OLD MUTUAL
GENERATION FUNDS
INVESTING FOR
RETIREMENT INCOME
IMPORTANT INFORMATION
Please remember that past performance is not a guide to future performance. Investment involves risks. The value of investments and the income from them can go down as well as up and investors may not get back any of the amount originally invested. Exchange rate changes may cause the value of overseas investments to rise or fall.
The Generation portfolios are a range of investment solutions that seek to make the most of these opportunities, and tackle the challenges headon. They are aimed at investors who are either approaching retirement, at retirement or some way through retirement. The portfolios can be used alongside other solutions for retirement, such as annuities, or as a stand-alone option. They can be used across a range of investment products, including individual savings accounts (ISAs) and selfinvested personal pensions (SIPPs).

Generation has been designed by the highly experienced multi-asset team at Old Mutual Global Investors, in collaboration with financial advisers, to give you more flexibility as to how you use retirement savings to support yourself in your later years.

A SOLUTION TO PENSIONS REFORMS
The overhaul of the UK pensions system has given you far more control over how you can use the money you’ve saved for retirement.

One of the key changes is that you no longer have to buy a traditional annuity, an insurance product that allows you to swap your pension savings for a regular income. And while an annuity can provide a guaranteed level of income for the rest of your life, buying one is also an irreversible decision.

So while for some an annuity may be the best option, it may not offer others who have a larger pension pot the same level of freedom to use their savings, should their circumstances change.

The Generation portfolios offer flexibility by enabling you to remain invested in financial markets while drawing an income of your choosing, at the same time as aiming to protect and grow your pension savings. As such, they form what is known as a ‘drawdown’ solution for retirement. They do not prevent you from buying an annuity later in life – and you have the flexibility to leave some or all of your remaining savings to loved ones.
KEY CONSIDERATIONS

AS WITH ALL INVESTMENTS, THE GENERATION PORTFOLIOS ENTAIL SOME RISKS THAT ARE WORTH CONSIDERING. THESE INCLUDE THE FACT THAT UNLIKE AN ANNUITY, THE INCOME IS NOT GUARANTEED, AND THAT YOU MIGHT RUN OUT OF MONEY IF YOU DRAW TOO MUCH INCOME OR IF MARKETS FALL SIGNIFICANTLY. OTHER CONSIDERATIONS INCLUDE:

WHAT ARE MY INCOME NEEDS? Retirement offers many people an opportunity to realise lifelong ambitions, such as travel or a part-time career. It is worth considering, therefore, what kind of income you may need and whether you would like the flexibility to receive different amounts during different periods:

ESSENTIAL INCOME NEEDS: The minimum level of income to fund your basic lifestyle

DESIRABLE/ADDITIONAL REQUIREMENTS: These could include travel, hobbies or starting a business

LUXURY/UNEXPECTED COSTS: Healthcare costs, family emergencies and celebrations

HOW MUCH RISK SHOULD I TAKE WITH MY MONEY? All investments carry some level of risk. When deciding how much income you require and how your savings can match this, therefore, it’s important to ask yourself how much risk you would be prepared to take with your money. While taking greater risks offers the potential for higher rewards, this also could trigger losses that might impact the size of your pot, limiting your potential to draw income in the future. And while having flexibility in how you access your money is key, drawing too much from your funds can have adverse effects, especially when markets are falling.

If you experience investment losses early in retirement, you will probably struggle to recover them later on (for more, see page seven).
WILL I BE ABLE TO MAINTAIN MY LIFESTYLE? Having the ability to grow your pension pot is important, not only to pay for the finer things in life but also to buy the essentials, whose prices tend to rise over time. Many people don’t realise the extent to which inflation can eat into their savings, and therefore their income, if it doesn’t grow at the same pace as the cost of goods and services (for more, see page six). So being able to help protect and grow your pension pot is crucial.

WILL I RUN THE RISK OF OUTLIVING MY RETIREMENT POT? Many people underestimate how long they will live for, which means they could run out of money – so it’s important to generate a sustainable income. This is because the money you’ve saved for retirement needs to provide you with an income for the rest of your life.

HOW MIGHT MY FINANCIAL CIRCUMSTANCES CHANGE? While you may have a good idea now about what sort of retirement solution you would like, that may change over time. For instance, you could remain invested in markets for a few years, drawing an income from your pension savings, before deciding to buy an annuity. So it may be important to retain the flexibility to change your mind later on.

DO I WANT TO LEAVE AN INHERITANCE? You may or may not want to do this. But it is worth thinking about whether you would like to have the option to change your mind in the future, should your circumstances change.
WHAT ARE THE GENERATION PORTFOLIOS?

THE GENERATION PORTFOLIOS ARE DESIGNED TO MEET THE NEEDS OF PEOPLE WITH A VARIETY OF LIFESTYLE GOALS AND ATTITUDES TOWARDS RISK, WHO SEEK TO DRAW AN INCOME FROM THEIR RETIREMENT FUNDS. BY WORKING WITH YOUR FINANCIAL ADVISER, YOU CAN DECIDE HOW MUCH INCOME YOU WOULD LIKE TO MEET YOUR NEEDS – TAKING INTO ACCOUNT YOUR AGE, THE VALUE OF YOUR PENSION POT AND YOUR BROADER FINANCIAL CIRCUMSTANCES.

HOW GENERATION WORKS

The Generation range is made up of three investment portfolios designed to meet the needs of people with different attitudes towards risk.

HELPING TO CUSHION AND GROW

The portfolio management approach has been specifically designed to help cushion and grow your pension savings over the longer term, while allowing you to draw an income from them – whether that’s monthly, quarterly or annually – to help support your lifestyle in retirement. It is important to remember however that investments are never guaranteed and can fall in value as well as rise, despite any efforts to mitigate losses.

For instance, in order to ensure you can continue to draw an income from your savings, it’s important to ensure they don’t suffer from sharp falls in financial markets. To help guard against the risk of losses, the portfolio managers can act quickly to take short-term decisions in times of market stress.

Each portfolio also invests your money in a diverse range of funds, as well as other assets from across financial markets. This investment approach is known as ‘multi-asset,’ and is another proven way to spread risk and help protect your money during periods when financial markets are performing poorly.
DRAWING AN INCOME
The portfolios are designed to enable you to decide, with your adviser, what level of income you want to take and when you would like to take it. As such, they do not stipulate the amount of income you are likely to receive. The only target they do have is that they aim to achieve returns above inflation, so your income keeps pace with prices. This is defined as the Consumer Price Index (CPI), the amount by which the prices in a basket of goods and services rise, over the medium term.

The portfolios have different targets of returns above inflation – of CPI+3%, CPI+4% and CPI+5%. In aiming to achieve these returns, each one will hold a different mix of assets that entail a different level of risk, involving higher risks for the higher targets. We recommend you discuss with your financial adviser which portfolio might be most suitable for you.
WHY SHOULD YOU CONSIDER INVESTING IN GENERATION?

THE FIGHT AGAINST INFLATION

It can be difficult to picture the impact inflation has on your money over the long term, as it eats in to your savings gradually. But at an inflation rate of just 3% – the UK average between 2005 and 2015 – you lose almost a third of your purchasing power in just ten years, and almost half over twenty.

What’s more, as we get older, our purchasing habits change. For example, a higher proportion of our income is spent on essentials such as heating, which has seen higher price increases in recent years than some non-essential goods and services. Taken together, this means that curbing the impact of inflation on your savings is essential to preserving your living standards in retirement.

The Generation portfolios aim to deal with this challenge by creating sufficient growth in your pension pot for it to rise ahead of inflation, in order to offer you the flexibility to choose how to meet your needs, after discussion with a financial adviser.

The following example shows how inflation can erode retirement income:

A couple that retire at 65 with a pension pot of £150,000 could buy a joint-life level annuity, which would drop by 50% on the death of the annuity holder, with a five-year guarantee that would initially pay £8,033 a year.*

… in 20 years’ time, the income in real terms will have been reduced to £4,444.90. If the annuitant were to die then, the surviving spouse would only be receiving, in real terms, an initial income of £2,222.45 that would continue to reduce in real terms with the continuing effects of inflation

When you consider that someone retiring today might expect to live for 20 years, the assumption of a 3% inflation rate could be deemed conservative.

*Based on the annualised monthly income from a joint-life level annuity of £150,000 (after taking 25% tax-free cash) for a 65-year-old male. Figures sourced from The Money Advice Service, September 2015.
HELPING TO MAKE YOUR MONEY LAST

When you’re saving for retirement, you’re better able to handle sharp movements up and down in the returns on your investments, which happen when markets rise and fall. After all you don’t need to draw an income from those funds; you’re continuing to add to them – so can make good on any losses; and you can expect these ups and downs to average out over the long term.

This all changes once you need to rely on your savings to draw an income.

A period of weakness in financial markets can have a dramatic impact on the length of time your funds can last. This is particularly true if that market downturn happens towards the beginning of your retirement. That’s because it’s hard for your pension pot to recoup these early losses, especially since you’re no longer adding fresh money to it and you’re now withdrawing an income.

In fact, withdrawing income in a falling market means that you have to sell your investments when they are worth less. And when their value is lower, more of them will need to be sold to provide you with the same level of income you previously enjoyed. This also means that when markets rise again, you will hold fewer assets to benefit from the rebound.

Generation is designed to help limit these sharp up and down movements in the returns on your investments by providing the portfolio managers with the flexibility to invest in a diverse range of assets and the ability to change this mix in times of market stress. Investors should remember however that investments are never guaranteed and that there will be certain circumstances in which it will be impossible to cushion their value during times of financial market stress.
MANAGING YOUR INVESTMENT RISK

An important aim of the Generation portfolios is to manage your investment risk. The managers seek to achieve this by focusing on the short-term risks posed by markets and attempting to avert them, while keeping an eye on the longer-term goals of the portfolios. This means that in the event that some financial markets decline, the managers can take a more defensive stance with your money, shifting it into assets considered to be less risky and potentially limiting losses, although of course this is never guaranteed.

In addition to this, because different markets can move up and down at different times, the portfolios hold a variety of financial assets that shouldn’t all move in the same direction at the same time.

This diverse range of investments enables each portfolio to even out some of the peaks and troughs of the markets. This has a beneficial impact on your investments, because relatively smaller but more consistent investment returns tend to result in better returns over the longer term. By contrast, larger moves up followed by smaller moves down tend to lead to lower returns.

The Generation portfolios are designed to achieve a more stable investment journey through the effective management of investment risk, and are aimed at producing slow yet steady returns.
What are the risks?

The value of investments, and income from them, may go down as well as up and investors may not get back the amount originally invested.

As the portfolios invest in bonds, the government or company issuer might not be able to repay either the interest or the original loan amount, so could default on the debt. This would likely lower the value of those investments.

The fund can use derivatives – financial instruments that derive their values from other underlying assets – for investment purposes. These instruments can be more volatile than investments in company shares or bonds.

Investments in bonds and other debt instruments, including derivatives, are subject to interest-rate risk. This means the value of these investments may go down if interest rates rise, and vice versa.

The fund may invest in higher-yielding bonds, where the risk of the issuer defaulting is higher than in bonds offering lower yields issued by companies judged to have a better ability to repay their debts.

Investments in emerging markets – economies that are progressing towards becoming advanced – can involve a higher degree of risk; for example, they may not be as well-regulated as developed markets like the UK.

The portfolios also hold investments in currencies other than sterling. Changes in exchange rates, therefore, will cause the value of these investments – and the income derived from them – to rise or fall.

The CPI targets are estimates and not guaranteed. These targets may be reviewed and modified, depending on prevailing market conditions.
WHAT ARE GENERATION PORTFOLIOS INVESTED IN?

EACH OF THE PORTFOLIOS IS INVESTED PRIMARILY IN FUNDS, RUN BY A VARIETY OF FUND MANAGERS. THIS APPROACH ENABLES YOU TO HAVE INVESTMENTS ACROSS MULTIPLE REGIONS, FINANCIAL ASSETS, INDUSTRIAL SECTORS AND FUND MANAGEMENT STYLES.

Among other things, the portfolios can hold cash; shares in companies; investments that offer a fixed amount of interest, like government and corporate bonds; property; and commodities.

As individual investors, you would struggle to access some of these types of assets that are only available to people or groups with large amounts of money to invest. They are available to the Generation portfolios, however, because these pool investors’ money to create stronger buying power.

The portfolios hold company shares, including those in which the managers invest directly – that is, not via one of the funds already held within the portfolios – which offer the potential for growing your money and generating income. These have a bias towards financially robust companies with attractive income yields. There is also a broader focus on creating efficiencies for investors, as well as leveraging the expertise of Old Mutual Global Investors’ highly regarded UK and European stock-pickers.
HOW IS THE RIGHT MIX OF ASSETS CHOSEN?

GENERATION’S PORTFOLIO MANAGERS DEVOTE SIGNIFICANT RESOURCES TO MAKING LONGER-TERM DECISIONS ABOUT WHAT EXACT QUANTITIES OF THE ASSETS AVAILABLE SHOULD BE HELD WITHIN THE PORTFOLIOS. THEIR PROCESS INVOLVES THE USE OF INVESTMENT MODELS AND A WIDE ARRAY OF ANALYTICAL TOOLS.

Much as there are economic cycles, the movement from recession to growth (and back again), there are also investment cycles, when markets go up and down. So determining the correct mix of assets for the right period in an investment cycle is essential to delivering income and growing your money. The Generation portfolio managers draw on their own experience, as well as in-depth analysis of economies and markets derived from internal and external resources, to establish trends and locate where the best opportunities might lie – and when to exploit them.

They then pick the fund managers who appear best-placed to take advantage of this.

The portfolio managers also constantly monitor how this mix of assets could be affected by changes to the economic and investment outlook in the short term, as mentioned earlier, to help guard against any risks accordingly.
THE INVESTMENT TEAM

ANTHONY GILLHAM joined Old Mutual in 2000 and is a portfolio manager within our multi-asset team. In 2007, Anthony became a global bond portfolio manager having been a fixed income research analyst since 2006. Prior to focusing on fixed income, Anthony’s areas of coverage included multi-asset, Nordic equities and quantitative US equity and fixed income research. Anthony is a CFA Charterholder, holds the Investment Management Certificate and has over 15 years of experience.

PAUL CRAIG is manager of the Cirilium multi-asset portfolios and a member of the multi-asset team at Old Mutual Global Investors. He joined in December 2014 from Henderson Global Investors, following Old Mutual Global Investors’ acquisition of Cirilium. Paul has managed the Cirilium portfolios since 2009, taking on these responsibilities shortly after the inception of the range.

Anthony brings the models and tools he has used and developed for investment analysis. Paul comes with a wealth of experience in running multi-asset solutions, especially in dealing with the more niche areas of financial markets, which are key to the construction of the Generation portfolios. They are part of a broader multi-asset team, which has a depth of knowledge in fund and investment analysis.

ABOUT OLD MUTUAL GLOBAL INVESTORS

Old Mutual Global Investors is the asset management division of Old Mutual Wealth. The company focuses on delivering strong investment performance and customer-focused investment solutions that result in positive long-term outcomes. Thanks to broad distribution, product innovation and service excellence its award-winning funds and managers are supported by advisers, wealth managers and corporate partners.

Old Mutual Global Investors is also part of the Old Mutual Group, which provides investment, savings, life assurance, asset management, banking and property & casualty insurance in Africa, Europe, the Americas and Asia. The group has more than 16 million customers and about 57,000 employees. It is listed on the London Stock Exchange, where it is a member of the FTSE 100 index, and the Johannesburg Stock Exchange.
PLANNING YOUR FUTURE FINANCES EFFECTIVELY CAN BE A SOMEWHAT DAUNTING BUSINESS, LARGELY DUE TO THE COMPLEXITIES OF THE FINANCIAL WORLD. AND YET AS WE HAVE OUTLINED, IT IS ESSENTIAL TO MAKE THE BEST POSSIBLE USE OF YOUR PENSION POT IN ORDER TO ACHIEVE YOUR GOALS FOR RETIREMENT.

We recommend you work with your financial adviser to explore the areas touched on in this brochure to find out more about Generation, and discuss any further questions you may have.

GLOSSARY

**Annuity** – A form of insurance or investment entitling you to a series of annual sums, typically for the rest of your life.

**Bonds** – A type of investment in debt, whereby investors loan money in return exchange for interest payments.

**Consumer Price Index** – A measure of inflation constructed by using the price of a basket of goods and services.

**Derivatives** – Financial instruments that derive their values from other underlying assets.

**Equities** – Shares in companies that represent ownership.

**Income drawdown** – Keeping your retirement savings invested in financial markets while taking an income, instead of drawing an annuity.

**Interest rate** – The proportion of a loan that is charged as interest to the borrower, typically expressed as an annual percentage.

**Investment fund** – An investment programme funded by shareholders that is professionally managed.

**Individual savings account (ISA)** – A savings account that protects investments from tax.

**Self-invested personal pension (SIPP)** – A pension plan that enables the holder to choose and manage the investments made.
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