BloomsburyWealth®

The Bloomsbury Wealth

GUIDE TO PORTFOLIO WITHDRAWAL STRATEGY

INTRODUCTION

Bloomsbury Wealth's withdrawal strategy aims to build on your financial plan by answering an important question when living or about to live off your assets:

Will your money outlive you or will you outlive your money?

Our aim is to put in place a sustainable distribution strategy from your cash savings, long-term portfolio and money purchase pension benefits to fund that part of your expenditure needs which is not met from other sources of income. It is designed to be a regular withdrawal strategy reviewed on an annual basis and which also takes into account investment returns and one-off capital requirements.

Warm regards,

The Bloomsbury Wealth Team

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SUMMARY OF STEPS

1) Minimum cash reserve - Determine a minimum amount of cash savings that provides you with peace of mind that those funds are always accessible if needed. These funds should not fall in cash value and can be used in emergencies or when taking a one-off or higher withdrawal from your long-term portfolio would be unwise.

2) Additional cash reserve – First add at least one year's regular expenditure shortfall that would not be met from guaranteed sources. To that, add any funds that you need to fund anticipated capital expenditures over the next three to five years. Both help to prevent you from being a forced seller of long-term assets.

3) Determine exactly what constitutes your long-term portfolio that can be used for future expenditure needs. Do not include any investment earmarked for short-term legacies, business ventures or helping other family members.

4) Based on your financial plan, what is the level of regular expenditure that enables you to live the life that you want to lead and that is possible over the long term based on reasonable expected future investment returns from a portfolio that is in line with your risk profile?

5) Can your expenditure be met from the natural income which your investment portfolio is expected to provide together with your other sources of income? If so, the portfolio income can be paid out to you as it arises.

6) If not, use further analysis to determine what is possible and the potential for your long-term portfolio to provide for the level of expenditure that you wish to maintain.

7) Compare the results of 4 and 6 to reasonable starting withdrawal rates based on Morningstar's 'The state of retirement income' studies. If in line with these, move to the next step.

8) Implement Bloomsbury's 'guardrails' approach to manage and adjust the withdrawal amounts from your long-term portfolio on an annual basis.

9) Bloomsbury will use its discretionary investment powers to liquidate assets if required to meet annual withdrawals and then rebalance the portfolio to ensure that your agreed asset allocation and level of risk are maintained.

10) Bloomsbury will assist with managing the tax implications of withdrawals from different tax wrappers and determining if and when annuity purchase should be considered.

11) Transfer the first year's expenditure to a separate account (this may be a bank account or separate investment account, according to your preference) and set up a regular standing order for your requirements.

12) Document your risk profile, portfolio, withdrawal strategy and any action to be taken in extreme market price downturns in an Investment Policy Statement.

13) Review annually.

1.CASH RESERVE

Minimum

The purpose of the cash reserve is to hold sufficient funds which will not suffer any fall in nominal value (i.e. excluding the effects of inflation) and which can be used to fund up to two years of annual expenditure to the extent that this cannot be funded from anticipated earnings, guaranteed pension income or another source of non-portfolio income.

In this context, you need to decide on the level of cash reserve that you need and feel comfortable maintaining.

Additional

The cash reserve also needs to hold sufficient funds to meet other anticipated capital expenses due over the next five years so that you are not forced to dispose of investments in your portfolio to meet anticipated expenditures at a time when investment markets may have fallen temporarily.

In addition to this we suggest adding one year's expenditure not met from guaranteed sources which will then be topped up each year from portfolio withdrawals. This should enable you to finish the year with your minimum cash reserve still intact and to ensure that regular withdrawals from your long-term portfolio are sufficient to maintain it.

In years of significant market downturns and/or unforeseen capital expenditure, your minimum cash reserve can be used to avoid being a forced seller of your long-term portfolio.

2.LONG-TERM PORTFOLIO

Any investable assets that are in excess of your total cash reserve and are not earmarked for any other short-term objective such as helping family, legacies or business interests.

If the natural income from your long-term portfolio, in conjunction with other income sources, can meet your expenditure needs, then this can be taken as it arises to eliminate any shortfall.

3.GUARDRAILS WITHDRAWAL PROCESS DETERMINING THE STARTING WITHDRAWAL RATE

When it comes to your life, running out of money is never an option. That said, unless it is your intention, leaving behind a huge store of wealth is also not a great result either and may mean that you have not lived your best life.

As such, most people need a strategy that keeps them somewhere in between the two outcomes, no matter what. However, there are two major unknowns that make this very tricky.

1) You do not have any idea how long you'll be living off your assets, i.e. we do not know how long we are going to live. If we did, our financial planning would be easy and we could conveniently die with only £1 left in the bank!

   In our financial plans, we currently assume that you will live until the younger of you is aged 99.

2) No one knows what the markets will do. All we know is that at times they will go up and at other times they will go (sometimes a long way) down. In reality, our financial journeys are a little like starting without knowing the distance to our destination and with no map on how to get there.

As we, you, or anyone else do not know the length of the rest of our lives or how the markets will respond to future events, we suggest implementing a sensible, evidence-based process to determine a starting rate of withdrawal from your long-term portfolio and adjusting this as we go based on both your future needs and actual portfolio returns.

This needs to be used alongside your cash reserve and other income to meet your future needs.

Process for determining starting withdrawal rate

1) **Financial plan and analysis**

We will help you to decide what level of expenditure is needed to meet your lifestyle needs and to give you the life you want to lead.

First we answer the question, 'What amount of expenditure has to be met from your long-term portfolio?' By this we mean expenditure that is not met from guaranteed sources or from other income such as earnings or rental income.

The answer can then be stress-tested to see whether it is possible based on both future expected returns and historical actual returns over different time periods. This helps to determine the likelihood of you having a successful investment experience and, most importantly, being able to live your life free of money worries.

Included in your financial plan will be any anticipated one-off capital expenditures and any legacies that you wish to leave.

2) **Compare the results from your financial plan and analysis with independently-tested starting withdrawal rates.**

The withdrawal rate needed, as determined by your financial plan, can then be compared to independently researched withdrawal rates for different asset allocations to see whether it is reasonable based on the asset allocation of your portfolio (the latter being determined by your risk profile).

We use Morningstar's 'The State of Retirement Income' studies, which publish research on rolling 30 year period lifetime withdrawal rates by asset allocation.

We then take off the financial planning and portfolio fees that apply to you

3) **Choose a starting withdrawal amount that meets your goals whilst also being sensible based on robust analysis.**

The withdrawal rate (calculated from your withdrawal amount) needed will determine whether your portfolio's natural income will be sufficient to meet your needs or whether a higher withdrawal is needed. If higher withdrawals are needed, our ongoing withdrawal process will be utilised to reduce the risk of you running out of money. This will be documented in your Investment Policy Statement (IPS) and takes into account taxes and your preference for how you receive withdrawals – this may be in the form of a regular monthly amount or an annual distribution.

4. BLOOMSBURY'S ONGOING WITHDRAWAL PROCESS

A 'guardrails' approach is used so that in a normal environment, a higher starting withdrawal amount and rate based on your portfolio value can be used if you are willing to be a little bit flexible.

We establish upper and lower limits that are respectively 20% above and 20% below your starting withdrawal rate. These guardrails are nothing more than a range within which you should aim to stay and are used to determine whether or not your subsequent withdrawal amount needs to be adjusted by up to 10% in either direction.

Each year, we will take the following steps:

1) If your portfolio value has risen, we adjust your withdrawal amount to allow for the impact of general price inflation, as measured by the consumer price index (CPI).

2) Calculate the current withdrawal rate based on your total portfolio value.

3) Assess the new rate against the +/-20% range.

4) If within the range, no further changes are made.

5) If outside the range, the withdrawal amount is adjusted +/-10% to bring it back towards the median rate.

6) If your portfolio value has fallen over the year but the withdrawal rate is still within the guardrails range, then the withdrawal amount is maintained with no inflation increase.

The best way to describe this ongoing process is to use an example:

A couple has £1.7m of total savings and investments invested in a portfolio with a 60% exposure to growth assets in accordance with their risk profile. In order to live the life that they wish to live and to maintain financial independence (the freedom to choose whether or not to undertake paid work), they need a total annual cashflow of £80,000 after any taxes.

They have £20,000 of guaranteed net income from defined benefit pensions, so their portfolio needs to generate £60,000pa.

A total cash reserve of £200,000 is agreed to be held to provide next year's expenditure that is not met from guaranteed sources (£60,000), two years' further expenditure (£120,000) as a minimum reserve and the anticipated costs of fitting solar panels to their home during the next three years (£20,000).

This leaves a long-term portfolio of £1.5m, for which £60,000pa equates to a withdrawal rate of 4%pa. This is at the top of the range in terms of sustainability, given costs and taxes, but is deemed possible and results in a 20% range of between 4.8% and 3.2%.

Once a year, following a discussion at their annual progress meeting, a strategic withdrawal of £60,000 can be paid from their long-term portfolio from any accumulated income and capital based on a withdrawal rate of 4%.

This level of withdrawal will continue each year and be adjusted for inflation in years of positive portfolio growth using CPI.

We then check what their withdrawal amount would be as a percentage of their portfolio (the withdrawal rate). So long as their withdrawal rate stays between 4.8% and 3.2% (a total portfolio value between £1,250,000 and £1,875,000), a +/-20% change in the withdrawal rate based on the portfolio value at the start of the year, then no changes are needed.

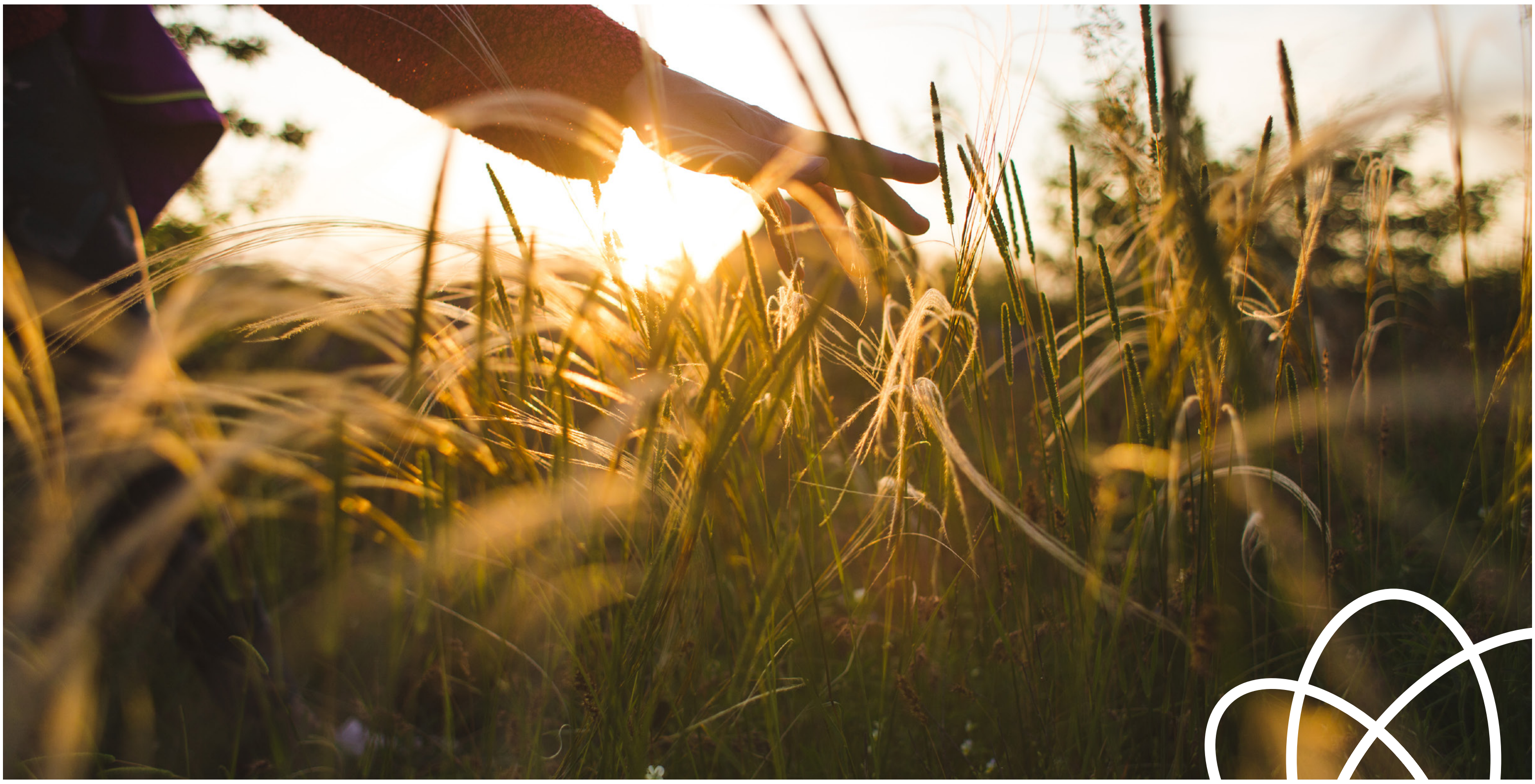
If the withdrawal rate is now above 4.8% based on the portfolio value, we would reduce the withdrawal amount by 10%. If it's below 3.2%, we would increase the withdrawal amount by 10%. Changes to the withdrawal rate could be due to negative or positive market returns, one-off withdrawals, or additions to the portfolio during the year.

Thirdly if the withdrawal rate is within the range but their portfolio lost money compared to the year before the inflation increase to the withdrawal amount is not implemented.

The annual withdrawal will be maintained at the new level until next year, when the rate is checked again and compared to the range detailed above.

This process helps to ensure that you are able to enjoy your wealth and not leave too much of it unused. By being willing to tighten your belt during the bad times, you can safely take more income during the good times if you wish.

We believe that this is preferable to sticking to a fixed withdrawal rate that might, given that future returns are unknown, turn out to be either too low or too high. By formulating a policy in advance, documenting it and sticking to it, you know what will actions you will take each year even as the value of your portfolio fluctuates.



5.PORTFOLIO ASSET ALLOCATION

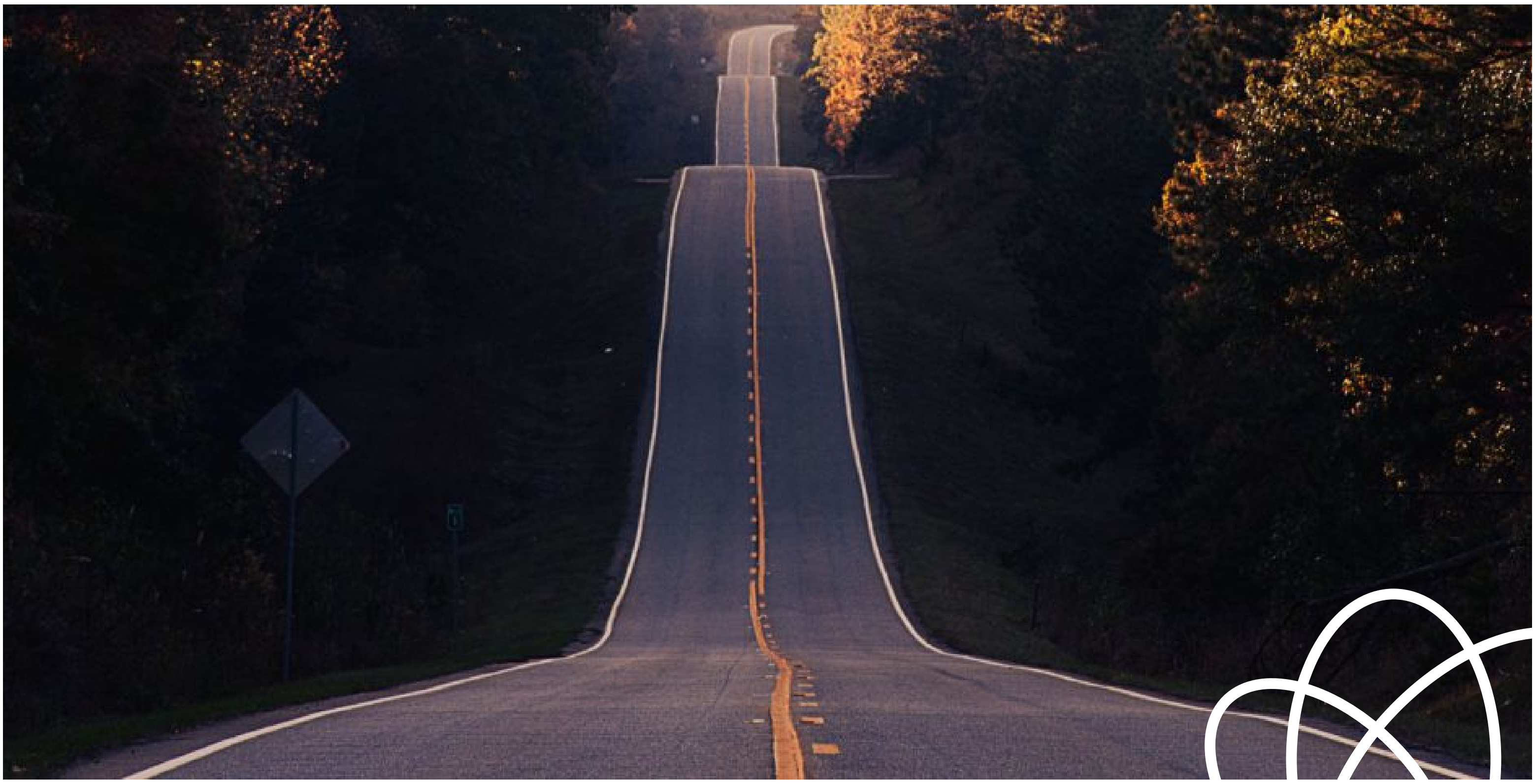
Your long-term portfolio's asset allocation is based on your risk profile, which we agree with you by discussing three areas:

- Your emotional tolerance of risk, as identified by the FinaMetrica risk assessment;
- Your financial capacity to absorb either a permanent loss of capital and/or prolonged lower than anticipated investment returns and
- Your financial need to take risk, as indicated by the cashflow analysis and to be confirmed once this has been updated and finalised.

When portfolio withdrawals are taken, your long-term portfolio is rebalanced back to the agreed asset allocation, being split between defensive (short-term global bonds) and growth (equitiy) assets.

When the long-term portfolio falls in value due to market movements, as it will from time to time, your expenditure needs can initially be met from your cash reserve. Should further withdrawals be necessary, these would normally be taken first from the defensive component of your long-term portfolio, as this is likely to have fallen less than the growth component.

Using the defensive assets to provide your needs in future years or until the growth assets recover enables your agreed asset allocation to be maintained by drawing initially on the assets that have held their value better. This is the reverse of what happens when rebalancing after cash has been added to your portfolio, when the new cash is used to purchase which are underweight relative to the model.



6. TAX WRAPPERS

Bloomsbury will recommend on an ongoing basis from which accounts capital withdrawals from your portfolio should be taken based on your circumstances and the tax rules at the time.

Although Bloomsbury does not provide tax advice, we can liaise with your other advisers and can provide guidance on tax issues, provide an annual tax report for income and capital gains and help obtain more specialised tax advice if needed.

7. IMPLEMENTATION

If you would prefer any annual capital distribution to be in the form of monthly payments, Bloomsbury will employ a separate investment account (which is not subject to our fees) and move the first year's expenditure needs to this. The agreed regular monthly amount will then be paid from there to your linked bank account.

Alternatively, you can hold your first year's expenditure needs in a savings account of your choosing and draw down from this as needed throughout the year.

Whichever method is your preference, Bloomsbury will then discuss this with you on an annual basis and top up the account as required from your long-term portfolio based on the above ongoing withdrawal process.

For your withdrawal strategy to work and to take you through the tougher times, you must be willing to receive a reduced level of withdrawals when portfolio returns have been negative and/or rely on your cash reserve until asset prices have recovered.

8. HOW TO MAINTAIN A SUCCESSFUL WITHDRAWAL STRATEGY – DOCUMENT AND REVIEW

Even though you agreed to your strategy once, it does not mean you will always be able to act consistently with the agreement, especially as it might have been made several years earlier. While it is easy to plan a strategy of limiting your expenditure in a hypothetical situation, implementing it if that situation arises can be more difficult. Life gets in the way and human nature can take over. In order to help with this, we will draft an investment policy statement confirming the agreed withdrawal strategy and review and agree on the approach in each annual progress meeting (your Prosperity Roadmap Update meetings).

We will talk about what you might change in your lifestyle to accommodate any reduction, so that if you do have to move to that reduced cashflow, you know exactly what that looks like and exactly what to expect.

You will also need the discipline to 'stay the course' when your emotions are telling you to take a different path. Our process will help you with this aspect of human behaviour, which is typically the hardest part of the equation.

The best way to keep you on track with your financial goals during your spending phase of life, regardless of your current concerns or what is going on in the news, is to put in place and document a strategy that you are comfortable to follow and then to review it annually.

ABOUT BLOOMSBURY

Bloomsbury Wealth is a multi-award winning specialist wealth management and financial planning branch of Raymond James Wealth Management Limited based in London led by Charles Wood and Robert Lockie.

We specialise in helping successful business people and their families to overcome the challenges involved in managing significant wealth. We act as personal wealth advisers to a select number of families with complex affairs to deliver tangible and substantial value. This gives our clients the confidence of knowing that they can achieve all that is important to them in life.

To arrange an introductory telephone call with one of our friendly and experienced planners or if you would like more details on any of the subjects mentioned in this document please contact the Bloomsbury Wealth Marketing Department:

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Your capital is at risk when investing. Past performance is not indicative of future results and no representation is made that the stated results will be replicated.

USE OF MORNINGSTAR DIRECT© DATA

For further information please get in touch with your usual Bloomsbury contact, telephone 020 4502 4560 and ask for a member of the wealth team or alternatively email truewealth@bloomsburywealth.co.uk

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