TIME	SPEAKER	TRANSCRIPTION
00:00:15	Colin	Hello, and welcome to today's myth busting session on retirement income. I'm Colin Simmons and before I introduce you to our other panellists today, I've got the old info on housekeeping information for you. Firstly, we're recording this session for on-demand replay and as usual, here is the important information slides for you. This basically means that today's session is on our current understanding of the UK legislation at this time. As today's call is being recorded, I don't need to read it out to you, you'll be able to go back on to pruadviser.co.uk and review the slides in your own leisure.
00:00:57		Now, today's session qualifies for 60 minutes of structured CPD. It's credited by the CII and the CISI and here's the learning outcomes that we'll be going through today. Description of the key planning considerations when developing a client's retirement income strategy. We're going to explain the ways in which you can determine if a client's income is sustainable. We're going to describe the benefits of utilizing smooth multi-asset returns in the retirement for our client. And we're going to explain how to provide reliable, long term income for clients wanting to retire.
00:01:34		Now, to get your CPD, please make sure you complete the feedback at the end of the session. The feedback button is just underneath the broadcast screen. You'll also see a polling Q&A button there as well. Please submit your poll answers using that button and if you're interested in supplying any questions to us, please do that during the session and we'll answer them at the end.
00:01:58		So let's begin. Joining me once again is Les Cameron. Many of you will be familiar with Les Cameron because he's not only the host of Prudential's myth busting series with myself, but he's also the presenter of the premier pensions and tax event of the year, Les Cameron's Big Fat Tax Quiz. Les, how are you?
00:02:19	Les	Hello Colin. Hey, good to be back myth busting with you especially because I got the date for the Big Fat Quiz, I think it's the second Thursday in December. So it gives me an excuse not to make a start to my questions. So perfect timing this morning.
00:02:33	Colin	Great, and Les, we have a special quest with us today, would you like to introduce him?
00:02:39	Les	Absolutely. If we're talking about retirement and investments are a key part of your retirement journey, so we've brought along your team investment expert to lend his expertise for us, Mark Regal, Mark?
00:02:50	Mark	Morning Les. So what I'm going to cover off today is talk about really where we think, you know what the puzzle is for your client as regards investing in retirement. And as you can see from the slide that's just come up, I've just had written down quickly seven areas, seven challenges for you to consider when putting together a realistic investment

		solution for your clients. If you throw in the fact that you've got to focus on the longer term, as we do with investment at Treasury and Investment Office, you can't rely on what's happened in the past. You know, this is not an easy problem to solve. All of those things on the left there that are listed are really, really important and are things that you talk about with your clients.
00:03:47		But if you look at the chart on the right just as a bit of food for thought before we move on I hand back to you Les, the chart on the right is giving you where we are with developed market government bond yields at the moment. They're at multi-decade lows. And those yields that I'm showing you there, it's not just those government bond yields which are at lows, you've got other fixed income bond yields are again, at ten year lows or very near the lows that you've seen for those bonds. And that also is not taking into account what we're seeing with inflation. If you watched the 10 o'clock news last night, the headline was around inflation. So, lots to talk about Les, back to you.
00:04:30	Colin	Mark, it's actually to myself and…
00:04:32	Mark	Oh that’s a good start, sorry Colin.
00:04:33	Colin	Yeah no, thanks Colin because I think what you've done is you've set the scene nicely and positioned the rest of the call for us. Now, there are many challenges facing advisers on retirement planning and we'll look at some of these today. Before we do that, I'm going to set the scene around some of the myths that there are when advising clients in draw down.
00:04:55	Les	Yeah absolutely, there are quite a lot of myths in draw down [unclear] want to get my poll question in first.
00:04:57	Colin	Right, go for it then.
00:05:01	Les	So if we could get our first poll in, I think that will be quite good. It's for the audience, what's the best way to manage a retirement income portfolio for your client? And so there’s different ways to do it, we just want a sense of where the audience is at. As a kind of cash buffer, holding a couple of year's income in cash. Just taking the natural income off your investment. Kind of annual selection I call it, you just review your portfolio at the end of the year and decide where you're taking your income from. As a smoothed investments. As the safe withdrawal rate. Or something else.
00:05:44		We have two clear… Oh, there we go, okay three at the party. Here we go. I'm sure the machine will tell me when everybody's finished answering.
00:06:20		That's great, thanks very much. We're in luck. Safe withdrawal rates has come out the highest. This is quite good, that kind of ties in one of our key myths. I was expecting something else to be bigger because it's a particularly individual thing doing somebody's retirement advice fund quickly so I’m quite pleased with that spread of results Colin. Makes for the rest of the show being quite good I think.
00:06:46	Colin	It couldn't have gone any better could it, it's almost like we planned it. Now, there's a lot of chatter at the moment

		around income being taken from draw down and that high amounts of income is not sustainable. Now understand that for many this could be an issue, but there are many clients out there where the new flexibilities introduced by freedom in choice have been an enabler for them to have a better retirement. We shouldn't be determining if a client's income is or isn't sustainable, just by looking the headline 'starting income in isolation', should we?
00:07:18	Les	No, I don't think so. That kind of ties in to the first myth and also the poll question, we have a safe withdrawal rate. And of the six months available, the first time I tried I think I got two. So obviously I asked lots of internal people when I looked at advisers, what's a safe withdrawal rate. And I never actually found anybody that could accurately describe what it was. So the first was mainly different ways to manage draw down and it's not just the safe withdrawal rate.
00:07:51	Colin	Absolutely, and before we get to that, let's just think about, freedom of choice has been great for clients and advisers, but I want to emphasise that risk has shifted to the adviser more. The good old days we had cap draw down, life was easier, yet less people brought draw down. We have things like max GAD with cheques and balances that helped to advise us set parameters for a sustainable income. I feel that the adviser has become the actuary of the client, and that's a big responsibility.
00:08:24	Les	Yeah, I think the risk passed on to the advisers is quite a big thing. I think if we all jump in a time machine and move back to your average adviser office management meeting back in February '14 you'll probably hear things like you may need some more advisers because our client base is getting bigger, we're getting too busy, we're going to get an extra para planner or admin person. I'm almost certain no adviser firm was planning to quadruple or increase tenfold the amount of high risk business they were going to be doing. And essentially that's what happened when pension freedom come along, draw down was high risk business, not a lot of people did it and then it became the deep fall. So every advice firm in Britain started doing more high risk business.
00:09:10		And I think the key thing to remember about pension freedom and choice is that it was a change to tax rules. They introduced a new lump sum and took away max GAD, but they didn't change how you plan for somebody's retirement, that's not tax law, how you plan for somebody's retirement.
00:09:27	Colin	Yeah, I think since freedom and choice, I think people have forgotten about the importance of actuaries. Now I'm sure there's a joke in there somewhere about how many actuaries does it take to calculate a sustainable income or perhaps change a light bulb.
00:09:41	Les	Yeah, I don't know how many it takes to create a sustainable income or change a light bulb but I have quite a good actuary joke if you want to hear it.

00:09:49		No, not at the moment Les, we might have some actuary colleagues on the call but if you behave yourself I'm sure we'll have time later on..
00:10:00		Yeah, and on the subject of actuaries, we mentioned GAD, I suppose. Private freedoms, the government actuaries department was involved in sustainability of income because they kind of set the maximum GAD rate which you were allowed to take, which you had to review every three years, came out every year post '75. So I think the actuaries were there the date of based on current gilt yields which are very low, the government actuaries reckon a 60-year-old if you were working off the old GAD tables would be taking just over 6 percent. So if the government actuaries were involved in your flexing access draw down you'd be looking at 6 percent for your maximum income at the moment if you were 60.
00:10:43	Colin	Yeah, that's still very high, isn't it? As I mentioned, without GAD, annual review, more of the risk is now falling to the adviser. And it's the adviser's responsibility to determine what is and isn't a sustainable income for their client. It's important to get sustainability right. When I meet advisers, I start every meeting with them to say, tell me, what have you got on file that demonstrates that this client's income is sustainable, very difficult.
00:11:12	Les	Yeah, it's a really hard question. I think I always say, bad files will get you in trouble more with bad advice because you need to prove their advice was suitable, and that all comes down to the file. But I suppose that kind of takes us finally on to our first myth linked to the safe withdrawal rates are a good way for retirement income, we have got the myth calling safe withdrawal rates are useful.
00:11:37	Colin	Well I hear about safe withdrawal rates all the time and as we saw on our poll question, that's the most popular way of setting a draw down limit. But I think it's just too old school and no longer appropriate for today's retirement market.
00:11:53	Les	Yeah, as well it's the favourite majority of the audience I suppose, which will be a limited poll but yeah I would possibly tend to agree. Some people might say it's never been appropriate.
00:12:06	Colin	Yeah, well let's explain what it is for those that don't know. The original concept came from a financial adviser called Bengen who came up with the rule of 4 percent. And now he was based in the US and this is back in 1994. He said that if you withdrew 4 percent of your assets annually, you increase the distribution by inflation and you re-balance the assets annually then the portfolio would last for 30 years. This was based on simple equity and [unclear] portfolio, but it was based on the historic returns up to 1994.
00:12:42		And why do I say it doesn't apply now, well the world is a completely different place. Expectations of returns from different asset classes would now be different.

00:12:52	Colin	Yeah. And my problem with it I think is it relates to everybody wanting the same thing and it's fairly arbitrary. Yes, if your client has a retirement income you need to have an inflation proofed income that's going to last them for 30 years. You found a solution. But I suspect not a hundred percent of clients are in that position. It's not personal enough.
00:13:17	Colin	Absolutely Les. That's my whole point on this, everyone is different. Plus, the situation is different today. Back in 2016, Morning Star said that safe withdrawal rates should be between 2.5, 3 percent, that's a lot lower.
00:13:32	Les	Yeah, possibly and completely relevant as far as I'm concerned because it's not personal, the circumstances you're trying to meet.
00:13:44	Colin	Absolutely. Everybody is different. One client's wish may be to have half a million pounds left as a death benefit, for other people, their retirement need will be around maximizing as much income as they can but making sure they live a comfortable retirement and possibly having nothing left at the end.
00:14:04	Les	Yeah, well it will be a bit tight if there were nothing left at the end though, I'm hoping I'lll have enough to get around my funeral and the pub afterwards and my poy when I die. But I supposed we'll be talking about yields and personalized yields and I think it's time to move on to myth two. A blast from the past but it's something that's still here today, critical yields are critical.
00:14:29	Colin	Absolutely, I think we should put some context into this. Advisers are often asking why one provider's critical yield is different from another. And they're often very concerned around the significance of critical yield Les.
00:14:43	Les	Yeah, absolutely. I suppose they, we used get that question quite a lot but we still get it post freedoms. I thought that question would die away and completely pointless. Obviously the answer to the question is why are they different is a key parameter there is a gilt rates of the provider and the charges and the contracts. So by definition, unless you've got identical charges and identical enumerations then you get different critical yields.
00:15:08		But my perception would be why are you concentrating on them anyway, they've absolutely got nothing to do with the retirement needs you're trying to meet for your client. So I think critical yield a and b to me are about as much use as an ashtray in a motorbike. The thing for me is critical yield p with the kind of personalized return you're expecting.
00:15:30	Colin	Critical yield p, I like that idea, linked around client objectives and their needs. Thinking about what return do I need to meet my objective.
00:15:45	Les	Yeah, absolutely. Fundamentally your investment return is going to dictate how good your draw down journey is or not, what kind of investment you get. So we're streaming to the investment kind of world again in the same way that Top Gear has got a Stig, the tame racing driver, we've got Mark,

		our not so tame investment expert but I'm sure he's got a lot to say about investments and retirement.
00:16:10	Mark	I hope these introductions are going to get better as we go through Les. Stig, that's the first time I've been called Stig. stick I've been called in the past, but not Stig. Yeah Les, I think as regards investment returns, we're living in a world where we've gone through a pandemic, we're at the beginning of a new cycle. I'm showing you a slide here with a chart on the left which is, apologies if you can't see it but hopefully you can gauge what's going on here.
00:16:43		What you've got on the left hand side is basically a chart showing you that the real yields, and when I say real yields, it's showing you different forms of fixed income going from left to right, develop market bonds, investment growth, high yield, into Asian emerging markets, and on the right hand side column is South African debt which we actually invest in within M&G Treasury and Investment office within PruFund and our life fund.
00:17:06		So the real yield, what we're doing is giving you the yield of that particular type of fixed income, so UK, first bar is UK government bond, and then it's removing an average three-year inflation number from that, and that's as at the 4th of November. So it's concerning at the moment that for a lot of fixed income, you're just not getting the return that you would in the past.
00:17:30		We're seeing risks with inflation climbing, UK inflation figure for October was 4.2 percent, September 3.1. More people moving from it, being less transitionary and being more embedded inflation for the next couple of years. And you've seen US inflation climb to 6.2 percent which is the highest since 1990. A lot of you will know that in the audience already, but why am I showing you that right hand side chart?
00:18:02		Well, if you're looking at, you've got UK 10-year government bond yield, you've got UK treble B corporate bond yield and you've got UK commercial property yield. And you've got to start looking further afield and this just gives you the scope you've got by looking for differentiated income, especially through commercial property, the spread you've got is the highest it's been since 2001 and prior to that.
00:18:28		Just to thrown in a little snippet from J.P Morgan's capital markets assumptions this year, they summed up the investment problem for me really which was, as we move into the 2020s, we will need to adopt a new portfolio for the new decade with truly expanded opportunity sets and acceptance that truly safe assets no longer offer income. There you go, that's a thorny one for you. So, my response to this is going forward when you're looking at investment income, you're looking at retirement, we've got a lot more to think about at the moment.
00:19:10	Colin	Mark, thanks for that explanation there about yields, and you're going to build further on that in a bit around, that links

		nicely into what Les was talking about a minute ago about personalized yields and what investment return is needed.
00:19:28		Now, I talk a lot about cashflow modelling and this concept of what investment return is needed to meet my objectives links nicely with our next myth about cashflow modelling. Now for me, cashflow modelling is a crucial part of the after retirement process, but only if it's done correctly.
00:19:46	Les	Yeah, I was quite surprised when you flung this one into the pot for the myths Our next myth Colin, cash flow modelling is just the latest industry fad. Elaborate.
00:20:00	Colin	Yeah, well don't shoot the messenger here, it wasn't me that actually said it, but I've actually heard it quite a few times. Now for many years I've been out talking about cashflow modelling, been talking about draw down when I meet many advisers. And I get wide views, from cashflow modelling is absolutely brilliant, through to cashflow modelling is just the latest fad.
00:20:24		Now I was once presenting at a seminar for one of the big adviser networks and was talking about draw down best practice, come on to cashflow modelling. And I was interrupted by an adviser in the audience who said look, cashflow modelling is just a waste of time, it's the latest fad. So I sort of heard this before so it's not in isolation. But what he went on to say was when you put the client's details and scenario through a cashflow modeller, what typically happens is they run out of money. They don't have a big enough pension fund to get what they want. Now, what surprised me was the audience reaction to this guy rather than him be a lone voice, half the room seemed to be nodding in agreement with him. And one adviser then will sort of tell you, we just let the client take what they want. And again, this is not the only time I've heard this at a seminar, I've heard it in other sessions as well.
00:21:20	Les	That's a bit, I think that's a little scary Colin. I think, hopefully they were pre all the DB paper stuff. Because I think there's a lot of read across from the defined benefit advice papers into the normal retirement income market. I think they're talking about doing what the customer wants as I think what the FC is order taking and order takers. You're not order takers which is kind of said lots of times through that whole DB journey. I can't see why you'd be allowed to be an order taker in the kind of annuity draw down world. But you're not in the DB EDC transfer world so I think you need to concentrate on clients’ needs not clients’ wants, so that hopefully those stories will have changed because I think you're meant to make a personal recommendation that certainly meet the clients objective and reasonable needs as you're trying to fulfil the clients’ wants, you're not being a financial adviser I don't think. Unless … of course.
00:22:24	Colin	I think you're right. Thankfully most advisers like me have good processes around cashflow modelling. If done right, it can help demonstrate those client needs that you mentioned,

		but also I think, cashflow modelling is the best way to assess a client's capacity for loss.
00:22:43	Les	Yeah, I think I tend to agree with you. It's good for capacity rules. I suppose the key thing is there's not a lot of rules around cashflow modelling set of rules for advisers to follow, so that's something we need to think about Colin, have you.
00:22:59	Colin	Yeah, if I meet an adviser, I'll say to them, if you're doing cashflow modelling, what you will be challenged on is are your assumptions reasoned and reasonable. In other words, why are you saying it's growing at x, or why are you saying it's reducing by y. If you look at what the FCA said in the DB paper, it said if using cashflow modelling, the assumptions you use for investment returns must be consistent with your investment choices.
00:23:27		So how we have advisers of course, is if you invest in PruFund, we tell you upfront what to expect as an expected return going forward. This is really useful for cashflow modelling whilst trying to determine if the clients' income is going to be sustainable.
00:23:44	Colin	Yeah. You're getting all investment there again so it's time for me to call in the cavalry. Mark, I'm sure you've got something to say about this assumption scenarios for cashflow modelling.
00:23:58	Mark	Yeah, thanks Les. So, you know when we're thinking about what type of return we can deliver for clients, and obviously a lot of people are using PruFund for a building block for their clients' retirements investments, we're looking for total return, but we have a set way of thinking about this as a long term investor, and that's, we've got a very big team within investment office and they spend time managing around about what is circa 173 billion of assets and the engine for that has some quite distinct ways of working and thinking about value, thinking about the return we can get from every asset class.
00:24:41		And what I'm showing you here is how we go about thinking about the building blocks of the type of returns you can get from investments. And we do this for every single asset that we own and what we do is we start off by thinking about what's the cash return you can get for a client in a particular country, you don't have to add on inflation to get your nominal cash return. And then we think about the risk of owning a particular asset such as a government bond, such as a corporate bond, such as a commercial property, such as equity, such as alternatives, and you add on a risk premium to those our assumptions to get to a number which is basically what is the return you should get for owning that particular asset looking forward.
00:25:28		We build in other risk premiums and some of that is to do with illiquidity of certain assets such as property and alternatives, origination premiums if we're setting up and starting something which is new or niche where we see that

		we should get a higher return for the risk we're taking. But all of this underpins how we do our strategic asset allocation.
00:25:51		And the work we do here combined with thinking about long term growth, long term inflation, long term, the way that governments are looking about the future as regards how they deal with debts and the growth within the country, etcetera. And we look medium to long term, we look at how we can model in things that we think are going to happen in the future, and that's both quantitative and qualitative. So we think modelled, what will the world look like after COVID. You know, we model for demographics, we model for how the world will look if we get climate change causing more than a one and a half degree temperature average rise globally.
00:26:37		So there's lots of things that go into the mix for us to come up with a start point for what our future expectation is for returns, and that’s for every asset type we invest in. And when we get those return assumptions for all those asset types and we build in all those long term growth inflation monetary policy stuff as well, we then pass that across to our actuaries.
00:27:05		So we don't actually set the expected growth rate within treasury and investment office. What we actually do is we pass it across to the actuaries and they then look at those expectations, those assumptions and they decide what the EGR, the expected growth rate should be and that's a 15 year average expected return that we're looking at which fits into some realistic confidence bands that we set.
00:27:36		So it's not just a number plucked out of the air and it's not something where we're just saying okay, it would be nice if we get 6.5 percent for PruFund growth, it's something which actually is based on what we truly believe are the expectations for returns going forward and based on what the actuaries feel is a reasonable comfort level for being able to deliver that expected return over an average 15-year period.
00:28:03		And if you look at this slide here, this is showing you all of the various expected growth rates we've got on PruFund Growth cautious, our risk manage PruFund range, and the bottom one is showing you the new range which was launched in July which is PruFund Planet which again has an expected growth rate. Just for a comparison, so when we're you know, you're using PruFund and you've got those expected growth rates, just to give you a bit of a view from some of our peer group.
00:28:35		Black Rock at the moment within their capital market assumptions are talking about lower public market returns, so that's the traditional types of assets. So what are they saying? For ten year mean average for equities depending on which equity market you're looking at is between 5-8 percent per annum. Fixed income is coming in, various fixed income assets you can buy, Black Rock are saying 10-year mean is between 0-3 percent return.

00:29:05		And then if you look at US equity, US bond 60/40 portfolio, sort of balance portfolio just for those two assets, you're looking at around about circa 4 percent return over the next 10 years. So it gives you some idea of what we do, what we should be talking to our clients about realistic returns going forward, and obviously give you a bit of a feel for how we come about the expected growth rate.
00:29:35	Les	Yeah, thanks Mark. You mentioned actuaries there, I think you're just trying to tease my actuary joke out of me, aren't you?
00:29:42	Mark	Yeah, definitely.
00:29:43	Colin	I think save it for later Les, save it for later.
00:29:45	Les	Yeah, I suppose I've got a general understanding of investments, but I kind of do tax and planning. So if you're planning out somebody's retirement, what do you need? You need an expected growth rate or an investment return to enter into all your modelling. As person that relies on somebody else to tell me what the investment return is, I don't think I'd be quite kind of comfortable knowing the amount of science that actually goes in to coming up with that number, the sort of EGR. I think that's where it comes from.
00:30:23		I suppose in the subject of that number, people talk about stochastic modelling and deterministic modelling all the time. I think I'm in favour of the single number sort of deterministic modelling type of approach. It's really important clients understand what's going on. Do you understand an 87 percent in market conditions there’s a 96 percent chance your income will last you? Or do you understand if your fund does 4 percent per annum, your money will run out in 47 years. I suspect the latter is the more understandable thing. So I basically think that number is key for investment return again.
00:31:08	Colin	I think you're right. It's important to ask yourself, does the client understand what I'm showing them. That's what the regulator would test you on. Now with good cashflow modelling, it comes back to, is everything being personalized? The DB paper again talks about capturing the needs and objectives of a client. We talked in previous sessions about things like tearing the clients' income between non-discretionary and discretionary and putting these for a stress test. The same paper talks about cashflow modelling, it needs to be assessed on the clients' income. So for example, you're on £500 a month income, how would it feel if that became £100 a month, that type of thing.
00:31:53	Les	Yeah, you mentioned the discretionary, non-discretionary thing there. I think [unclear] there are three different ones now, but I think those two are enough as kind of essential lifestyle and then your discretionary on top of that. But I think you need to remember when you're doing cashflow modelling, that the standard of living you're protecting, it's not the ability to live you're protecting.

00:32:20		So whereas your essential expenditure is your heating and lighting and your kind of food for your baby, bills and expenses, you've got that lifestyle expenditure which is what you expect from your standard of living. I mean, if you were on a standard of living in retirement where you want to go to see Arsenal so you want your Arsenal season ticket of the year, that's not essential, that's discretion. Some people would consider it mad, other people it's discretionary.
00:32:50		I think you need to understand that you're trying to protect the standard of living of the person not just keeping them alive sort of thing. If their standard of living is, I eat out four times a month, you need to protect an income that allows them to eat out four times a month that’s clearly not essential but it's lifestyle and that's what you're doing just important to remember that you're protecting standard of living, you're not protecting their essentials of life.
00:33:18	Colin	I think yeah, that's what you need to be stress testing. And the FCA paper says you should stress test the outcome shown by the cashflow model. For example, you could illustrate the effect of a significant fall in the markets soon after a client starts to make withdrawals from a fund.
00:33:35	Les	Yeah, I think a lot of people do that for sequence and risk as a sort of obviously we’ll come on to sequence and return risk that a lot of people use to sort of one off there before in the markets as a sort of proxy for sequencing return risk. I think you need to be, you need to be a bit more personal with your models as well. I was discussing this the other week actually. If you're modelling an inflation proofed income for somebody, make sure you run a stress test that with inflation higher than the expected.
00:34:09		If you're modelling a native tax income for somebody, model it with tax slightly higher than expected. I think then the stress test in the world, there’s obviously quite a lot of different stress tests you do. I think it's picking the ones that's most appropriate for the customer circumstances you're modelling. Yeah, just not doing a blanket model, everything all the time.
00:34:34	Colin	I think you're right. For me if I was to do one, a minimum of one would be to include sequence of return risk as a test. If we bring the slides up on the screen, I'll just give a little bit of basic information as a simple explanation as to how sequence of return risk affects people in draw down.
00:34:52		So, our first slide here looks at three portfolios over an eleven-year period. They all average out a 4 percent return. You've got your green line there where you have good returns in the early years followed by negative returns. The red line is the reverse of that, you start off with the losses then you have the recovery. The blue line is a client that gets a consistent 4 percent return.
00:35:20		Now over that 11-year period, you can see that that's made no difference to the outcome for the client, you've effectively all ended up in the same place. But when you're extracting

		income, that journey risk is far greater and if we look at the same slide now with 4 percent withdrawals being taken off, the guy that had the positive start followed by the losses in the green, his fund value is completely different, poles apart from the person that had the negative start upfront.
00:35:54		And I don't think the graph really does this justice, if you look at the table you can see there's a massive difference there. Now, the person that had the more consistent return, the 4 percent growth whilst taking at 4 percent income, you can see that they've done okay as well. And effectively, that's what we're trying to do for our clients with diversification and smoothing. We're effectively trying to give a client a more consistent journey through retirement and avoid things like large falls, especially at the start.
00:36:27		Now Mark, on that subject of what we're trying to do in the long term for retirement, do you want to add anything?
00:36:34	Mark	Yeah, Colin I do. So obviously, I'm going to be biased here and I'm going to, yeah I think it's, I'm going to prove that what I was just saying about expected growth rates and how we calculate those, that we're not just plucking a number out of the air.
00:36:51		You know, we've got two charts here which is for pension series A of our PruFund growth on the left and PruFund cautious on the right. And these are going back to 2008 and showing you at that point in time, if you were an investor going into PruFund growth pension fund series a on the left hand side, there was a certain expected growth rate. And what the red line is representing is the growth if you just rely on getting that expected growth rate over the period through to the beginning of November. And then what the blue line is showing you is what the fund actually did. So this is the smooth journey, the underlying assets, we have obviously all of the things we invest in, but basically the blue line is the smooth journey that the client experienced.
00:37:45		And it's obviously showing you that one, it's more of a sleeper night investment for the clients, and two, what you've just been explaining around what is more beneficial for a client as regards how their investment performs initially, then obviously PruFund is going to be more likely as a multi-asset fund to help the client with that expectation, with that good start to the drawing of retirement income.
00:38:13		And it's the same for cautious, obviously we're not immune to market falls and you can see that at the end of both charts with COVID and with how the fund has then returned with unit price adjustments back up to carry on that smooth journey.
00:38:34	Les	Yeah, absolutely. Me bamboozled from downing yet again. Yeah, thanks for that. Kind of ties in to your next myth I think. I often remember in the past, having kind of, argument is too strong a word, discussions, about compliance departments and you couldn't have a cautious fund because it was unlikely to be able to match the critical yield required on the draw

		down illustrations in that. So we thought it's maybe worth flinging that myth in again.
00:39:09		Cautious funds can't produce the return needed to sustain withdrawals Colin.
00:39:15	Colin	Yeah. I hear this a lot, I heard it certainly many years ago before pensions freedom and choice. If we think back to the crash of 2008, lots of unit link drawdowns were having a bad time. But our with-profit clients came through that relatively unscathed. Why? Because if you invested in with-profits, the worst return you could have had in that period was zero, as opposed to a negative loss. And that makes a big difference.
00:39:46	Les	Yeah, we are clear, we're okay now. We're just kind of in the land of knowing where your worst case scenario is. I had an interesting discussion about six to eight weeks ago about somebody had modelled out that their needs were looking a bit tight for being met so they thought well, we can just increase the risk, chasing returns to kind of to shoehorn your investments and your needs instead of matching your needs to your investment which I thought was a bit crazy. But I suppose the thing is, you're chasing returns, you're increasing your risk, aren't you?
00:40:22	Colin	Totally agree. What we were talking about at the start was the need to think about providing a sustainable income. And to do that, it's about managing capital extraction. I proved that by looking at the sequence of return risk examples. Consistency of return helps extract income for longer.
00:40:40		Now to add to this, some advisers might be aware but Defacto now have a drawdown talk that assesses sequence of return risk for different investment funds. Their conclusion is that cautious funds work better in drawdown than adventurous funds do by managing the sequencing risk better.
00:40:58		Now obviously we don't have with-profits available on our modern draw down product anymore, but we do have the popular PruFund which has a different method of smoothing. And what you get there is you get smoothing, expectation of returns through the EGR, that consistency of return, all of which Mark has demonstrated goes a long way to helping you manage the extraction of the income and making that income sustainable.
00:41:26		And I'm just going to bring up a slide here that shows some nice comparisons really between PruFund and the different sectors. And if we look at the sort of PruFund Growth fund, I want you to look at the column that says negative periods and positive periods. And through this period of time from 2009 to November 2021, PruFund has had 621 positive periods. Negative periods have been only two.
00:42:00		If we look at the equivalent sector, what you're looking at there is around 375 positive periods against 248 negative periods. So if you're cashing in units on those negative periods, then effectively you are not going to get the full benefit for those reduced positive periods that you're seeing.

		If you're cashing in from 621 and only two negative periods, you will be able to extract that income for longer because you have the benefits of diversification and the benefits of smoothing.
00:42:39		And that links on to the next thing that I want to talk about really which is the University of York paper. And the University of York paper was some research that was looking at things like safe withdrawal rates. And they came up with two powerful conclusions. Smoothing returns through simple trend following techniques helps withdrawal rates.
00:43:03		Now, when they were talking about smoothing, they weren't talking about PruFund with-profits, they were looking at trend following. Effectively what they were doing is, they went back historically, looked at the unit prices and then removed the outliers, they removed the maximum losses and the maximum high points and gave a more consistent unit price for the client. And when your extract didn't come off that more consistent unit price, guess what, the extraction of income lasted longer.
00:43:31		And the other thing that they proved was if you increased diversification, that as well helps smooth returns and was a far more powerful tool for raising withdrawal rates. And I think, you know, when it comes to diversification, there's a lot that can be said about the size and scale and depth of diversification that you get with PruFund which is huge.
00:43:54	Les	Yeah, all things plausible. And it's talking about things I haven't got a clue about so I suspect Mark has got a word or two for us.
00:44:03	Mark	Certainly have Les. So let me, let me explain and bring up a chart here to show you. That's the one, great. So on my left, I think it's in my left if you're looking at it as I am, you're seeing two pie charts. The one on the left hand side is PruFund Growth, the one on the right hand side is the sector, the IA mixed investment sector 20 to 60 invested in equities, and what we've done is taken the 20 largest funds by AUM from that sector as a peer group, we've taken the average of their asset allocations.
00:44:46		So as you can see, pretty much the same asset allocation in equities but where the difference really stands out is that we have far less invested in fixed income. We're taking advantage of the ability of PruFund to be more sort of institutional like by investing in real assets via alternatives and commercial property. So, you know, we are able to invest in private credit, private equity, hedge funds and infrastructure within what we do within the alternative space and also given us some extra diversification within fixed income.
00:45:23		So, our asset allocation and our longer term views that I've already mentioned and obviously happy to chat more to anybody on the call that wants to learn more about this, it will mean that our asset allocation looks different to a lot of our peers. And as you can see here, equity is much the same,

		but we do have different biases within where we favour equities, more so in Asia emerging markets in the longer term. Then the US, the US is looking very expensive at the moment given long run history.
00:45:55		But the other side of the coin is that we're investing only a very small amount within PruFund growth, within developed market government bonds, small amount in US treasuries more for liquidity purposes. And then we invest a bit more into real assets within commercial property, UK, European, Asian, US property, and then the alternative space and a lot of that alternative space is again physical assets.
00:46:24		So, if you're concerned about inflation going forward, and your clients says what happens to my returns I'm going to get to drive my pension income if we get embedded inflation? You want to look at, one where your fixed income is because that's going to be the asset that's going to be hurt most, we've seen that in the last 6-9 months. Equities naturally over the medium term have a bit more inflation proofing. But if you move into real assets, you're getting an insurance there within real assets where a lot of those assets give you an inflationary uptick as regards contracts or the way income is paid.
00:47:01		So you're not paying for that insurance, you're getting it within those assets and it gives us greater global diversification, it really helps us to cut the volatility within PruFund.
00:47:12	Les	Yeah, that's kind of, it's really useful Mark, you've convinced me, sold to the man in the grey shirt with black glasses. I suppose sequencing and the return risk to be fair there's different ways to manage it. I suppose the more fully invested you are, the more likely you are to suffer sequence and return risk I think. I kind of get the sense.
00:47:41		But I suppose in the survey before, cash buffers were relatively popular as a way of sort of protecting you from that sequencing risk, especially cash and also selling down units at a bad time. So that kind of brings us to our next myth, cash buffers protect you from sequencing risk.
00:48:03	Colin	Les, cash buffers, we saw it on the results earlier, is a popular draw down strategy. Why is it a myth?
00:48:10	Les	It's a myth because, I think if we go back to basics here, what's sequencing risk about? It's about selling down invested units when they're particularly low. If you've got a cash buffer, you need to sell down to fill it, yeah. And so you're just kicking the difference in risk down the road or by definition, sequencing risk exists at the time you want to sell some units, whether that's to take income to fill a cash buffer or whatever it may be.
00:48:40		And I think, I've got another risk problem with cash buffers. And it's the risk that you're going to lose a lot of the return by setting in cash at 0.5 percent. Actually there's some numbers to prove my point, as they say.

00:49:01		Basically I just took a fund, a hundred percent invested with a consistent return, and I used the exact same fund, but every two years, three years or five years I took some money out to fill my cash fund so I could supply two years or three years or five years in income. And you can see there, you can kind of see the numbers there that the more years of income you hold in cash, the longer that cash is getting next to nothing instead of a reasonable return, and that has drag on your income. I mean it's all about trade-offs, retirements, what risks you're willing to take.
00:49:40		But having a slug of your money in cash, there is, that kind of exacerbates, I think, your sustainability risk because you won't have as much money. That you're granted you won't suffer any downward movement but if you get generally upward movement, that's not so bad. I think the key question in trade-off terms is cash buffers which are kind of comfortable having five years less income because you're holding five years' income in cash. I don't think that's a trade-off that's worth taking.
00:50:16	Colin	I'll play devil's advocate with you there and give you the advisers sort of argument which would be, at least you know what the loss will be. You know, the argument for putting money in a cash buffer eliminates timing risk in those early years, and it allows those additional funds to build up for draw down in the future.
00:50:39	Les	Yeah, granted you'll know where your loss is, but remember there's that thing called opportunity cost which is the thing you're losing because you take an alternative course of action and you're giving up the ability to get 3, 4 percent relatively cautiously. For the sake of you're having five years' income at 0.5 so I think it swings and roundabouts. And you still get sequencing risk because you need to fill your cash at some point. And if you're filling you're cash at the bottom the market, that's not going to work, is it?
00:51:13	Colin	No, I suppose it's possibly why we're seeing more advisers utilize a fully invested multi-asset strategy these days. Perhaps with clients with bigger pots or greater understanding of investments with maybe different objectives, blending approach. Utilizing maybe PruFund for the cautious, part of the portfolio and to provide a sort of income alongside something else.
00:51:41	Les	Yeah, I think, I was discussing this before and I think that I could see that sort of, put your cash buffer in something relatively cautious and low volatile and point your income needs at that where it's [unclear] sex and drugs and rock and roll will get you the sort of return going forward. But there's a big but coming in here. Not casting any aspersions in Mark's physical appearance but when I had this discussion with Mark, he had an alternate view.
00:52:18	Mark	Yeah, thanks Les. I get what you say. But I think I'm going to be biased on this one, I think you can get all that through PruFund. I think the way we invest and the way we look at

		asset allocation in the longer term, you know, you're getting truly global diversification which is more and more important if you look at the various capital market assumptions from various asset managers, it's talking about spreading more global diversification. And that's across traditional and non-traditional asset classes and we have the size and scale to be able to do that.
00:52:52		And I've got a slide here just to bring up which will show you just three examples of some of the different types of assets we invest in. So we've got, these are three investments within our alternatives mandate within PruFund. On the left hand side, you've got an investment which is basically an energy type vehicle, we made an investment back in 2019. One of the largest parts of that is it's investing in battery platform technology, battery facility in the Nevada desert in the US and also a large solar site in the Nevada desert where obviously there's quite a bit of sunshine.
00:53:35		You know these types of investments are giving us improved consistent income streams, far above what you're getting from bonds at the moment. Yes, you are taking on more risk, but we want more return for that risk.
00:53:48		The middle one is a royalty, we invest in various types of royalty, from music to pharmaceutical, and that's a pharmaceutical vehicle that we've invested in which is around research and development in the healthcare industry. Again, you know, it's doing some really important work around blood cancer, around other key health issues, which I think we're all, and you're in on the line, your clients will be more and more interested in the type of things that these pharmaceutical companies are doing. Because health has obviously been the main topic of conversation for the last couple of years and are likely to carry on. So again, very good investment.
00:54:30		The right hand side is what we call a green infrastructure investment. So we invested in this before a spade was actually put in the ground. So, you know, we don't do many of these because you're taking on more risk, but with more risk you have more return. So with this, it's now up and running, it's a water pipeline, 130 miles long, taking needed water to San Antonio in Texas in the US. They've got, they are one of the fastest growing cities in the US. And what we've got here is an investment that has a 30-year contract investment grade which is giving us a return of circa 11 percent per annum.
00:55:07		And that for me is what JP Morgan were on about, about looking for outside the traditional type of portfolios when we're looking forwards. And this is what's helping drive the lower volatility across our portfolios such as years PruFund growth.
00:55:28	Colin	I really like these alternative stories Mark. I think you had some thoughts around property and alternatives as well, is that correct?

00:55:38	Mark	Yeah it is Colin, it is, and this is the sort of so what. You know, there are areas of property where there's headwinds at the moment, but it is doing a job for us, it's giving us good positive returns this year. You know, we've received around UK mandate 160 odd properties in it. You know, we had 85 percent of the income from tenants in the last quarter. So things are improving, there are still challenges but, this is the slide that I look at where, what does property and alternatives do for us within PruFund.
00:56:10		So, the chart is showing you the volatility of PruFund, the blue line is PruFund as a whole, as all the different assets we've got in there. What is the volatility of the fund going back to 2017. So it obviously includes COVID where the volatility went up where you see that steep, upwards shift. And the orange line is showing you the same PruFund growth performance, but if you take out property and alternatives that we've got invested in it. And it's showing you how that shifts the volatility of the fund up, so it's showing you the benefits we're getting from investing in those other real assets within the fund.
00:56:53	Colin	Yeah, no thanks Mark. It's useful to see, and it's very difficult for advisers to get sometimes, the depth of exposure that we're able to provide for them. I think at the end of the day though, whatever sort of solution is being considered it's important to make sure it's reviewed regularly. Life as a draw down adviser is not easy.
00:57:15	Les	No it's not, it's not easy if you read everything you can possibly read about all the different ways to manage somebody's retirement income, planning and obviously hindsight is a wonderful thing. If you could go back and start again, some people would.
00:57:30		But I think we need to go on to your last myth first before we go on the reviews Colin, which I suppose the one I flung in the pot that retirement income planning is actually complicated. Because I think it's as easy as a game of connect four, other games are obviously available. So I think yeah.
00:57:50		This slide here, I think this was about the third slide I built after the pension freedom budget. Because I fundamentally think this is how it works. So if we could get that outer ring of this slide up please. You've got the yield at the heart of retirement. Nobody is going to convince me that your investment return isn't the most important thing you need to consider when you're doing retirement planning. Because I think it drives the other three things. If you know what your yield is going to be or you've got a reasonable anticipation of what it's going to be, you can do the other stuff.
00:58:28		If somebody comes along with a fund value of x and an income need of y, well you calculate the third one, it's going to run out after 38 years, yeah. Or if they're saying, I think I'm going to need £10,000 for 40 years, you can work out whether your fund is going to do that or not. And likewise, we were talking about kind of what's the safe withdrawal

		rate, nonsense. What's my income requirements and how long do I need it for? When you know you're return in your fund you can model out whether it's going to work or not. So I think it can go overly complicated.
00:59:05		But fundamentally, if you get that call in the real, a yield you're going to comfortably get, everything else that matters to the client. How long is my money going to last, how much can I take to make sure my money lasts, etcetera, etcetera should be plannable out and hopefully achievable.
00:59:25	Colin	Yeah, I think investment return is the most important bit there Les and just before we wrap up, so we finish just about slightly over, don't forget what Mark said about the importance of actuarial input, combined with our modelling assumptions for the asset classes. This helps provide you with the EGR, and as an adviser, I just think if you're trying to do this yourself, how would you do that?
00:59:52	Les	I think it's a good book to all the signs if there's any investment in all the signs I know the actuarial signs, if there's any sort of picking your investment return to make sure your connect four works is I would say impossible for the average man in the street.
01:00:10	Colin	Yeah, absolutely. Now, we've gone through our six myths for you today. Before we start the Q&A, I just want to mention a couple of things about reviews. PFS good practice guide is an excellent document for drawdown and it does have a section about reviews in there.
01:00:29		If I sort of just highlight these sort of critical questions here, for me it's asking, and it's a good way to summarize our session for you today. It's asking, is the product still suitable, if not, perhaps in annuity or part annuity. Is the income still sustainable? Now, how do you answer this? Is it through stress testing, if you are stress testing, make sure you have assumptions that are reasoned and reasonable.
01:00:58		And then the last question there, is the investment still suitable? Now that's for you to decide as the adviser. But have a think about how do you expect what to get from an asset class going forward. How would that link with the client objectives. And also, think about now with ESG. When you last put that client in to a review or when they first went into drawdown, had you asked them about their preferences for ESG? If not, this is the perfect opportunity for you to introduce ESG into their sort of review process, or perhaps into your CRP.
01:01:41	Les	Yeah, I think that PFS guidance is quite good and it's kind of, I suppose what you've been talking about there, and it's a good summary of all the myths we've been going through. I suppose the key word with the review is, is the product still suitable? Is the investments still suitable, is the income still sustainable? That's what you do at the review. When you're starting your journey, you just take away that still word, don't you? Is the product going to be suitable, is the income going to be sustainable, etcetera. And then the review, you're just

		making sure it's still suitable, it's still sustainable, etcetera, etcetera. So I think that's a good, kind of concise sign.
01:02:23	Colin	Yeah, I think it is. Look, we're going to have a Q&A so please get your questions in using the Q&A tab below the section. Before we do though, we will sort of just ask Mark to come on, ask if he's got any comments around ESG that I just mentioned on the review section.
01:02:54	Mark	Sorry, that's me making a faux pas, turning my mute on. Right yeah Colin, I do. I think it's a world that we're all having to think about evolve what we do and that's very much the case within investment office. So I just think this is a long term change, this is something where you know, all funds will have some sort of ESG overlay integration and it will drive the way that we can get those long term returns going forward and which businesses, which sectors, which countries are going to benefit from this. And it's something we're building into our long term modelling.
01:03:35		So we model 5000 different scenarios every week against each portfolio to see that we've got an optimized opportunity with regard to how we're looking to capture those returns that we worked out what we think they should be. And ESG is an important part of that, and that's in a number of ways looking at you know, it's about risk, especially with climate change.
01:03:56		So, all of that needs to be taken into consideration and it is something which as the listeners here will know, is a very complicated subject with no real parameters of how we go about doing this as investors, as financial advisers, etcetera. So we've got to work together to put in place a framework that's going to work. within the traditional looking for financial return, but also looking at that doing good as well.
01:04:29	Colin	Thank you, right, before we go to the Q&A, what we do is we're just going through our key takeaways for the session. We'll go with you Mark again, then you Les and then myself to wrap up.
01:04:45	Mark	Yes, and my key takeaway is really think about total return when you're thinking about retirement income. Obviously I tried to show you that yields are challenging at the moment, especially within the lower risk types of assets. Think about inflation, what that could do to returns. And look, do consider and challenge your asset managers around how they, what are their view about the type of returns they're going to get from their portfolios, multi-asset portfolios going forward and obviously understand where they see the engine for growth and what's going to drive returns.
01:05:20		And it may be in areas that clients go, oh hang on a minute, why have I got a bit more in Asia and emerging markets but, that might be, along with alternatives and property, what's going to give you that extra bit of return to get you that extra bit of retirement income.
01:05:40	Colin	Cool, thanks. Les.

01:05:42	Les	Yeah, I think I'll go back to pension freedom. Pension freedom was a tax change. Undoubtedly gave extra retirement options but it didn't change retirement planning. I don't think retirement income planning has to be as complicated as it kind of appears or looks to be. It can be relatively simple and fundamentally which I've always believed since the beginning of time. If you get your investment correct, that's the fundamental thing that will dictate whether your clients' outcomes can be achieved.
01:06:25		That yield is the same for a cog in the drawdown wheel. And if you know, your cog is broken on a wheel, you've got a wonky journey. So getting the yield consistently correct is the most important thing in retirement income I think.
01:06:40	Colin	Yeah thanks, and for me the messaging around consistency of returns, knowing what the expectation of returns are and protecting from volatility through diversification and smoothing help manage that important extraction of income for longer. Now Les, should we jump to the Q&A because we have run over by five minutes.
01:07:05	Les	Yeah, oh well I was going to fit in my actuary joke but I'm [unclear] now so I'll just go with the Q&As. Now remember, for the people that are joining us for the Q&As, thanks for staying, but if it's time for you to go, remember to do your feedback form because that's going to generate your CPD certificate, you'll get an email from the events team over the next few days. If it doesn't arrive, check in your trash folder and it might be there. If not, contact your account manager or email Prudential Events and they'll be able to get a copy for you.
01:07:42		Obviously all that stuff Mark and Colin have been speaking about, there's lots of information on the Pru Adviser website which you can get your hands on. Just ask in your feedback form for more information, somebody can be in touch, or just contact your account manager. Now I'm going to steal the Q&As because I suspect from the look of them that I would just waffle an answer and it's you two that are actually going to be able to add some value.
01:08:07		So I'll crack on with the Q&As if you don't mind. I'm glad I'm not answering. Given the price difference, where is the advantage in using PruFund versus a low cost passive fund or range of funds? Is the cost worth the benefit? So that's a $64,000 question. Who wants to take that?
01:08:32	Mark	I can take that I think.
01:08:33	Les	Okay, fire away.
01:08:35	Mark	It comes down to what you're trying to do for the client and we've been, a lot of our clients are prepared to pay that additional cost because of how PruFund is different to just a passive multi-asset fund. I totally get the cost argument around returns etcetera but we're investing in hydroelectric dams, we're investing in, as I said, we're one of the five biggest owners of solar sites in Italy which is the second biggest solar market in the world.

01:09:10		You know, the cost involved in owning those assets, which give us really good income, differentiated income, but the main reason we buy them is they give us non-correlation aspects with regard to the traditional equity and fixed income. So it does come at a price, as does commercial property.
01:09:30		And I would say, if it's something which, obviously you're looking at going forward with concerns around inflation, with the fact that you need more diversification and it's not just me saying it, J.P Morgan read their year's capital market assumptions, it's written large across all of it. Then you're probably going to have to pay a little bit more for it, as you do with PruFund..
01:09:56		So it's, you know we use passive within PruFund in certain mandates, so we're not saying don't touch passive, but it has a place and PruFund has a place, and that's down for you as advisers to decide where it fits and where you can justify what I think is, I've got 75 percent of my own pension money in PruFund Growth. So I can justify it but it's obviously for you to justify for your clients if that's, if cost is a big consideration for them.
01:10:26	Colin	Can I just chip in there as well Les.
01:10:29	Les	Yeah, okay. Good, can we hear Colin as well then.
01:10:33	Colin	Yeah I have, and maybe this question was asked before we looked at the sequence of return risk because if you remember what I talked about earlier on is having the depth of diversification and the smoothing that we have through PruFund in that period of time from 2009 to 2021, PruFund has just had two negative days. It's had 621, sorry two negative periods, 621 positive periods. Compare that to the sector where you almost on a day to day basis have nearly as many negative days as you do positive days. And when you're extracting income from those negative days, you won't see the benefit of the positive days. So that helps with this move.
01:11:22		And many years ago we asked the actuaries to do an analysis to work out what is the benefit of smoothing, and as a cost benefit, the cost of smoothing was actually, the benefit was far greater than the actual cost that you're paying in the difference between passive and a smooth investment.
01:11:45	Les	Yeah, I'm glad I didn't have to get involved in that one. I'm going to stick to tax matters. I think it's the old question of should you concentrate in cost or should you concentrate in value? Because you buy for the value, you don't buy for the cost don't you. And I think that it's setting a lot of value in the things you were describing.
01:12:06		Here's another one. Since pension freedom, how has PruFund performed, they're saying it would be good to get a case study. I think we've actually had one before so it would be reasonably okay to.
01:12:23	Colin	Les, I was thinking… That's perfect timing because we have just produced a document that kind of goes back to pension freedom and choice and analyses how well PruFund has

		done. So that is available through your account manager team now.
01:12:41	Les	Excellent, ask your account manager, I suspect the answer is going to be marvellous. Have you got anything to say from an investment point of view since 2015 Mark?
01:12:51	Mark	Yeah, we had some headwinds in 2020 last year, we had less in US equities than a lot of our peer groups and obviously that was the momentum and growth driving US equity markets but, you know, we've had a really good year this year and PruFund has performed really well.
01:13:09		If I look at the series of PruFund [unclear] and go back to 1st Jan, 2020 and look at the return to the end of September that it's given me, the expected growth rate is 5.7 percent as at the end of September for that 18 month period or a bit more than that, is up 12.8 percent. And you know, for me, it's doing the job that I want it to do. So, look at the paper that Colin's talked about. But you ask your regional account managers to show you some charts if you need them, to show you the performance of whichever series of PruFund or type of PruFund you're in.
01:13:51	Les	Yeah. Here's another one, I can maybe take this one and maybe pass some of it to Colin. They're saying managing a retirement income portfolio, surely a combination of these factors, should be the case, they're not all mutually exclusive.
01:14:08		I think I would say to an extent yes, they're not mutually exclusive but I think mixing and matching your approaches is maybe going to add complexity and cost in what you're doing. I suspect different people, a single approach might work out for a bit, the grump of people. The smooth investment return approach may work. What are your thoughts Colin?
01:14:36	Colin	Yeah we sort of touched on this today, but we have done other sessions where we've worked with other investment partners to talk about blending investments. If I'm truthful about this, the majority of people are just going to use a single multi-asset fund. Whether they come to us or they go to another multi-asset provider, the majority of the money will go into that one fund. One, because of the simplicity of it for the adviser, and two, it's usually going to match the attitude to risk and the capacity for loss for that client.
01:15:09		With more sophisticated investors though with larger portfolios and things like that, we do often see a blend of investments, and often we will see part of an adviser's centralized retirement proposition putting an element of PruFund in every portfolio that they have. So they might have a client with a cautious fund gets x amount of PruFund and a client with an adventurous fund gets y amount of PruFund built into that portfolio.
01:15:38		Now, why do they do that? Well that's because the smoothing and diversification can act as perhaps a volatility dampener to the overall portfolio. And often people are looking to extract income in retirement. And if your income

		need is not that high, relative to the overall value of the fund, then consider what you said about well, perhaps use that multi-asset PruFund type investment for what would have been a cash buffer. And also where I see people looking at this is in this idea of tearing the income between discretionary and non-discretionary income.
01:16:20		The non-discretionary income, the stuff that's really important, the lifestyle and stuff like the essential spend. If you can draw income off that, it's less volatile. But also think about the stuff that Mark said, people are going into retirement for probably 25, 30 year timescales ahead of them. So think about what assets you're investing in, think about how soon those assets are turned over in a portfolio. And we are long term committed investors. Things like the infrastructure, the pipeline that Mark talked about, these are sort of investments that tie in nicely with the yield to the sort of length of time that a client is going to be in retirement for.
01:17:05	Les	Absolutely, yeah. Mark.
01:17:07	Mark	Yeah, I think you've summed it up well Colin. Ultimately, what is our business set up on? It's about managing future liabilities as a life company and it's about that longer term view. So if you're buying PruFund, then you're buying something which is more akin to like assets that are held within a sovereign wealth fund or a Norwegian pension fund or an institutional fund. And we truly are looking at where we can get differentiated income.
01:17:42		You know, we tend not to buy things where there's not an income stream, we want to understand the value and we want to understand the income we can derive from these assets. But it is about total return for us, and then you can use it with the expected growth rate for working out what the realistic income is your client can take over the next 5, 10, 15, 20 years. We're looking at 30 years for a lot of our assumptions around growth and interest rates. Where in the world is going to be the engine going forward and it's unlikely to some of the traditional western counties that we've been used to it being for the last sort of 50 years plus.
01:18:25	Les	Yeah, I suppose and if you have retirement customers with early 60s and the FCA are saying, make sure you look beyond average life expectancy, 30 years plus it's probably the retirement time you're going to be looking at for the vast majority of clients. Yeah, so having that kind of 30-year outlook is very important I think.
01:18:45		I showed my complete lack of awareness of all the support material in the non-technical world by not knowing with that case study Colin, so I'm not going to attempt to answer this question which you might know. Do we have a client question here regarding ESG and investment for clients that can be used for reviews?
01:19:04	Colin	Yes, we do. It's only just gone on Pru Adviser, but again, I would encourage any advisers looking to introduce a questionnaire around ESG into their process, it's something

		to avoid falling into a trap because you could be sort of disappearing down many rabbit holes with clients and things like that. So the best thing I would suggest is contact your account manager to go through the document with you and explain how other advisers are finding the way that they're positioned in it, and also why it was designed in the way that it was designed.
01:19:43	Les	Yeah, I think it's going to become ever more increasingly important. And I think I read the other day there's an FCA consultation coming to get into the advice level detail around about ESG preferences and all that. So that's good timing. And I suspect somebody from marketing was being asked questions on the WebEx.
01:20:04	Colin	On that point though Les, I talked about reviews earlier. And one of the things that crossed over we think from DB is around making sure you truly know your client around the know your client information, their circumstances and things like that. So we're going to ask you to risk profile them, you've got capacity to loss test them. Surely as part of that know your client information is going to have to include what's the preferences around my client for ESG. And that document will help go some way to demonstrate that.
01:20:40	Les	Yeah, absolutely. Need to get on the front foot further than FCA consultations Colin, I know it's essentially something that's going to have to get done and should be done. While [unclear] go on the front foot.
01:20:53		First I expect that was a marketing person that asked that question, I suspect my boss is on because he's maybe asked the next question. Where can I sign up for Big Fat Les' Quiz of The Year please? And I think you find it's Les' Big Fat Quiz of the Year as opposed to Big Fat Les'. So yeah, maybe hear from HR as a later point today. But I'll put it on the website, I'll send an email when the link is available and up and running. So just keep an eye on your emails from Les or your account manager.
01:21:25		Oh, I found one I can answer I think. The two year and three year examples are defence for investing the money, if you already know you need the cash to spend, we can't advise a client to invest a lump sum. I presume they just put dot dot dot I suspect they answer that as when you've got a kind of short term need for the money.
01:21:50		Yes, you could say that. I think its slightly different between normal lump sum planning and retirement income planning, obviously the normal lump sum planning if you've got a short term need for a capital amount. You're going to put in cash, the theory being if it falls in value just before you need the money, you won't have enough time to get back to the amount you need. If you have no capacity for a loss, that's a problem. So I can say short term capital needs, don't invest them. If you're planning to run down your pension in a short period of time, I can see the point about having quite a lot of cash up front. So any fluctuations in investment value is going

		to impact the amount of income you can get over that short period.
01:22:39		But I think as Mark has been saying before, retirement isn't going to be a short period and suffering investment losses in the initial period can be very bad for your long term sustainability but I don't think that transfers over to I need to have a couple of year's income in cash to make sure it's there. If you've got a fund you're expecting to last for 30 years, I suspect you'll be able to maintain your income for the first few years without having to worry too much. That's kind of my view, I don't know, have you got anything to say to that Mark or?
01:23:14	Mark	No, nothing really to add to that. I think we, or just… So we, in the last year we obviously had a little bit more cash within PruFund and all our multi-asset funds to cope with the volatility of what's going on and nobody knew what was coming next with COVID. This year we've reduced the cash that we hold within the funds because we want to drive returns and cash is basically eating into your returns because of where inflation is. If inflation is at 4 percent at the moment, you're getting a 4 percent loss a year, effectively for holding cash.
01:23:50		So we put more of the cash to work but we also do very strict liquidity testing across all our funds to make sure we have enough money there that we can easily realise to pay out to people that are doing draw down or taking tax-free cash or whatever it is that they're doing within any of the funds. So yeah. We feel that putting cash to work is the best place for it to be at the moment within our funds.
01:24:17	Les	And I think that probably applies to clients as well if you've got a fund that you're expecting to last you 30 years.
01:24:23		I don't know whether this next one is a question from somebody at Pru who works with a retirement modeller or if it's somebody who's trying to make a point over the current rates of inflation. But I'll just go ahead and answer. It's what effect would a withdrawal of 4 percent per annum have on a starting fund value of £100,000 over a 10 year period with a 0.5 percent ongoing adviser charge?
01:24:49		The answer to that question is, file the stuff in the retirement modeller on Pru Adviser and it will tell you the answer. If you've never seen it before or you want a demonstration, contact your account manager. They'll help you out.
01:25:05		I suppose in the inflation analogy as what damage is going to get done to cash with 4 percent inflation when your bank is giving you 0.5 is the exact same thing. But that's a chart about inflation in an inflation modeller which you can talk to your account manager about as well.
01:25:23		On the subject of inflation, somebody is asking you Mark, could you go over again the point about inbuilt inflation protection again.
01:25:34	Mark	Okay, yeah sorry. There is no inbuilt inflation protection in any of the assets that we're buying. What I'm saying is, if

		you're buying index link gilts, obviously that's going to give you some protection. But, if you're buying them now, given we're seeing these inflation rises, then you're effectively paying for that insurance or buying that asset.
01:26:00		If you're using, as we do, real assets, so alternatives and property, within our portfolios anyway, we do that because of the fact that they help dampen volatility and they give us differentiated income streams. But we also feel that they, in the grand scheme of looking at various assets, that they have some embedded better inflation insurance, as in they react less badly to a period of inflation than other assets.
01:26:35		So, I'll give you an example. On certain properties where we have tenants that have signed contracts where we have regular reviews and uplifts in the income yield, we ask them to pay for the property they're renting from us. That helps us to sustain above inflation returns. Within some of the alternatives again, we have the ability with the contracts that we have, or the types of investments where we have a way of having some inflation proofing.
01:27:12		And obviously physical assets you tend to get, you know everybody says, but properties is a good asset, or like residential properties are good assets during periods of inflation. That's what we're saying with our commercial property as well, plus that extra bit that we get in a lot of cases from renewing tenants leases.
01:27:35	Les	I'll just nod my head as if I understood that.
01:27:39	Mark	Well hopefully you understood Les or I might be confusing the audience. I've got a quick question.
01:27:46	Colin	I think what Mark is saying there as well with going back to what we talked briefly about blending and thinking about perhaps if I'm looking at providing for this part of my portfolio, income for the next 20, 30 years, having that thought around well where is that portfolio invested, what type of assets are within that portfolio that are going to give me a hedge against inflation because I may be looking to increase my income as we go through time.
01:28:15		And that is going to be looking for things like greater exposure to alternative asset classes, greater exposure to yield from properties, commercial properties, physical properties that we own and so forth. So it's looking beneath the asset allocation to those component parts and how that might link with what you're trying to achieve as a client objective.
01:28:41	Les	Yeah, absolutely. We've only got a couple of minutes to go so I'll try, I think one of the advisers on today must be one of my friendly advisers who I've given a sneak preview of a lifetime allowance modeller. So basically somebody is asking, when is your lifetime allowance modeller be available and are you going to do a seminar?
01:29:04		A, soon, and B, probably the first week in December for the seminar, but look out for an email from me when the lifetime allowance modeller goes live.

01:29:14		There's two last questions I think, one is, what's a sustainable, how do you define a sustainable income? I've got a view in this one. They're basically saying, there's kind of two definitions. There's sustaining your capital or is it sustaining an income for life.
01:29:35		I don't think it's either. I think a sustainable income is the wrong terminology probably. It's how much income can I take so that it meets my retirement income needs. If your need is to preserve a lot of capital for legacy purposes, then that will drive you one way. If your need is only having enough left in your pot when you die, you buy around in the pot, that's a different thing. So I think a sustainable thing should actually be, what is the income that will make sure that all my needs are met. Colin?
01:30:12	Colin	Yeah, I think you're right and we sort of covered it earlier didn't we. Every client is different. So it's got to link to what the objectives and needs are of your client. And I think your suggestion of actually neither safe nor sustainable neither critical yield A or B, but having something that's personalized, I think that works much better in terms of what investment return do I need to meet my objectives, and what brings that all nicely together is those principles of connect four.
01:30:46	Les	Yeah, absolutely. I think we've got lots and lots of good questions coming in. We'll capture all of the questions and we'll get the answers out to you after the event your account manager will be in touch with it. Lots and lots of requests for my actuary joke. Unfortunately, we're out of time. So the next time I'm on a seminar, you might get it when I'm not so time stretched.
01:31:15		So I think all that leaves me to do is thank everybody, remind you, do your feedback for whatever that is that will generate your CPD. If it doesn't arrive, check your junk folder, contact your account manager or email Prudential events. I hope you found that youthful, it's clearly not youthful when you see the two guys to the left hand side of me here, useful, and give you something to think about with doing good retirement income for your client.
01:31:43		So thanks from me, thanks from Mark and thanks from Colin. Thanks for listening to retirement income myth busting, good bye.

END OF TRANSCRIPT