



STRIKING THE RIGHT BALANCE

DIRECTOR OF EXETER-BASED SEABROOK CLARK, MATTHEW CLARK INVESTS ACROSS A DIVERSE PORTFOLIO, WITH A FOCUS ON MANAGER PERFORMANCE, TO HELP A CLIENT PRESERVE HER RETIREMENT INCOME

MATT SMITH

MEET THE CLIENT

Jane Smith has been a Seabrook Clark client for three years. She is 63, and her late husband left his entire estate to her when he died in 2012.

As well as meeting her own spending needs, she wants to use the money to help her daughter and granddaughter.

Her assets are:

- one house worth £500,000, without a mortgage;
- cash of £65,000, spread between current, savings and cash ISAs. These are all kept for contingencies and allow short-term access;
- an investment portfolio worth £1 million; and
- a Sipp worth £335,000, which has flexi-access drawdown.

THE PLAN

The plan projects that Jane may have long-term care needs between age 91 and 100. Whether or not care costs will need to be catered for is difficult to know, so Clark has set aside the Sipp as a source of funds to use in later life if needed and therefore excluded it from the cashflow.

'She could use the Sipp, if necessary, to pay care fees,' he says. 'But for now, we have left it to accumulate in a balanced portfolio.'

In addition to the Sipp, Jane also wants to pass on her house, cash and half the portfolio on death.

Clark also left these assets out of the cashflow. 'There will be an appendix in the report explaining

Jane has drawn tax-free cash from the Sipp to clear her outstanding mortgage, but is not drawing any pension income because she wants to pass it on tax-free at death.

Her state pension of £5,900 and cash income of £1,500 a year gross cover her basic expenditures such as bills.

The challenge is to meet her spending needs while protecting these assets for her lifetime.

Jane has calculated an extra income requirement of £30,000 a year gross to cover all her extra spending. She wants to buy a new car every five years until she is 83 and she plans to go on a cruise, costing up to £15,000 each, every three years until age 90. She wants to help pay her granddaughter's school fees up to £10,000 for the next five years and university fees up to £15,000 a year. In the event of needing care, she wants to increase the annual income required from £30,000 to £50,000.

this. But I don't find clients want any more than that. They just want to know that you have thought it all through and that the figures work.'

ACHIEVING YIELD, PRESERVING CAPITAL

Seabrook Clark provides in-house tailored portfolios. It assigned Jane a medium risk profile and invested her £1 million into a bespoke balanced income portfolio nine months ago. This currently yields 3.54%, which Clark has calculated will support her spending plans even though the income will fall gradually over time. The plan shows the portfolio will reduce to half its current level by age 100, in today's terms.

The firm's approach to income investing focuses on achieving above-average yield, while

preserving capital. 'Many clients, particularly older ones, dislike the idea of selling units because that potentially erodes capital,' explains Clark.

'So we try to run an income portfolio that only takes yield rather than units. You can achieve an income of 5% or higher by only focusing on yield. But that would invariably be at the expense of capital. It is important that yield does not dominate investment decisions.'

This approach also provides more certainty. 'If you know you have a yield of 3.54%, it is easier to construct a cashflow on that basis,' says Clark.

The plan assumes that both capital and income will grow with inflation over time. This allows Jane to spend the equivalent of £30,000 at today's value every year.

Clark says this is essential to head off what he believes as inevitable inflationary rises. 'Even though inflation is low currently, over 27 years it will be one of the major threats people face.'

OVERSEAS EXPOSURE

Seabrook Clark's investment committee constructs portfolios using both strategic and tactical asset allocations. Clark and investment manager Jonathan Rusbridge work together to formulate ideas and diversify portfolios using equities, bonds and alternatives, such as commercial property and infrastructure.

'We look to blend these effectively as the main driver of investment returns is asset allocation. UK investments generally make up at least 40% of the portfolio, as our clients are almost all sterling investors,' says Clark.

However, there is geographical diversification as well, he says.

'We have large weightings in the Artemis Global Income fund and the Invesco Perpetual Select Global investment trust, and exposure to specific overseas markets such as continental Europe, which we favour currently,' says Clark. 'Although we predominantly invest in large cap funds, the portfolio also has exposure to small and medium caps, through funds such as Marlborough Multi Cap Income.'

Seabrook Clark overlays strategic asset allocation with a tactical view on market dynamics, typically on a one-year rolling basis. For example, it is currently overweight equities and underweight bonds, with zero exposure to conventional gilts.

FE Analytics is the main tool for researching funds and the committee meets all the fund groups it considers investing in.

PERFORMANCE-BASED PICKS

Clark says he favours star managers with a clear strategy and a strong track record. Selection therefore comes down to understanding the fund manager's thinking and whether it fits with the firm's view.

'It is important that a fund manager has a good

CASHFLOW FOR JANE SMITH BY AGE AND THOUSANDS OF POUNDS PER YEAR



track record and a proven ability to generate alpha,' he says. 'We like managers with a high active share, whereby the holdings in the fund are not comparable to the index, otherwise we would just buy the index at a lower cost. In terms of risk metrics, we favour funds with a relatively low standard deviation and beta coefficient compared to the sector average. We also favour high-conviction funds with a low portfolio turnover, which hold stocks with a high return on capital.'

The client's portfolio includes well-known funds, such as Woodford UK Equity Income and Fundsmith Equity, as well as less familiar ones.

'We like to look for funds that not every IFA or investment manager is buying,' says Clark. 'For example, we are willing to buy into funds that might have a short record, but where the fund manager has done well previously. For example,

we have significant exposure to Smith & Williamson UK Equity Income. While it is very small, I have known the manager, Tineke Frikkee, who joined in 2013, for a long time. We meet with her regularly and understand her investment process well.'

Seabrook Clark recently obtained discretionary investment permissions, which Clark thinks will benefit income-seeking clients. 'The more elements of the investment we handle, the more flexibility we have,' he says. 'If my client needs more yield, we can add funds that produce that. It will help us attract income-seeking clients who want a discretionary service because they are travelling or don't want to be constantly troubled; as well as trustees who don't like advisory investment because it requires permission for changes from too many people.' ➔

ASSET ALLOCATION

