NATURAL INCOME: OLD SCHOOL OR NEW RULE?

Does a natural income approach make sense for retirement income clients?

SimplyBiz Adviser Conference, 8 July 2025

BNY | INVESTMENTS

Learning objectives for today's session

By the end of this session, you should be able to…

- Understand the current context for retirement income advice and how it is changing.
- Explain the risks facing clients in retirement and how they can be managed.
- Describe the benefits and challenges of following a natural income approach in retirement.

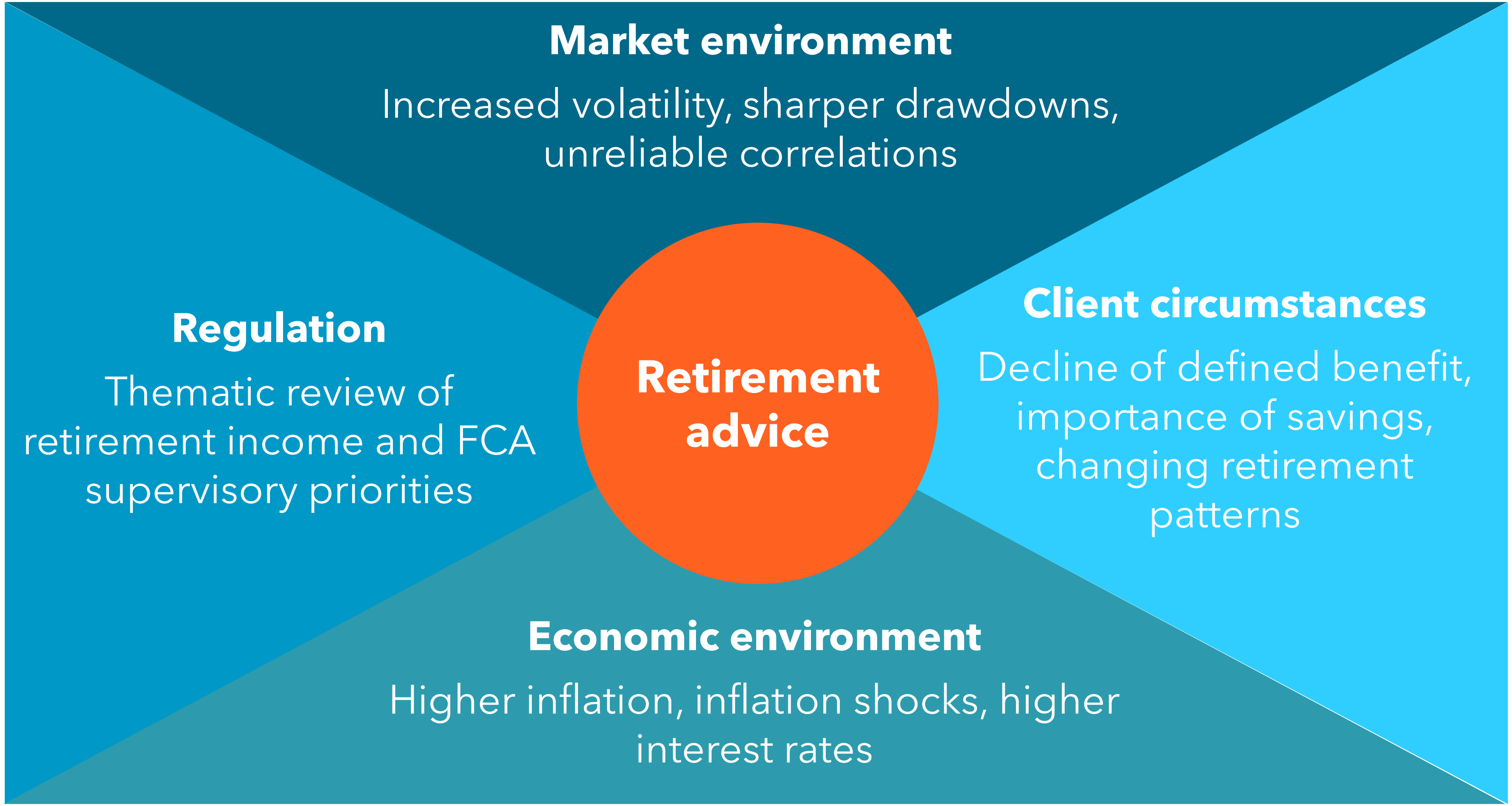
THE CURRENT CONTEXT FOR RETIREMENT ADVICE

01

Regulation and demographics are driving change

Pressure from all sides?

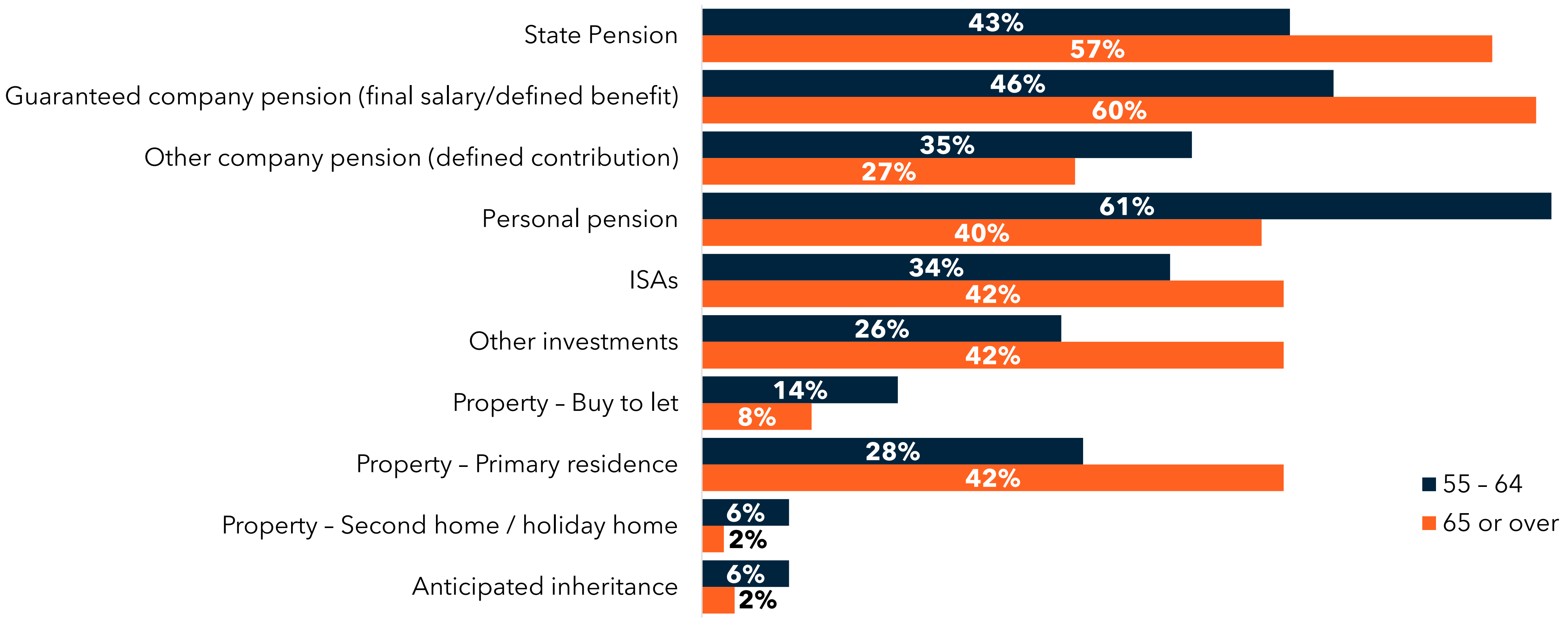
How we advise on and invest for retirement is being affected by many forces



Increasing reliance on retirement savings for income

Generational differences are starting to emerge as we see the decline of defined benefit and the rise of defined contribution

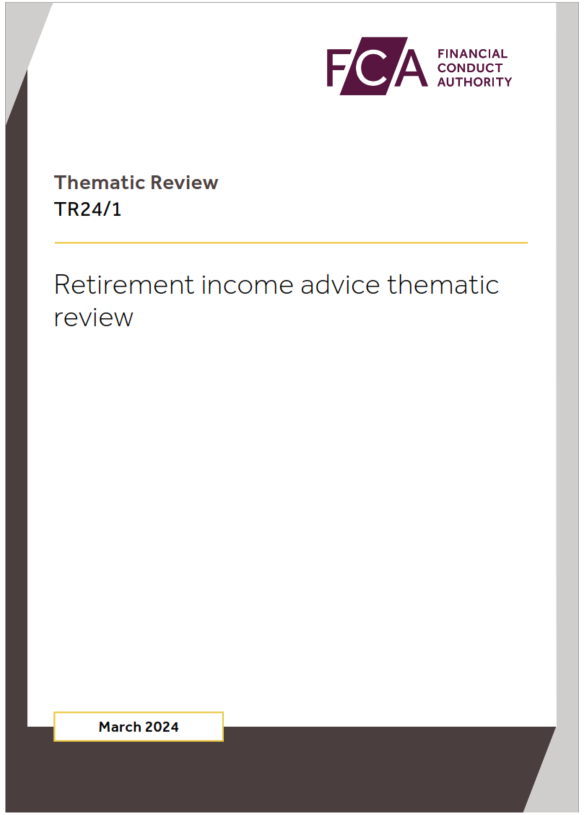
Importance of wealth sources for retirement income by age



Source: "Retirement Advice in the UK: Time for change?", BNY Investments/NextWealth 2024 n=254 "How important are the following sources of wealth to your income in retirement?"

The FCA review – constructive feedback but must try harder

Five key priorities identified in the regulator's Dear CEO letter to advice firms


FINANCIAL CONDUCT AUTHORITY

Thematic Review
TR24/1

Retirement income advice thematic review

March 2024

Retirement income clients are different, so we need to think differently about them

Source: Financial Conduct Authority (FCA) Thematic review of Retirement Income Advice, 20 March 2024.
https://www.fca.org.uk/publications/thematic-reviews/thematic-review-retirement-income-advice

Question time #1

What do you see as your biggest challenges in delivering retirement income advice?

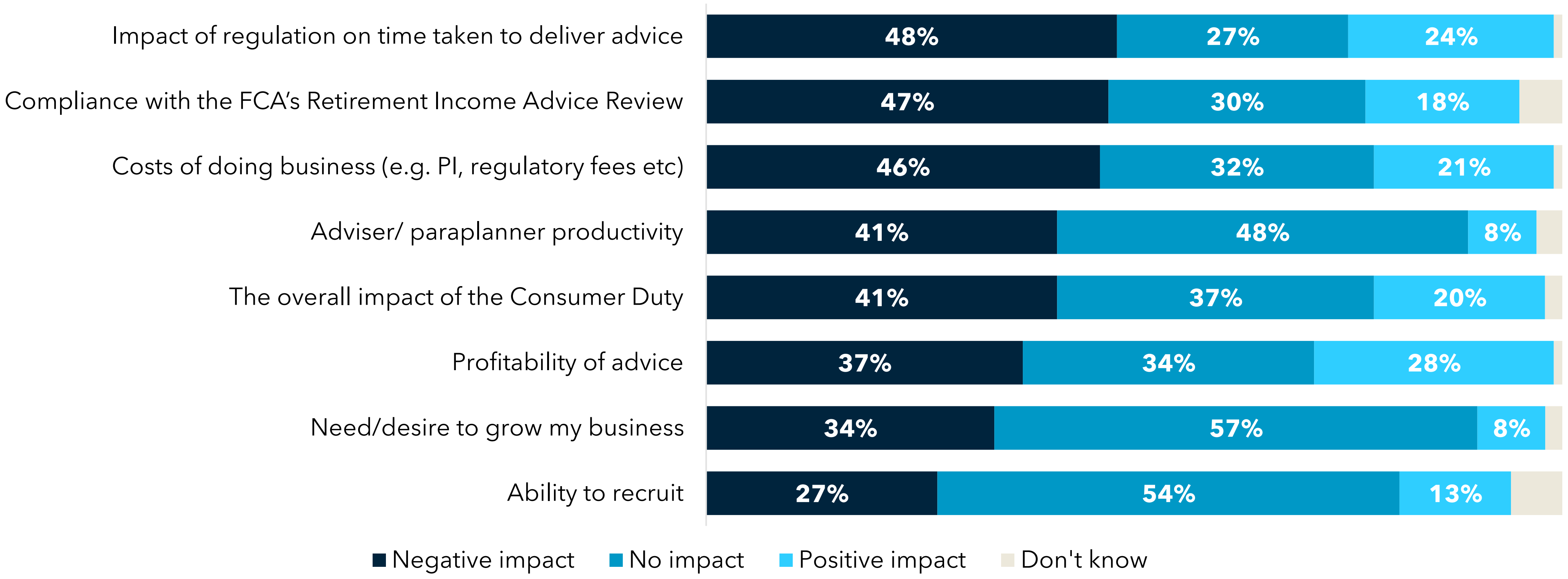
(Choose all that apply)

A. Understanding the regulator's expectations of advisers
B. Delivering advice consistently across advisers/clients
C. Navigating market volatility
D. Time taken to give initial and ongoing advice
E. Adviser/paraplanner productivity
F. Something else

Demand for retirement advice is strong, but supply is constrained

The impact of regulation and adviser productivity are key challenges to expanding advice capacity

Factors constraining firms' ability to meet the demand for retirement advice



Source: "Retirement Advice in the UK: Time for change?", BNY Investments/NextWealth 2024 n=208. "How do you see the following constraints impacting the demand for retirement advice?"

MANAGING RISK IN RETIREMENT

Why we need to think differently about risk in decumulation

02

Managing retirement income involves trade-offs for clients…

Advisers should consider how different clients feel about these trade-offs

Legacy — Lifestyle

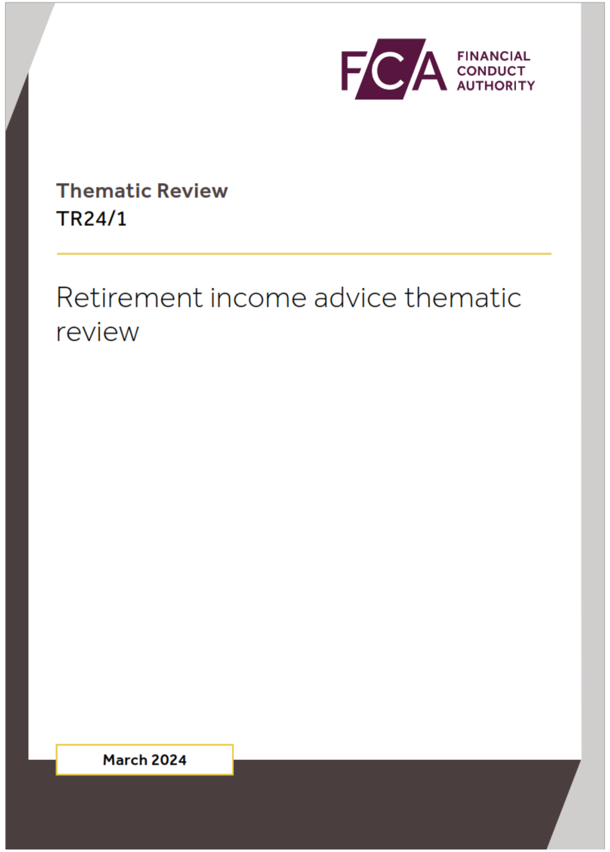
Income level — Income persistence

Long term inflation protection — Income stability

Secure lifetime income — Flexibility

…and the FCA is focused on how risk is measured and managed

Shortcomings in the assessment of risk was one of the key findings of the review


FCA FINANCIAL CONDUCT AUTHORITY

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"**RISK PROFILING** was not evidenced, was inconsistent with objectives and customer knowledge and experience, or lacked consideration of **capacity for loss**."

In retirement, capacity for loss determines the extent to which clients could cope with a **reduction or change to their income**.

For example, if there was a **fall in the value of pension savings** this might reduce the level of income that could be withdrawn sustainably, or a guaranteed or fixed level of income **might not keep pace with inflation**.

Retirement income clients are different, so we need to think differently about them

Source: Financial Conduct Authority (FCA) Thematic review of Retirement Income Advice, 20 March 2024.
https://www.fca.org.uk/publications/thematic-reviews/thematic-review-retirement-income-advice

How we generate income determines how we manage risk

Different investment approaches have different risks

Total return with unit encashments

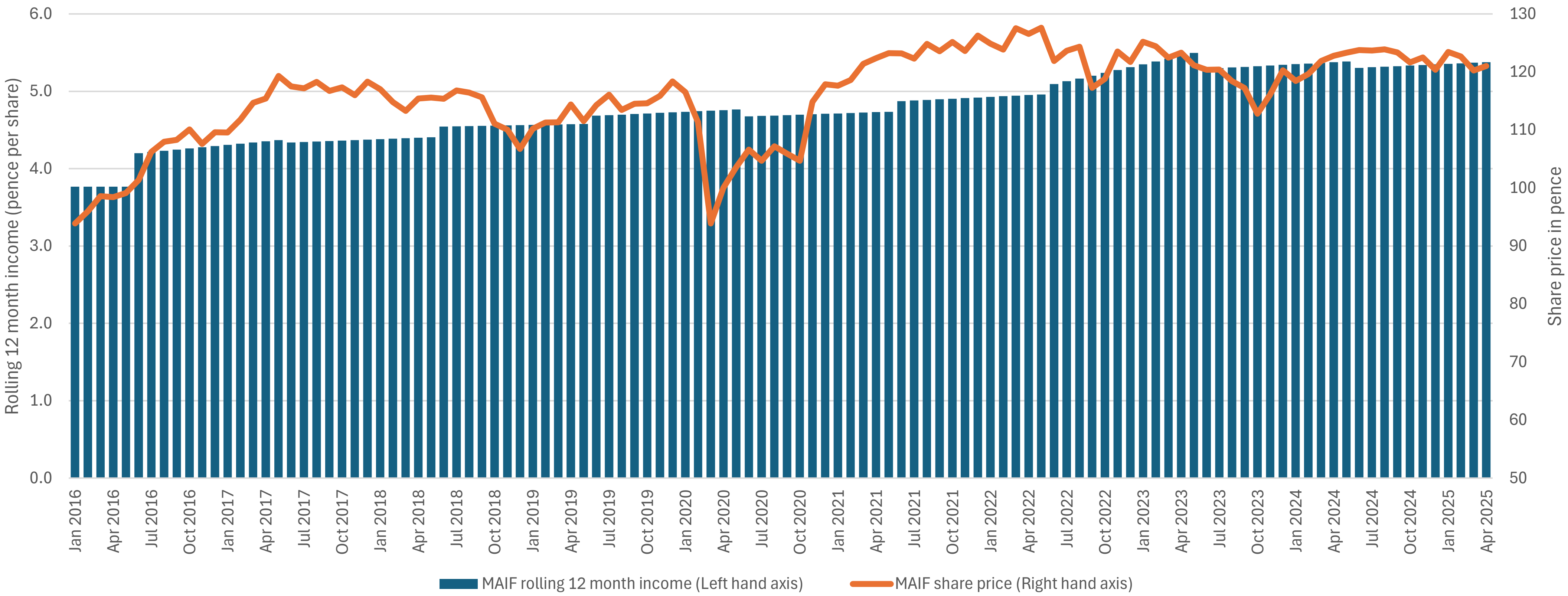
- The level and pattern of returns is key.
- Sequence of returns risk is important.
- We are agnostic about whether those returns come from capital or income.

Natural income

- The level and pattern of income is key.
- In theory, we do not need to be concerned about capital value though in practice we will be.

Income risk and capital risk are not the same thing

The income derived from investments can remain very stable even when their capital value is volatile



Source: BNY Investments. Share price and total income paid per share over rolling 12-month periods of the BNY Mellon Multi-Asset Income Fund Institutional W Income share class. All figures are in GBP terms. The impact of an initial charge (currently not applied) can be material on the performance of your investment. Further information is available upon request. This is for illustrative purposes only and does not take into account effects of inflation or other factors that may have a negative impact on an investment.

Question time #2

Where are you in terms of developing your investment approach for retirement clients?

(Choose one)

A. Approach decided – using specific investment solutions for decumulation

B. Approach decided – using same solutions as accumulation (but perhaps in a different way)

C. Undecided – work currently underway

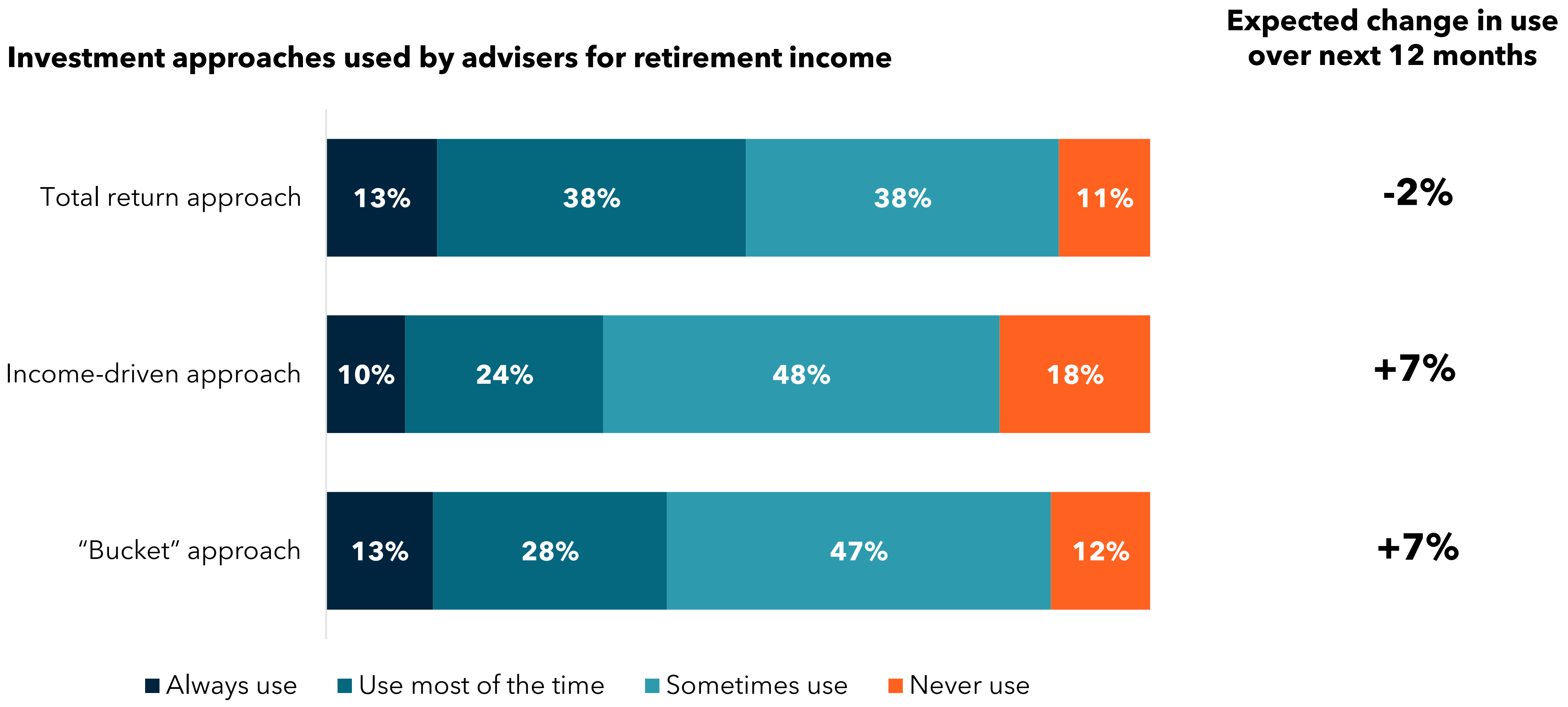
D. Undecided – intend to review, work not yet started

E. Not yet considered

F. Somewhere else

Advisers use a range of investment approaches to deliver income

Income driven approach had fallen out of favour but is making a comeback



Source: "Retirement Advice in the UK: Time for change?", BNY Investments/NextWealth 2024 n=208. "We'd like to know if your firm operates a decumulation advice model that is distinct from the advice model followed for clients in accumulation (a Centralised Retirement Plan or CRP)…" and n=58 "What is the main reason that your firm does not operate to a distinct common and consistent approach (CRP) for clients in decumulation?"

USING NATURAL INCOME IN RETIREMENT

Exploring the pros and cons of a natural income approach

03

Why use income strategies in retirement?

Income strategies can help deliver what retirement clients want, and their advisers need

Alignment with client objectives

- Generates income without eating into capital
- Income stability helps address capacity for loss

Relevant investment rationale

- Well-managed companies pay sustainable dividends
- Equity income can provide greater inflation protection

Keeps more of a client's assets invested

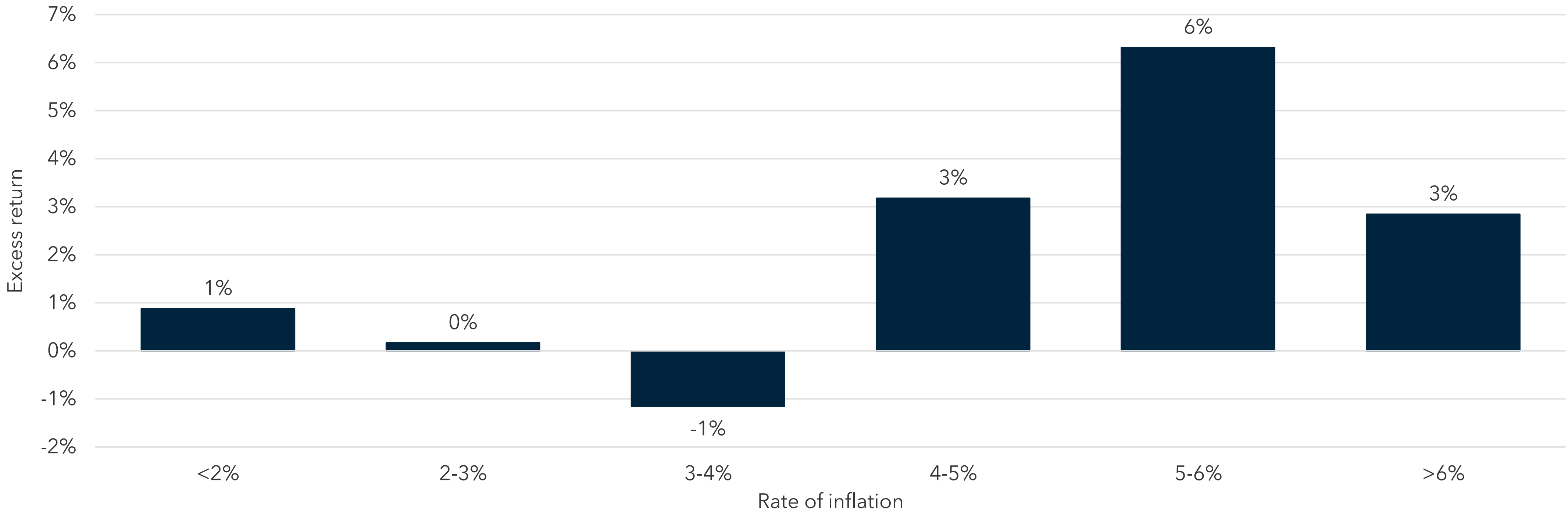
- Less need for a cash buffer
- Allows more of a client's portfolio to stay invested

Equity income has tended to outperform when inflation is high

Equity income strategies can be particularly helpful in managing inflation risk

US Stocks with high dividend yields excess return versus the market (1928-2024)

Median 12 month return of top quintile of dividend yield stocks vs US market at different rates of inflation



Source: Robert Shiller, Fama-French, Newton, May 2025. The chart shows the median excess return of the highest dividend yield stocks represented by the top quintile of stocks ranked by dividend paid over the market as a whole.

Question time #3

What do you see as the biggest challenges to using an income driven approach?

(Choose all that apply)

A. Generating sufficient income to meet client needs

B. The frequency of income payments

C. The variability of income payments

D. Adviser effort in managing the approach

E. Platforms' ability to support income

F. Lack of suitable funds/products

G. Other

Why don’t advisers use natural income more often?

Main reasons are that many funds don’t deliver the level or shape of income that clients need

Source: “Retirement Advice in the UK: Time for change?, BNY Investments/NextWealth 2024” n=138. “Are there any specific barriers preventing you from using an income driven approach to investment portfolio structure more frequently?”. Research conducted by NextWealth for BNY Investments, based on responses to surveys with 208 retirement-focused financial advisers and 254 consumers of retirement advice conducted between 9 September 2024 and 21 September 2024.

MAKING NATURAL INCOME WORK

How the Managed Income approach can meet client and adviser needs

04

What do we need when using natural income?

If the fund is not managed with income as an explicit objective, it may not meet your client's needs

Attractive starting yield

Stable income

Growing income

Capital growth

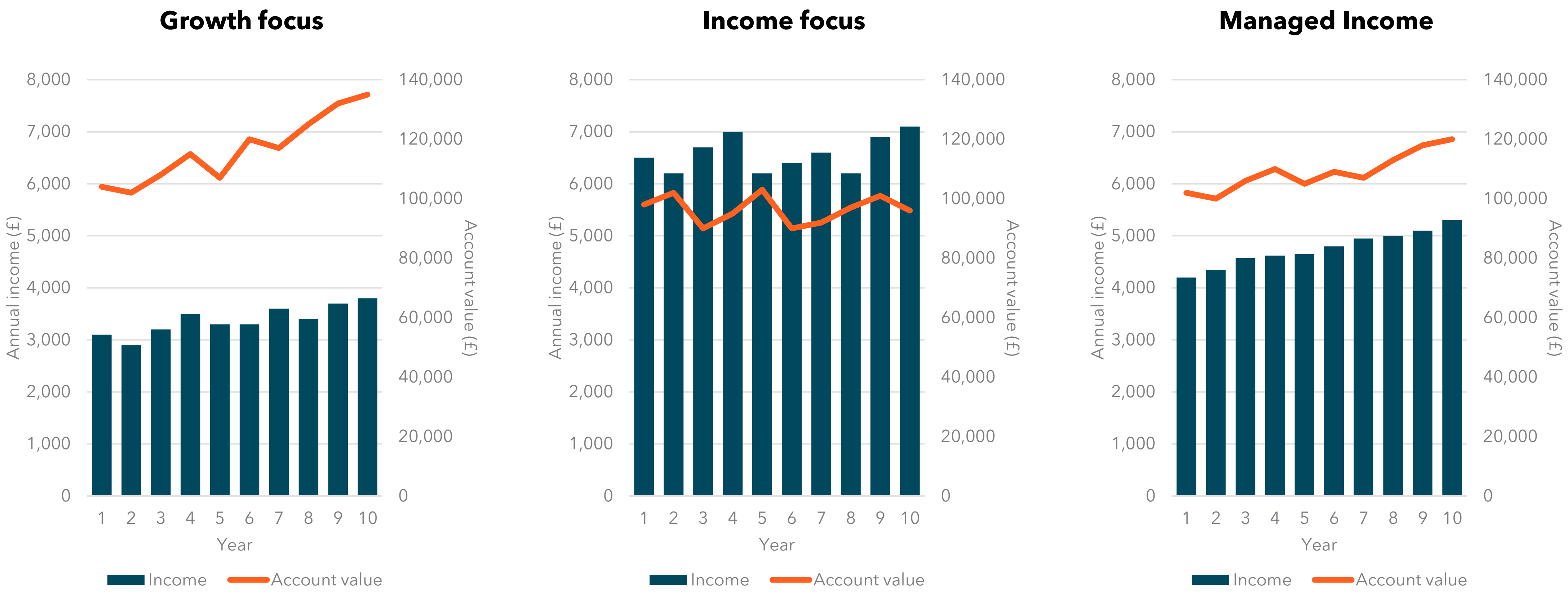
Predictable regular income

We call this…

MANAGED INCOME

You don’t have to choose between income and growth

Some funds may prioritise income over capital growth or vice versa, but it is possible to strike a balance



Source: BNY Investments. The charts illustrate notional income and capital growth from an initial investment of £100,000 assuming income is paid out to the investor. This is a hypothetical example provided for illustrative purposes only.

Natural income: Old school or new rule? Conclusion

Firms will need to evaluate all aspects of their retirement advice approach

- Retirement advice is changing driven by economic and market volatility, changing client circumstances, and increasing regulatory expectations.
- Future retirees will be increasingly dependent on retirement savings for the bulk of their retirement income increasing the need for stable and sustainable income.
- We need to consider risk in retirement as risk to income – this is not the same as risk to capital.
- Natural income has many benefits but presents clients and advisers with several challenges.
- The Managed Income approach seeks to deliver these benefits in a way that meets client and adviser needs.

Learning outcomes for today's session

Hopefully, you are now able to…

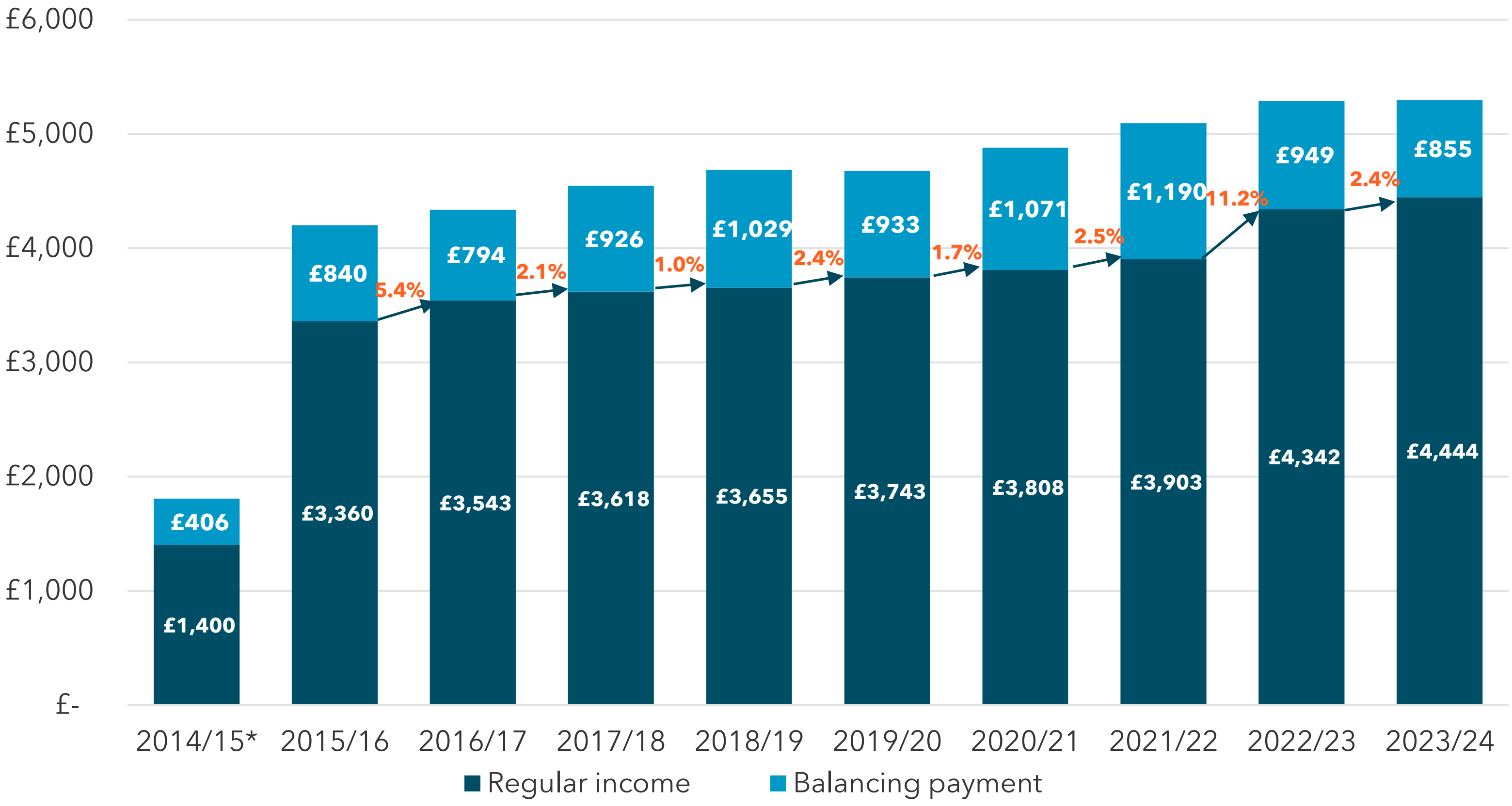
- Understand the current context for retirement income advice and how it is changing.
- Explain the risks facing clients in retirement and how they can be managed.
- Describe the benefits and challenges of following a natural income approach in retirement.

The BNY Mellon Multi-Asset Income Fund (MAIF)

The fund has delivered stable and growing income in a format that can meet the needs of clients and advisers

- Fund launched 4 February 2015
- Managed by Paul Flood, Head of Mixed Assets Investment at Newton
- Actively managed to deliver income together with the potential for capital growth and directly invested giving full flexibility
- Fund accounting year runs from 1 July to 30 June
- Income declared at the end of each month and paid at the end of the following month
- Pays income as:
  - 12 equal monthly payments
  - Final monthly payment includes additional balancing payment at year end
- Yield at 31 May 2025 was 4.4%[1]

BNY Mellon Multi-Asset Income Fund income from £100,000 invested at inception on 4 Feb 2015

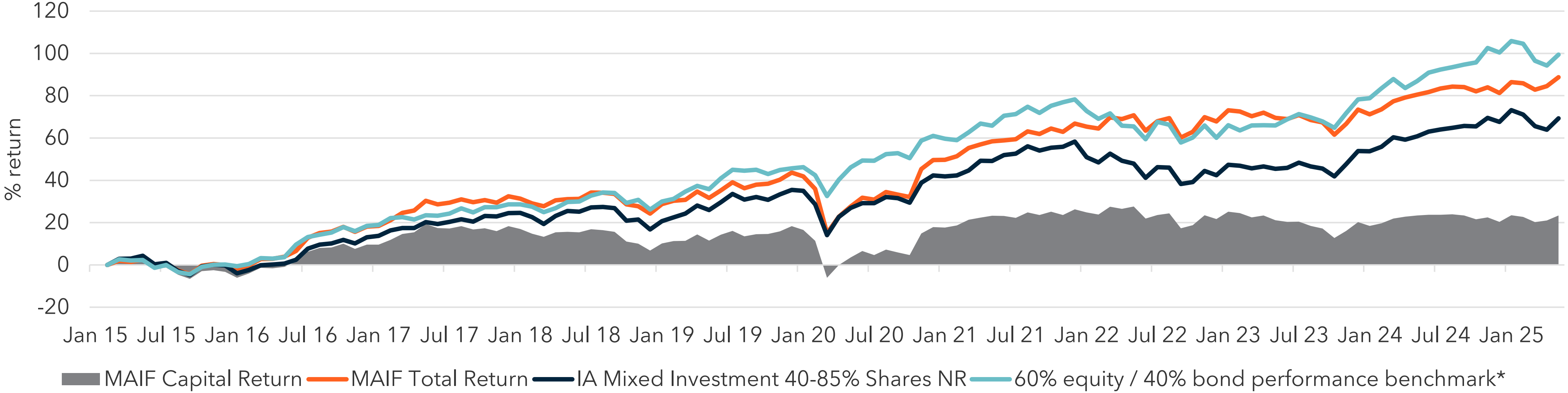


Source: BNY Investments. For illustrative purposes only. * The Fund was launched on 4 February 2015 so the income for 2014/15 represents only 5 months of payments. [1] Historical yield on the BNY Mellon Multi-Asset Income Fund Institutional W Income share class as at 31 May 2025. Income paid on an initial investment of £100,000 in the BNY Mellon Multi-Asset Income Fund Institutional W Income share class at inception on 4 February 2015 for 12-month periods ending on 30 June of each year shown. Income split between regular monthly payments and balancing payment paid at end of fund year. All figures are in GBP terms. The impact of an initial charge (currently not applied) can be material on the performance of your investment. Further information is available upon request. This is for illustrative purposes only and does not take into account effects of inflation or other factors that may have a negative impact on an investment.

BNY Mellon Multi-Asset Income Fund (MAIF)

The Fund has grown capital over the medium to long-term beating the sector average since launch

BNY MELLON MULTI-ASSET INCOME FUND PERFORMANCE



Initial Investment at inception on 4 Feb 2015	**£100,000**
Income received to 31 May 2025	**£48,584**
Capital gain at 31 May 2025	**£23,400**

Dynamic Planner Risk Ratings should not be used for making an investment decision and it does not constitute a recommendation or advice in the selection of a specific investment or class of investments.

Source: BNY Investments. Lipper as at 31 May 2025. Capital return shows the cumulative change of the price of the BNY Mellon Multi-Asset Income Fund Institutional W Income share class from 4 February 2015 to 31 May 2025. BNY Mellon Multi-Asset Income Fund performance for the Institutional W Income share class calculated as total return, including reinvested income net of UK tax and charges, based on net asset value. All figures are in GBP terms. The impact of an initial charge (currently not applied) can be material on the performance of your investment. Further information is available upon request. This is for illustrative purposes only and does not take into account effects of inflation or other factors that may have a negative impact on an investment. *A composite performance benchmark comprising 60% MSCI AC World NR Index and 40% ICE Bank of America Global Broad Market GBP Hedged Index is used as a comparator for this fund. The fund does not aim to replicate either the composition or the performance of the performance benchmark.

Download the full research report

Investment objective, benchmark, annual performance & key risks

BNY Mellon Multi-Asset Income Fund

Investment objective

The Fund aims to achieve income together with the potential for capital growth over the long term (5 years or more).

Performance Benchmark

The Fund will measure its performance against a composite index, comprising 60% MSCI AC World NR Index and 40% ICE Bank of America Global Broad Market GBP Hedged TR Index, as a comparator benchmark (the "Benchmark"). The Fund will use the Benchmark as an appropriate comparator because the Investment Manager utilises this index when measuring the Fund's income yield.

The Fund is actively managed, which means the Investment Manager has absolute discretion to invest outside the Benchmark subject to the investment objective and policies disclosed in the Prospectus. While the Fund's holdings may include constituents of the Benchmark, the selection of investments and their weightings in the portfolio are not influenced by the Benchmark. The investment strategy does not restrict the extent to which the Investment Manager may deviate from the Benchmark.

The Fund can invest more than 35% of net assets in different Transferable Securities and Money Market Instruments issued or guaranteed by any EEA State, its local authorities, a third country or public international bodies of which one or more EEA States are members.

Performance -12 month returns (%)

	May.2020 May.2021	May.2021 May.2022	May.2022 May.2023	May.2023 May.2024	May.2024 May.2025
Fund	24.15	7.78	-0.74	6.49	4.54
Performance Benchmark	13.52	-0.21	0.27	12.67	6.67

Calendar Performance (%)

	2020	2021	2022	2023	2024
Fund	4.07	11.53	0.63	3.30	4.54
Performance Benchmark	10.53	10.73	-10.21	11.39	12.44

Source: Lipper as at 31 May 2025. Fund performance Institutional Shares W (Accumulation) calculated as total return, including reinvested income net of applicable UK tax and charges, based on net asset value. All figures are in GBP terms.

Past performance is not a guide to future performance.

The value of investments can fall. Investors may not get back the amount invested. Income from investments may vary and is not guaranteed

Key risks associated with this Fund

Objective/Performance Risk: There is no guarantee that the Fund will achieve its objectives.
Performance Aim Risk: The performance aim is not a guarantee, may not be achieved and a capital loss may occur. Funds which have a higher performance aim generally take more risk to achieve this and so have a greater potential for returns to vary significantly.
Derivatives Risk: Derivatives are highly sensitive to changes in the value of the asset from which their value is derived. A small movement in the value of the underlying asset can cause a large movement in the value of the derivative. This can increase the sizes of losses and gains, causing the value of your investment to fluctuate. When using derivatives, the Fund can lose significantly more than the amount it has invested in derivatives.
Changes in Interest Rates & Inflation Risk: Investments in bonds/ money market securities are affected by interest rates and inflation trends which may negatively affect the value of the Fund.
Credit Risk: The issuer of a security held by the Fund may not pay income or repay capital to the Fund when due.
Counterparty Risk: The insolvency of any institutions providing services such as custody of assets or acting as a counterparty to derivatives or other contractual arrangements, may expose the Fund to financial loss.
Currency Risk: This Fund invests in international markets which means it is exposed to changes in currency rates which could affect the value of the Fund. Credit Ratings and Unrated
Credit Ratings and Unrated Securities Risk: Bonds with a low credit rating or unrated bonds have a greater risk of default. These investments may negatively affect the value of the Fund.
Emerging Markets Risk: Emerging Markets have additional risks due to less-developed market practices.
Charges to Capital: The Fund takes its charges from the capital of the Fund. Investors should be aware that this has the effect of lowering the capital value of your investment and limiting the potential for future capital growth. On redemption, you may not receive back the full amount you initially invested.
Shanghai-Hong Kong Stock Connect and/or the Shenzhen-Hong Kong Stock Connect ("Stock Connect") Risk: The Fund may invest in China A shares through Stock Connect programmes. These may be subject to regulatory changes and quota limitations. An operational constraint such as a suspension in trading could negatively affect the Fund's ability to achieve its investment objective.
China Interbank Bond Market and Bond Connect risk: The Fund may invest in China interbank bond market through connection between the related Mainland and Hong Kong financial infrastructure institutions. These may be subject to regulatory changes, settlement risk and quota limitations. An operational constraint such as a suspension in trading could negatively affect the Fund's ability to achieve its investment objective.
CoCo's Risk: Contingent Convertible Securities (CoCo's) convert from debt to equity when the issuer's capital drops below a pre-defined level. This may result in the security converting into equities at a discounted share price, the value of the security being written down, temporarily or permanently, and/or coupon payments ceasing or being deferred.
Investment in Infrastructure Companies Risk: The value of investments in Infrastructure Companies may be negatively impacted by changes in the regulatory, economic or political environment in which they operate.
High Yield companies risk: Companies with high-dividend rates are at a greater risk of not being able to meet these payments and are more sensitive to interest rate risk.
A complete description of risk factors is set out in the Prospectus in the section entitled "Risk Factors".

Past Performance is not a guide to future performance.
The value of investments can fall. Investors may not get back the amount invested.
Income from investments may vary and is not guaranteed

Important information

For Professional Clients only. This is a financial promotion.

Please refer to the prospectus and the KIID before making any investment decisions. Go to www.bny.com/investments.html.

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