



Can an income fund help you to find returns in a low interest rate environment?

In the current low interest rate environment, it's increasingly difficult for savers and investors to find an attractive, reliable income stream on their money. Since the financial crisis, typical sources of income, such as quality bonds and high interest savings accounts, have largely dried up. One solution could be to invest in an income fund.

"A good income solution should be able to meet investor requirements by providing income from the underlying investment holdings without drawing on investment capital," says Jaisal Pastakia, manager of the multi asset income funds at Heartwood Investment Management (Handelsbanken's UK investment manager).

"Generating a steady income has never been more challenging. Investors will need to accept some risk, but our jobs as investment managers is to manage risk so that capital lasts for the long term. A rigorous and well-diversified multi asset approach can help," he adds.

A multi asset income portfolio aims to provide consistent income by investing in a variety of different types of assets – not just shares and bonds – without taking unnecessary risk. The blend of asset types with diverse characteristics have the potential to behave differently in various economic or financial market environments. This avoids 'putting all your eggs in one basket' and may provide the best chance of generating a sustainable income stream for the long term and preserving investment capital.

In the funds he manages, Jaisal invests in a diverse range of assets to provide stable and sustainable pay outs, from global shares to 'alternative' assets like property or specialist lending strategies. Indeed in today's environment, the wide 'alternatives' asset class can add significant value to income portfolios. These areas can offer some capital generation, but the primary attraction is their generous income streams. In addition, other alternative assets like gold and specialist protection strategies complement these income-generating alternatives by providing defensive characteristics and diversification. These alternatives and specialist strategies, offer opportunities previously unavailable to most investors.

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Following the Pension Freedom reforms announced by the government in 2014 and introduced a year later, the demand for income funds, and in particular for multi-asset income funds, has increased significantly.

Jaisal explains: “New investors coming to the market have increased demand for income products; in many cases, these are the retirement savers now able to access and control their own pension savings.”

As an added bonus, income funds can also help with the tax bill too. To highlight this, for tax purposes, the income from the funds is treated as dividend income. All UK resident individual taxpayers are entitled to a dividend allowance, which will tax the first £2,000 of total dividend income at 0%. For those dividend distributions that fall within the dividend allowance, there is no further tax to pay. For those dividend distributions that exceed the dividend allowance, special tax rates apply. Basic rate taxpayers will pay tax on those dividends at 7.5%. Higher rate taxpayers will pay tax at 32.5% and additional rate taxpayers will suffer 38.1% tax on the dividend distributions. While individual circumstances need to be taken into account, the tax treatment of dividend distributions may be more preferential versus those of interest distributions.

Of course, if income funds are held in an ISA or SIPP structure, then there is no income tax liability.

Another area generating demand is the trust space: trustees of UK trusts that have both a life tenant – a beneficiary who receives the natural income - and a Remainderman – beneficiaries who receive the capital after the life tenant has died, have to steward/ balance the interests of both these parties equitably and reasonably. Given that income funds have a higher dividend yield this makes them a good solution in this scenario, as there is a balance between income and capital growth.

Jaisal concludes: “With the flexibility to switch between asset classes and geographies, multi asset funds with a global scope can help to smooth the return path for income seeking investors. And the icing on the cake could be a tax advantage as well.”

Golden rules for income investors

- Know your level of risk
- Set a sustainable level of annual income
- Invest in portfolios designed to last for the long term
- Diversify your sources of income
- Understand your underlying investments

To find out more, please visit our website:

www.heartwoodgroup.co.uk/our-multi-asset-solutions/income

The value of investments and any income from them can fall and you may get back less than you invested.

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