Ivy+ FUNDS

# A Guide to Sequence Risk

## Essential information for investing in retirement

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# Investing in Retirement has changed

Someone who is at or in retirement has two major considerations.

- **First**, on average, we are all living longer. This means that our wealth in retirement might have to last longer than we had previously imagined.
- **Second**, the yields on annuities are so low today, that buying an annuity to secure a retirement income is not a very attractive option currently.

This means that those in retirement have to take responsibility for investing their accumulated wealth so that it lasts for the rest of their life. With interest rates so low, it is no good just putting the money into a savings account. It simply won't grow to generate the income that most people need in retirement.

But the traditional problem with investing for growth is that the value of investments can go down as well as up. We know that many people are afraid of investing for growth for fear that their investments will fall in value, and so increase the possibility of running out of money in retirement. It really is 'Catch 22'. The challenge for investors then is to minimise the risks that arise from an investment downturn, while still capturing the benefits of investment growth.

Sequence risk is the key enemy for anyone investing for growth while simultaneously drawing an income from their investments.

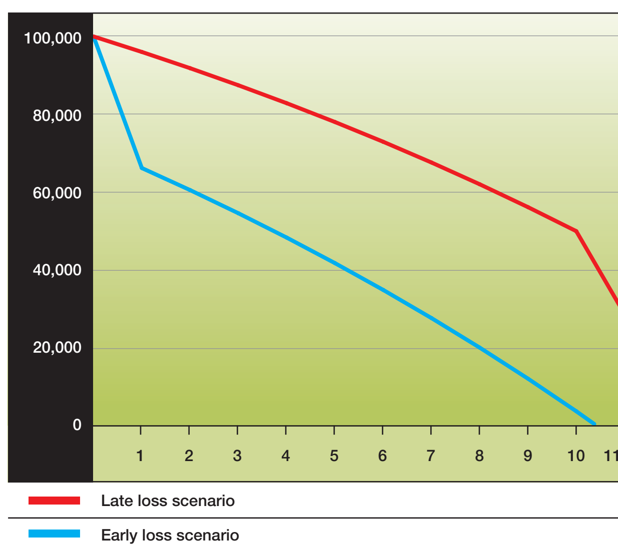
## But what is Sequence Risk?

Sequence risk refers to the risks that arise from the order in which returns occur. This is a particular problem for those withdrawing a regular income from their investments. This pernicious phenomena is probably best explained with a simple example.

## The impact of sequence risk

Suppose that an investor starts with an investment pot of €100,000, and withdraws €9,000 at end of each year. The returns on the investment are 5% every year, apart from one year where the investment return is -25% (a not uncommon equity market fall).

### Figure 1: The impact of sequence risk on investments supporting an income




*Source: Ivy+ Funds research.*

The figure 1 is based on the following returns/ losses on the investment.

| Year | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Late loss returns** | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% | **-25%** |
| **Early loss returns** | **-25%** | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% |

Figure 1 shows the value over time of this investment for two scenarios: the first, where the -25% fall occurs eleven years after the start of the withdrawal period, and the second, where the -25% loss occurs at the start of the withdrawal period.

In the first scenario the investment is still worth just over €28,000 after eleven years. In the second, the investor has run out of money before the end of year eleven.

This simple example demonstrates that the order, or sequence of returns really matters. It shows, in particular that in the early years of retirement significant falls in the value of an investment can be very damaging to your wealth, leaving an individual with the prospect of trying to catch up financially for the rest of their life. The Ivy+ Funds are designed to protect against this.

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## Ivy+ Funds – a proven approach

Professors Andrew Clare and Stephen Thomas of London's highly respected Cass Business School are recognised globally as thought leaders in investment. They have studied sequence risk and its effects for many years.

The Ivy+ Fund investment approach reflects this extensive research, it is a fund that could help reduce the worst effects of sequence risk to the benefit of investors. It utilises a risk management process that is driven by pre-defined indicators, which remove all human emotion from the investment process.

### Figure 2: The Ivy+ approach vs. no risk management

*Source: Ivy+ Funds research.*

Figure 2 shows the impact of the risk management process on a portfolio comprising 30% European equities and 70% European bonds – a not untypical retirement portfolio – where the individual withdraws an income of 6%pa of the fund's value.

Because the process reduces risk when markets fall, capital can be preserved so that investors are not withdrawing an income from assets that have fallen in value. The process has been designed to capture returns in the good times and reduce losses in the bad times.

For the client it is an approach that reduces investment volatility, improves returns over the longer term, and offers greater peace of mind.

**Warning:** These figures are estimates only. They are not a reliable guide to the future performance of your investment.
**Warning:** The value of your investment may go down as well as up.
**Warning:** The income you get from this investment may go down as well as up.
**Warning:** This product may be affected by changes in currency exchange rates.

# Support for advisers and their clients

- Simple and helpful literature
- Draft suitability wordings
- Presentations or one to one meetings with both advisers and clients
- Documentation that can be downloaded from our website: www.ivyplusfunds.com

We like talking about it, and helping others to understand what we are aiming to achieve.

So, please contact us:

**Tel:** +**353 872535953**

**Email:** info@ivyplusfunds.com

**Visit our website:**
www.ivyplusfunds.com

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## What are the risks?

- Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested
- Currency fluctuations may adversely affect the value of investments and the income thereon
- The fund invests partly in Emerging markets and Commodities. Investing in these assets can be extremely volatile, involving a higher than average risk.
- The funds will invest mainly in collective investment schemes which themselves may invest in bonds, equities, commodities each of which will have specific risks as detailed in the full Prospectus