BNY | INVESTMENTS

The 5 Ws of NATURAL INCOME

WHAT is natural income?

When you invest in **shares** and **bonds**, they usually pay out income in the form of **dividends** and **interest**. This is referred to as their natural income. A natural income approach is one where you take only the income from your investments (essentially the money your investment is generating). This contrasts with what is known as a manufactured income approach, where you make regular withdrawals from your savings by selling investments.

WHO could use a natural income approach?

A natural income approach may be useful for anyone looking to generate a regular income from their investments such as those in retirement. It can be particularly useful for those who need income but want to preserve or even grow their savings at the same time – though the value of investments can still go down. It does mean that you have to be able to live off only the income that is generated – which may be less than you need in practice.

WHEN might challenges arise?

Like the value of investments, the natural income they generate can vary. For example, if companies you invest in run into difficulties, they may have to reduce the amount they are paying in dividends, reducing the income you receive.

Some investments may pay a higher income but at the cost of **capital growth**. For example, you may buy a bond that pays a high annual income but pays back a lower amount at **maturity** than originally invested. So, while some investments do pay a higher income the cost of this could be loss of **capital**.

Different investment funds will have different approaches to managing the level, frequency, and stability of income. As such, you will want to make sure their approach aligns with what you need.

WHY would someone use a natural income approach?

A natural income approach can mean you're not having to dip into your savings, so you are less affected by the short-term ups and downs in their value. This can be important early in retirement where big falls in the value of your investments can be made worse by selling investments to fund income withdrawals. This could result in having less money available in the long-term, even when markets do recover. Because natural income can vary, it may be more useful for someone who can accept some variation in their income over time.

WHERE can you invest to get natural income?

Many investment funds will invest in **assets** that pay income. However, not all funds are managed with natural income as their focus. Multi-asset income funds can invest across a mix of shares, bonds and other assets. In the context of natural income, a multi-asset fund may be invested in with the aim of generating a level of income that is stable or growing from year to year. By balancing assets that pay reliable income with those that deliver growth, multi-asset income fund managers can aim to provide the income you need while continuing to grow your savings. It's worth noting that multi-asset funds are not the only option for those wishing to incorporate natural income into their plans. **Equity income** and bond funds can also offer natural income. It can be useful to talk with a financial adviser about what fits best with your investment plans.

Assets: In this context, investments held in a portfolio, for example stocks, bonds, property and cash.

Bond: A loan of money by an investor to a company or government for a stated period of time in exchange for a fixed interest rate payment and the repayment of the initial amount at its conclusion.

Capital: Resources or money used or available for use in the production of more wealth.

Capital growth: When the current value of an investment is greater than the initial amount invested.

Dividends: A sum paid regularly by a company to its investors as a reward for holding their shares.

Equity income: Primarily refers to income from stock dividends, which are cash payments from companies to their shareholders as a reward for investing in their stock.

Interest: Payments made on investments, loans, or deposits.

Maturity: The length of time until the initial investment amount of a bond is due to be repaid to the holder of the bond.

Shares: Also known as equity, is a security representing the ownership of a fraction of a company listed on the stock market.