



Thought leaders in decumulation

Article 6.

‘Decumulation Building Resilience.’

February 2021





By Geoff Brooks, CEO, Alpha Beta Partners
February 22nd, 2021

Retirement planning must be robust to meet the challenges which will be encountered over the next 20 years or more, for a client in decumulation. It is not possible to predict stock, bond, property returns, inflation or other assets over such a long-time scale, particularly considering the likely occurrence of another black swan event.

Such events were discussed by Nassim Nicholas Taleb in his 2001 book *Fooled by Randomness*, which concerned financial events. He noted that it is not that black swan events are rare, but it is their impact, or the damage they do when they occur, that matters. Think Covid 19, although that is not officially a Black Swan event as it was technically predictable.

The practical aim of his book is not to attempt to help us predict events which are unpredictable, but to urge us all to find ways to build **robustness against negative events** while still **exploiting positive events**.

As the FCA completes its Assessing Suitability Review 2 (ASR 2) which will focus on the advice that consumers receive around retirement income, there is a groundswell of advice to IFA's to have in place a Centralised Retirement Proposition (CRP). Although not yet mandatory, a CRP helps to deliver a company wide standard process for advising clients approaching or already in the decumulation phase of their life.

It is recommended that as part of a robust CRP, the risk of a poor series of investment returns, otherwise known as sequence risk, should be explained to a client and then how this risk will be mitigated, with the investment options proposed.

A significant part of the development in pension provision in many countries has been the emergence of 'Target Date Funds' or TDFs. Professors Clare from the Cass Business School and colleagues examined



www.alphabetapartners.co.uk



the proposition of de-risking through life and the guidance offered by TDFs in the decumulation phase following retirement.¹

They investigated the withdrawal experience associated with Glidepath Investing in the US since 1925 for conventional bond-equity portfolios.

They found one very powerful conclusion: that smoothing the returns on individual assets by simple absolute momentum or trend following techniques is a potent tool to enhance withdrawal rates, often by as much as 50% per annum! And, perhaps of even greater social relevance is that it removes the 'left-tail' of unfortunate withdrawal rate experiences, i.e., the bad luck of a poor sequence of returns early in decumulation.

They showed that diversifying assets over time by switching between an asset and cash in a systematic way is potentially more important for the retirement income experience than diversifying one's portfolio across asset classes.

The AB Lifetime Portfolio replicates the Professor's findings and may be considered part of a robust, diversified retirement solution, to build **robustness against negative events** while still **exploiting positive events**.

It offers investment exposure to the top companies around the world and their corporate bonds but with the inclusion of two systematic methodologies to mitigate sequence risk or the damage that losses can cause both during and at the end of a retirement planning horizon.

About the author

Geoff Brooks, CEO, Alpha Beta Partners

Geoff has over 30 years' experience in strategic and leadership roles in major financial institutions in Europe, Asia and the USA; Geoff developed his career as a retirement and investment expert advising and developing drawdown and retirement solutions. His early career started with 4 major life companies NPI, Standard Life, Prudential and Friends Provident. Later to be appointed Head of Retirement for HSBC launching Stakeholder Pensions, DC solutions and drawdown. At the forefront of consumer rights and value for money Geoff led the HSBC customers to contract back into SERPS as the first Life company to do so.

The AB Lifetime portfolio, a diverse, mixed asset growth portfolio has licensed the Professors' strategy to provide clients with a differentiated investment option for those in and entering the decumulation phase. For further information please contact Andrew Thompson at@alphabetapartners.co.uk

Please contact Andrew Thompson for more information about the **AB Lifetime portfolio**, which is specifically designed to mitigate sequence risk or to start a discussion about strategies suitable for decumulation.

E: at@alphabetapartners.co.uk T: 07968 934127

¹ Absolute Momentum, Sustainable Withdrawal Rates and Glidepath Investing in US Retirement Portfolios from 1925. Electronic copy available at: <https://ssrn.com/abstract=3365338>



Important Information:

This communication is from Alpha Beta Partners Limited, a trading name of AB Investment Solutions Ltd Registered in England at 4 Lombard street, London EC3V 9AA. AB Investment Solutions Ltd is authorised and regulated by the Financial Conduct Authority. Reference No. 705062 Alpha Beta Partners Limited Reference number 799887. You should remember that the value of investments and the income derived therefrom may fall as well as rise and you may not get back the amount that you invest. Past performance is not a guide to future returns. This material is directed only at persons in the UK and is not an offer or invitation to buy or sell securities. Opinions expressed, whether in general or both on the performance of individual securities and in a wider context, represent the views of ABP at the time of preparation. They are subject to change and should not be interpreted as investment advice. ABP and connected companies, clients, directors, employees, and other associates, may have a position in any security, or related financial instrument, issued by a company or organisation mentioned in this document. Further information and documentation are available on request, or on our website, www.alphabetapartners.co.uk.



Alpha Beta Partners Ltd.
4 Lombard Street, London EC3V 9AA

info@alphabetapartners.co.uk 020 8059 0250



www.alphabetapartners.co.uk



www.alphabetapartners.co.uk

