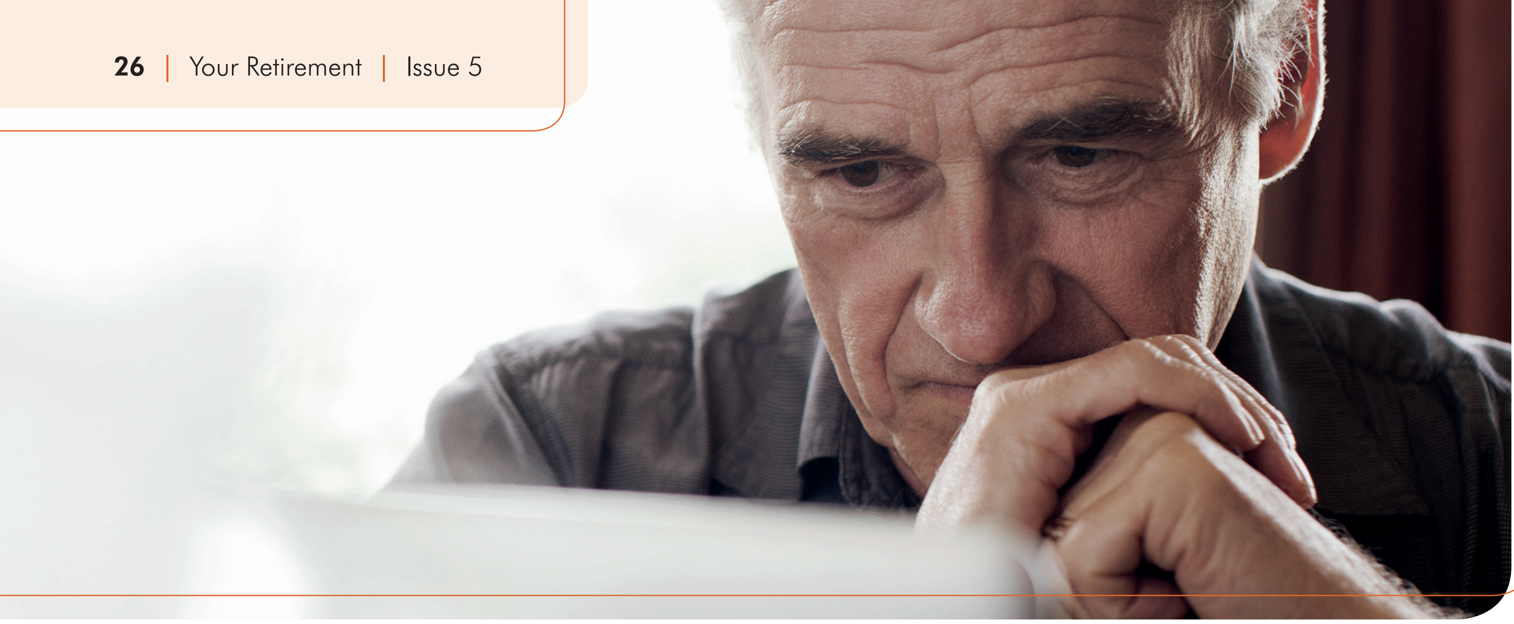

Managing your own investments in retirement: What are the options?

HENRY COBBE, CFA IS HEAD OF RESEARCH AT ELSTON CONSULTING WHICH DEVELOPS INVESTMENT PRODUCTS AND STRATEGIES FOR ASSET OWNERS AND MANAGERS.

Pensions Freedom has meant that investors now have much more say about how to fund their retirement.

With freedom comes choice, but choices can be difficult to understand and difficult to make.

Given the complexity around choosing the right investments, up to 1/3rd of non-advised investors end up in cash as a retirement strategy. This leads to poor outcomes – as while cash is low risk in the short-term, it can be high-risk in the long-term as cash can be eaten up by inflation.

According to research by the FCA, the industry's regulator, these investors could potentially get 37% higher income over 20 years by moving into a mix of investment assets.

So how to get the right of mix of investments? For decades, the wealth management industry has been focused on investments that can grow a pot of money, and the focus is on risk and return.

In retirement, the challenge is different: it's about how to make it last. When trying to make a portfolio last, the focus should be on risk profile, time horizon and withdrawal rates.

Let's focus on each of these questions in turn:

Getting the right risk profile

Investors should think of selecting the risk-return profile that is comfortable for them. Generally speaking, the less risk an investor is willing and able to take, the lower the proportion of risk-assets (such as equities) should be in a portfolio. And yet some allocation is needed to protect against inflation.

Getting the right time horizon

Research suggests that investors under-estimate how long they will live. The longer you live, the greater the portfolio you need to live on, and the less you can afford to take out. You can get a life expectancy estimate from the Office of National Statistics.

Getting the right withdrawal rate

It's up to customers to select the right withdrawal rate. The rule of thumb is not to withdraw more than 3% or 4% per annum if a portfolio is to last over 20 years. But there are a growing number of tools that can help investors select the right withdrawal rate based on their investment mix and their time horizon.

Finally, a key consideration is to keep **investment costs down**. The less of your portfolio that is taken up with fees, means the more you have to keep for yourself.

Choosing the right asset allocation fund

Alliance Trust Savings' investors have a range of asset allocation funds to choose from. We strongly believe that investors should focus on those asset allocation funds that are actively managed, but use low cost "passive" as building blocks within the fund.

Target Risk Funds

Target Risk Funds provide a range of allocations for different risk-return profiles as defined by allocation to equities. However, these are primarily designed for growing a portfolio rather than making one last.

Henry is Director and Head of Research at Elston Consulting which researches and develops investment strategies for asset-owners, index providers, asset managers and intermediaries, with specialist expertise in Exchange Traded Funds. After graduating in 1999 with a first class MA(Hons) degree from the University of Edinburgh, he worked as a research analyst at leading investment managers, including Schroders plc, Thames River Capital LLP and was a partner at Nevsky Capital LLP. Henry is also a trustee of various private client and charitable trusts. Henry is an IMC holder since 2000, a CFA charter holder since 2004 and a member of STEP.

Target Date Funds

Target Date Funds provide a ready-made asset allocation strategy that changes its risk profile over time. Target Date Funds start off targeting growth and then pivot to target withdrawals at or after the date in the name of the fund. To choose the right target date, take your year of birth, add 65, and select the fund nearest to that date.

Fund range	OCF (approx)	Available on Alliance Trust Savings
Architas BirthStar® Target Date Funds	0.55%	Yes
Vanguard Target Retirement Funds	0.24%	Yes

Capital Protected Funds

Given the focus on downside risk, we are beginning to see "capital protected funds" being made available to investors. This gives psychological comfort that say 80% or 90% of a fund's value is bank-guaranteed. To achieve this, investors forego some upside returns in exchange for this guarantee.

Fund range	OCF (approx)	Available on Alliance Trust Savings
Acumen Capital Protected Fund	1.35%	No

What else?

In the pipeline, we see potential for a range of innovative retirement products available to DIY investors. Examples include:

- **Target Term Funds:** Given the focus on time horizon, we expect to see a new type of fund in the market that focuses on time horizon for an investment profile.
- **Hybrid Funds:** These are funds that incorporate both fund elements and insurance elements to provide a life-long income.
- **ETF Model Portfolios:** We expect ready-made ETF model portfolios to be available to individual investors for them to copy and track themselves.

Creating and managing an investment portfolio can be daunting – there are thousands of funds on offer and getting the asset allocation right is key.

Investors must focus on the key questions around retirement, and consider using low-cost asset allocation funds, as a straightforward way to manage their investments. ■

This is a financial promotion from Elston Consulting.