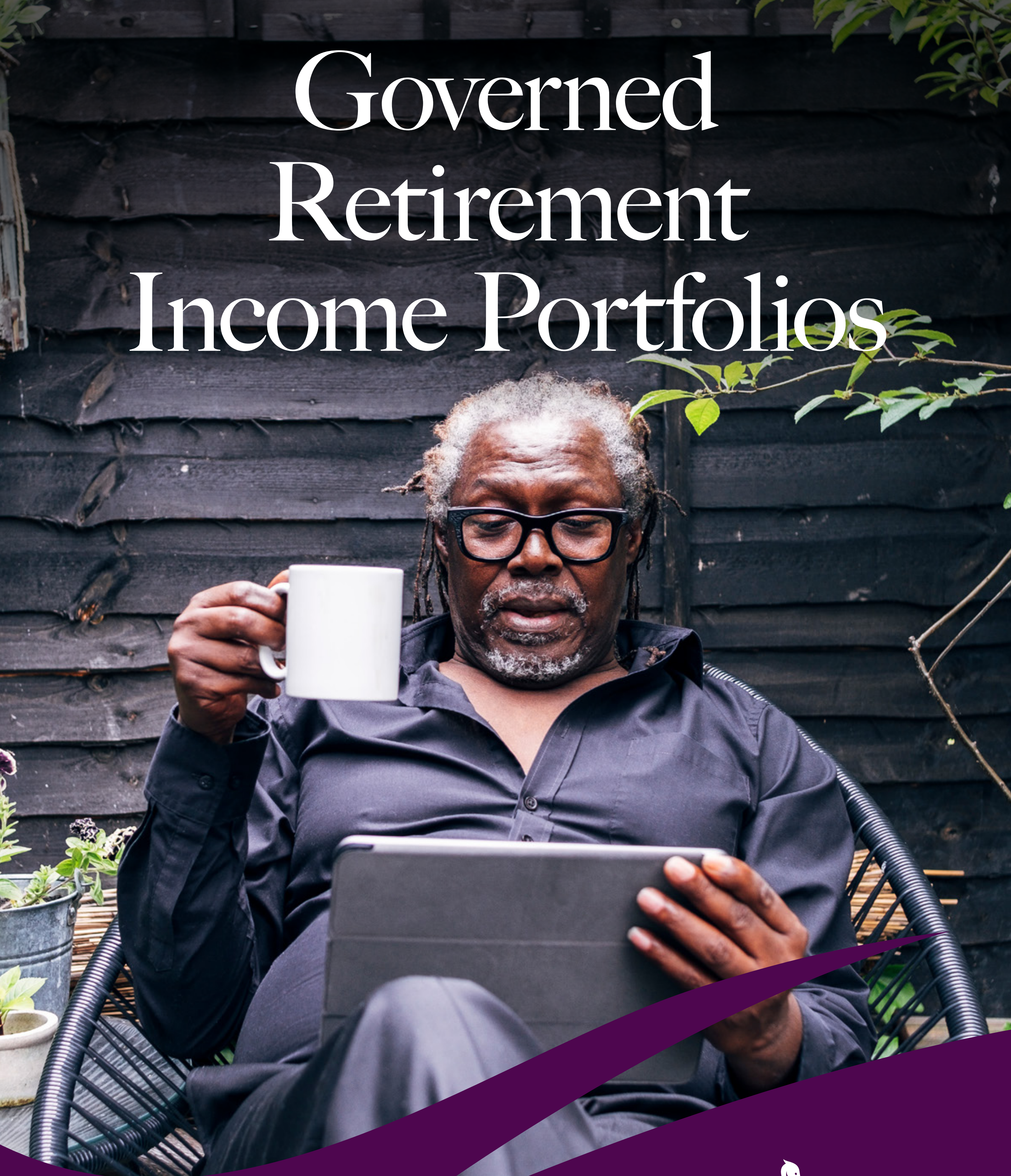
Governed Retirement Income Portfolios



Investments | Governed Range

ROYAL LONDON

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Designed to solve your clients' retirement income challenges

With people living longer, living costs continuing to rise and the state pension unlikely to support a comfortable retirement lifestyle, the importance of building up an adequate pension pot and then managing it through retirement has never been greater.

So being able to offer your clients investment portfolios that you're confident can give them a sustainable income, potentially over many years and through various market conditions, has become increasingly important.

Our Governed Retirement Income Portfolios or GRIPs, part of our multi asset Governed Range, are specifically designed to address the challenges that come with generating a sustainable income – to give you and your clients peace of mind that they'll have the income they need for as long as they need it.

Contents

You can use the titles above and/or the bookmarks panel to navigate through this document.

The difference between accumulation and decumulation portfolios

Why you need a different approach for clients taking an income.

Market volatility is part of investing – we can't avoid it.

When your clients are saving for retirement, their investment portfolios will generally have the time to ride out any market ups and downs. But when they start taking an income, market volatility can have a significant detrimental impact on the value of their portfolios – particularly in the early years – which could mean they're at risk of not having enough to last them throughout retirement.

So even if you have clients who are comfortable taking a high level of investment risk, you need to bear in mind that they'll have a reduced capacity for loss.

That's why decumulation portfolios need different investment objectives to accumulation portfolios, with income sustainability the top priority.

Income sustainability and managing risk

Income sustainability measures how likely it is that a client's investments will meet their specific income needs over a certain timeframe.

Research we carried out in November 2023 showed that 51% of advisers had seen an increase in the level of drawdown withdrawals over the past couple of years. This highlights how important it is that your clients have an investment portfolio which can help them maintain a sustainable level of income.

Decumulation portfolios also have to manage different risks. In particular, they need to balance and mitigate two opposing risks - **sequencing risk** and **longevity risk**.

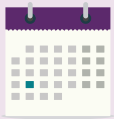
	Sequencing risk	Longevity risk
Definition	The risk that timings of income withdrawals can have a negative impact on a client's long-term returns.	The risk of a client living longer than expected.
Problem	Large income withdrawals after a market crash. The losses then can't be recovered due to a lack of time.	The client runs out of money and is reliant on state provision or other sources of income/support.
Solution	A lower-risk portfolio to mitigate the potential impact from large drawdowns.	A higher-risk portfolio that aims to produce stronger returns over the longer term to better support long-term income needs.
Dilemma	**How do you create the right balance to help mitigate both risks and make sure your clients' portfolios can deliver a long-term sustainable income through all market conditions?**	

Sequencing risk in more detail

Let's look at two clients:

Both are aged 65.

Both are about to start taking income from their £100,000 pension pots.



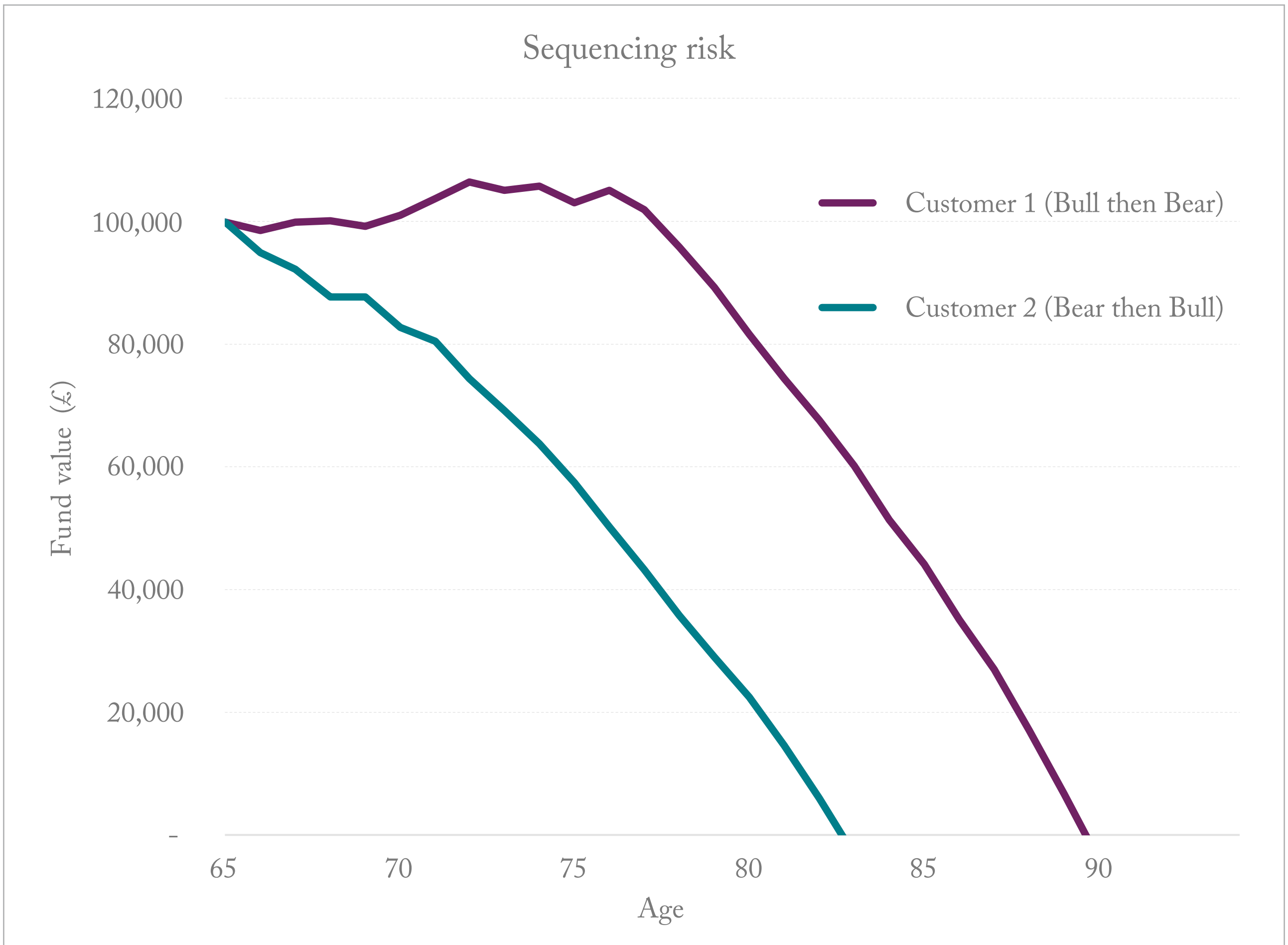
Both plan to withdraw £6,000 a year, increasing with inflation every year.

Client 1 retires in a bull market – the average investment return is higher between the ages of 65 and 75, then reduces beyond age 75.

Client 2 retires in a bear market – the average investment return is lower for the first 10 years, then increases beyond age 75.

The chart below shows that client 1 will run out of money by 90, whereas client 2 will run out by age 83. The risk of running out of money even earlier than this could increase if they decide to take tax-free cash.

This is a simple example. But it shows how the order (or sequence) of investment returns matters when taking an income, particularly when market conditions are poor.



Figures in this chart are for illustrative purposes only. Investment returns aren't guaranteed. Assumed 2.5% inflation rate. The average investment return over the next 25 years is 5% for both clients but the order (sequence) of returns differs.

The case for centralised retirement propositions (CRPs)

How a CRP can help you deliver a robust advice process for your retirement income clients and meet your Consumer Duty obligations.

A centralised investment proposition (CIP) can add structure and governance to your advice process for clients **saving for** retirement. But you're likely to need a different approach for clients **in** retirement.

This is where a CRP comes in. While it should have similar objectives to a CIP, a CRP will cover the more complex decisions and risks which come with building investment portfolios that have the potential to generate the sustainable retirement income these clients need.

One of the key benefits of a CRP is that it should help you improve outcomes for all your retirement clients. This is because you're able to demonstrate that you've gone through a robust process to identify the investment portfolios which best meet the needs of each one.

A CRP can also have benefits for your business as it makes your processes more efficient and mitigates risks that could have a detrimental impact on reputation and profitability.

Managing retirement income in a Consumer Duty world

Under Consumer Duty, avoiding foreseeable harm is considered critical to delivering good outcomes for clients in retirement. Evidencing value for money is another key aspect that you need to consider.

The increasing complexity of retirement and the risks which need to be balanced present clients with many foreseeable harms, some of which conflict. For example, the risk of a client running out of money against their need to access more money to cover increasing costs.

To help your clients avoid or limit these potential harms, you need to analyse the key risks of the investment solutions you recommend, and put in place plans and strategies to manage them. On top of that, you have to evidence all of this, as well as how your recommendations provide fair value.

The FCA is also very clear that you need to look at the overall cost to your clients – not only investment charges. That includes any product or platform charges, and costs generated as part of the advice process.

This is where a robust CRP can prove its worth. It will already have addressed the key risks facing your clients, as well as how the investment portfolios you've chosen can help mitigate those risks. Plus, it will have assessed the value and suitability of those portfolios for different types of clients.

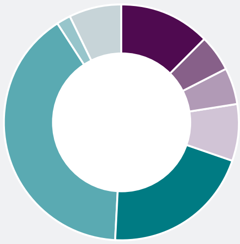
Investment solutions designed to solve the retirement income challenge

How the Governed Retirement Income Portfolios can help provide your clients with a sustainable income whatever's happening in markets

The Governed Retirement Income Portfolios (GRIPs) are five actively managed, risk-rated portfolios designed to balance the risks that could affect retirement income sustainability.

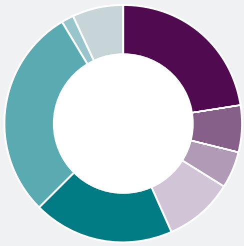
Each portfolio includes a widely diversified mix of asset classes that aims to provide the best possible returns for its level of risk. The diversified asset mix also aims to improve the resilience to market shocks and downturns, which could have an adverse impact on the ability to deliver a long-term sustainable income for your clients. This includes assets, such as commodities, which are used as a hedge against inflation.

Governed Retirement Income Portfolio 1



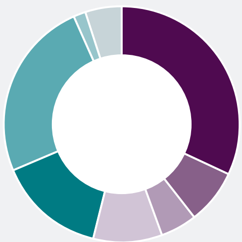
- 12.50% Equities
- 5.00% Property
- 5.00% Commodities
- 8.00% High yield bonds
- 20.50% Corporate bonds
- 40.00% Government bonds
- 2.00% Asset-backed securities
- 7.00% Absolute return strategies (including cash)

Governed Retirement Income Portfolio 2



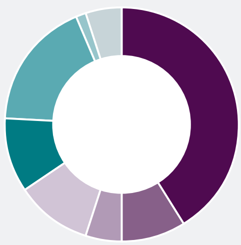
- 22.75% Equities
- 6.25% Property
- 5.00% Commodities
- 9.50% High yield bonds
- 19.00% Corporate bonds
- 29.00% Government bonds
- 1.75% Asset-backed securities
- 6.75% Absolute return strategies (including cash)

Governed Retirement Income Portfolio 3



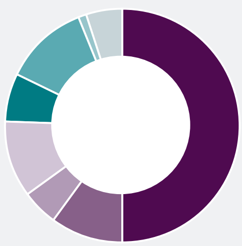
- 32.00% Equities
- 7.50% Property
- 5.00% Commodities
- 9.50% High yield bonds
- 14.75% Corporate bonds
- 24.75% Government bonds
- 1.50% Asset-backed securities
- 5.00% Absolute return strategies (including cash)

Governed Retirement Income Portfolio 4



- 41.25% Equities
- 8.75% Property
- 5.00% Commodities
- 10.75% High yield bonds
- 10.25% Corporate bonds
- 17.75% Government bonds
- 1.25% Asset-backed securities
- 5.00% Absolute return strategies (including cash)

Governed Retirement Income Portfolio 5



- 50.00% Equities
- 10.00% Property
- 5.00% Commodities
- 10.75% High yield bonds
- 6.50% Corporate bonds
- 11.75% Government bonds
- 1.00% Asset-backed securities
- 5.00% Absolute return strategies (including cash)

As part of our Governed Range, the GRIPs benefit from regular monitoring of the strategic and tactical asset allocations to make sure they stay within their individual risk levels and deliver sufficient returns for your clients to support a long-term sustainable income.

Maximising income sustainability potential and minimising risk

How the GRIPs can maximise income sustainability levels, while balancing sequencing and longevity risks.

When reviewing the strategic asset allocations for the GRIPs, we test them against a range of typical drawdown client profiles and income levels. And for each portfolio, we aim to maximise the likelihood of achieving the income objective within its long-term risk target.

To do this, we look at income sustainability alongside various risk metrics. The main one is maximum one-year loss at 5% (real - in other words adjusted for inflation).

Income sustainability

All the GRIPs are designed to maximise income sustainability within their level of risk. This table shows the probability of our medium-risk GRIP 3 delivering a sustainable income over different timeframes and for different income levels.

Income sustainability heatmap Q2 2025

		Nominal income %								
		3	3.5	4	4.5	5	5.5	6	6.5	7
Term (years)	15	100%	100%	100%	100%	100%	100%	99%	97%	93%
	20	100%	100%	100%	100%	98%	94%	86%	71%	55%
	25	100%	100%	99%	96%	88%	75%	60%	43%	27%
	30	100%	99%	95%	86%	72%	57%	40%	24%	14%
	35	99%	96%	88%	75%	60%	44%	27%	16%	10%

Highly sustainable	85% - 100%
Moderately sustainable	75% - 84%
Reasonably sustainable	50% - 74%
Not sustainable	0 - 49%

Source: Royal London, Q2 2025, using GRIP 3 and assuming a 1% total charge. Based on drawdown starting from age 65.

As you can see, it would be highly sustainable for a client to take 5% income a year over 25 years.

Maximum one-year loss (real)

This measures the largest loss that the GRIPs could experience in a bad year. We calculate the expected 5th percentile one-year returns for each of the next 25 years, with the worst one (the largest loss) representing the maximum one-year loss. What this means is that 5% of returns could be worse than this, but 95% could exceed this figure.

We show real maximum one-year losses, which allow for the impact of inflation. Real losses are bigger than nominal losses because inflation compounds the losses.

These are the target one-year loss figures for each of the GRIPs:

Portfolio	Maximum 1-year loss at 5% (real)
GRIP 1	≤11%
GRIP 2	≤12.1%
GRIP 3	≤14.3%
GRIP 4	≤16.5%
GRIP 5	≤19.25%

Source: Royal London. Figures aren't guaranteed.

Added-value extras as standard

To support your decision-making process and assessment of ongoing income sustainability, we offer tools and guidance at no extra cost. And, like the rest of our Governed Range, independent governance and a responsible investment approach are built into the GRIPs.

As your clients progress through retirement, it's important to regularly review their income requirements to make sure their investment portfolios remain on track to deliver a sustainable income. We can support you with this through our quarterly income sustainability updates and our Drawdown Governance Service.

Income sustainability quarterly update

We update income sustainability scores for our balanced GRIP 3 every quarter, based on how much income is taken and for how long. Part of this update is a regular review of the level of income we think is sustainable based on current economic conditions. So you can confidently use this in conversations with clients on how to sustain the level of income they both want and need.

Drawdown Governance Service

This is a personalised service which provides quarterly updates on each individual client's income sustainability score. So you can see if any of them are heading off track.

Using information you give us about your clients' income schedules and retirement targets, and the performance of the GRIP they're invested in, the service calculates a new income sustainability score every quarter. It also proactively tracks progress against that score and highlights any changes.

You get easy-to-understand client reports which have been tested with customers. Meaning you can be confident that your clients are getting the information they need to help them make informed decisions where necessary.

Independently led oversight from our Investment Advisory Committee

Our Investment Advisory Committee oversees the design of the GRIPs, giving guidance, support and advice on the best mix of investments to use in the portfolios, anticipating potential challenges and dealing with any issues that come up.

Having independent representatives on the committee means that decisions are made impartially and helps avoid potential conflicts of interest. Those representatives also make sure that Royal London Asset Management, which manages the portfolios, is held to account in the same way as any external fund manager.

Our responsible investment approach – focusing on stewardship and ESG integration

Stewardship, including voting and engagement, and ESG integration are built into Royal London Asset Management's investment decision-making process and how the GRIPs are run.

In addition, all the GRIPs include investment in our tilt funds. These funds have a climate objective to achieve a carbon footprint of at least 10% lower than that of the benchmark index, although this isn't guaranteed. Our active management approach also gives Royal London Asset Management the flexibility to reduce exposure to companies with poor environmental, social or governance (ESG) practices, and increase exposure to those with better practices.

On top of this, you have the flexibility to swap out the standard equity component of the GRIPs with any of our other equity funds, which have varying degrees of responsible investment and ESG content. So you can flex the portfolios to clients' responsible investment requirements.

To find out more about our responsible investment approach for the GRIPs and the wider Governed Range, have a look at our **Investing responsibly with us** guide or visit **adviser.royallondon.com/investment/responsible-investment/**

Why use GRIPs rather than Governed Portfolios for your clients' retirement income?

Why it's important to look beyond returns when choosing a retirement income portfolio for your clients.

We've designed GRIPs to maximise sustainable income, while Governed Portfolios are designed to maximise returns. Because of this, managing short-term volatility is important for the GRIPs but less so for the Governed Portfolios.

So the GRIPs focus on asset mixes which can help to minimise the risk of large short-term losses. They also hold more UK high yield bonds than the Governed Portfolios as these can act as a better hedge against UK inflation than their global equivalents.

All these features are designed to reduce the risk for your clients who are taking an income.

It's important to remember that you shouldn't look at returns alone when it comes to portfolios which are going to be used for income withdrawal. There are other factors to consider, such as how much risk is being taken to get those returns and how they do in a bad year – the maximum one-year loss which we talked about earlier.

GRIPs – the value-for-money retirement income solution

With broad diversification, active management, extras as standard and competitive charges, GRIPs offer clear value for your clients. Plus we provide support to help you with your fair value assessments.

Portfolios will often get more expensive when more features and asset classes are added. But that isn't the case with the GRIPs. We offer broad diversification, active management, including regular tactical asset allocation and independent governance, at no extra cost.

The standard annual management charge for the GRIPs is 1%. But as you can see from the table below, this can go down to as little as 0.35% depending on your clients' portfolio value.

Competitive charges

Value of core investments	Basic AMC	Discount	Total basic AMC (including discount)
£0 - £46,600	1%	0.25% a year	0.75%
£46,600 - £93,200	1%	0.50% a year	0.50%
£93,200 - £279,000	1%	0.55% a year	0.45%
£279,000 - £932,000	1%	0.60% a year	0.40%
£932,000 +	1%	0.65% a year	0.35%

The basic annual management charge for our investment options is 1%. This charge is built into the fund price and is deducted on a daily basis. Depending on the other elements that make up the management charge, the actual charge may be less than or greater than 1%. Therefore, to make sure the correct charge is applied, an adjustment is made each month by the addition/cancellation of units, as required. Our annual management charge is tiered. So as the value of your clients' investments grows, the overall management charge reduces. This is applied through a monthly management charge discount.

Sharing our profits with our customers

Your clients can also benefit from ProfitShare on their GRIPs investments. Although ProfitShare isn't guaranteed, since 2017 we've paid out between 0.15% and 0.18% to qualifying customers each year.

ProfitShare awards are invested in the same way as the rest of your clients' plan. So that's additional money which can be working hard to help support their retirement income.

Helping you with your fair value assessments

We're here to support you with your Consumer Duty requirements. Our online Consumer Duty hub has a range of materials you can use to help you meet and evidence Price and Value requirements.

Visit **https://adviser.royallondon.com/product-support/consumer-duty/price-and-value-outcome**

For more information about the GRIPs, and the benefits for you and your clients, speak to your usual Royal London contact or visit adviser.royallondon.com/multi-asset-approach

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