Income Investing.

Nutmeg.
a J.P.Morgan company

Our innovative approach to Income Investing.

Most people invest so that their money will, one day, be working harder than they are. While that day may be further off for some, we know that many people want a regular, consistent income stream from their investments that can provide more flexibility in life, today.

Working in partnership with J.P. Morgan Asset Management, Nutmeg is proud to present our **Income Investing** style, broadening our offer to clients to suit a more diverse range of investment goals.

We have designed Income Investing to:

- Provide clients with an effective and differentiated way to receive income from their investment portfolio, while still growing their wealth
- Deliver monthly payouts through our 'income smoothing' feature to tackle the inconvenience of irregular payments associated with many other income strategies
- Offer a cost-effective proposition, with a keen eye on underlying fund costs

You might consider investing for income if you:

- **Have a lump sum** and want to make the most of it
- **Are already or are soon-to-be-retired** and want to cover some living expenses
- **Have a variable monthly income** and would like to supplement this using your investments
- **Want to reduce your working hours** without creating a salary gap

Having some of your investments working towards your future and others working towards your present may suit your lifestyle goals. That's why we have worked with J.P. Morgan Asset Management to create this new actively managed investment style.

We hope you find this white paper informative. To discuss if Income Investing could be right for your portfolio, you can **book a free call with our wealth experts**. We can talk you through how it works, chat about your current investment strategy and answer any questions you have. Just choose a time that works for you.

James McManus
Nutmeg's Head of Investments

Pacome Breton
Nutmeg's Head of Portfolio Management

Contents.

When and why an investor might prioritise income.

Everyone's financial goals are slightly different, and the route you take to reach your goals might vary compared to someone else's. If you are in the early years of your career and are investing for a long-term goal, focusing on growing your investments is likely your top priority. You might, on the other hand, be further into your investment journey, closing in on retirement, and re-evaluating what you want your investments to achieve for you.

As well as providing growth, your investment portfolio can be a powerful tool to produce a consistent stream of income. This could help to support you at different stages in life for a wide range of personal circumstances. Financial goals and priorities can change, and it is important that the way your portfolio is invested is aligned with what you are trying to achieve.

Investing for income could unlock lifestyle flexibility at any stage in life

Seeking greater flexibility

Perhaps you're looking to work less and are exploring how you can supplement a reduction in earnings using your investments. Or you might be in a position where you would like to help fund your children through university, increasing your monthly outgoings. You could consider having some of your portfolio focused on income investments, and some still focused on long-term growth to target other financial goals further down the line.

Supplementing a variable monthly income

You may be self-employed and have a variable monthly income that makes planning your finances more challenging. Investing for income could help make your pay more consistent, with our 'income smoothing' feature aiming to provide a similar payout each month.

Investing a lump sum

You may have received a lump sum through inheritance, via the sale of a business, or a property sale. Having this invested in a strategy focused on paying an income could complement other sources of income you may have or offer increased flexibility.

Already or soon-to-be-retired

You might be approaching retirement and are looking to have some of your investments focused on long-term growth and others providing an income to cover some of your expenses. You could be planning to withdraw a tax-free lump sum from your pension, if and when you are eligible and want to put it to work to produce an income. Income from your investments could complement other streams of income you expect to receive in retirement.

Whether your need for additional income spans years or decades, how your portfolio is invested should support your financial goals.

How much income we aim to generate.

The Income Investing style aims to produce an annual dividend yield of between 4% - 5%, depending on the risk level. The table below represents the amount of income we aim to pay out for portfolios of different sizes. Payouts are made monthly, providing regular cash flows of a similar amount, if you have the 'income smoothing' feature turned on.

Portfolio size	Approximate monthly payout	Total payout over one year
£100,000	£330 - £420	£4,000 - £5,000
£300,000	£1,000 - £1,250	£12,000 - £15,000
£500,000	£1,660 - £2,080	£20,000 - £25,000

Note: Monthly payout calculated as 1/12th of annual dividend, rounded to the nearest £10. It should be noted that due to this investment style prioritising income, the amount paid in income will not be re-invested and won't benefit from compounding. Background information on dividend yield can be found slightly later in the document in '**How investors generate income**'. **Figures do not consider Nutmeg fees, which may be payable on your account.**

Target yield figures are based on the average of the portfolio simulation over the last three years, as at the end of May 2025. Full details of the portfolio simulation methodology can be found in the **Appendix**. You can view further yield information **on our website**.

As with all investing, your capital is at risk. The value of your portfolio and the income and the yield from it can go down as well as up and you may get back less than you invest. Income isn't guaranteed. Target yield figures are not a reliable indicator of future performance. There is a £10,000 minimum investment. This investment style is only available for General Investment Accounts (GIAs) and Stocks and Shares ISAs. At this time, you cannot use the Income Investing style in a personal pension, Junior ISA (JISA) or Lifetime ISA (LISA).

If you're considering income investing but would like to talk it through first, **book a free call** with our advice and guidance team. They can explain how the investment style works in more detail, and how it could fit into your overall portfolio.

What makes our Income Investing style stand out.

Regularity of payouts through 'income smoothing' feature

Different ETFs distribute dividends on different pre-defined schedules, whether that is monthly, quarterly or half-yearly. While the dividend payment schedule is usually known in advance, it can fluctuate from one period to another. For DIY investors seeking income, this can result in dividend receipts being 'lumpy' in nature, which can be inconvenient and challenging for financial planning.

Our Income Investing style aims to help address this basic drawback of low-frequency payment schedules through 'income smoothing'. Our approach is designed to provide regular monthly cash flows of a similar value. To do this, we set aside some of your earnings to manage the timing and spread of your payouts.

We aim to make the value of payments as consistent as possible. However, we won't be able to guarantee completely equal payments from month to month as many parameters can affect the value of ETF dividends. It should be noted that there is a period of time between initial investment and the first income payment. This is to allow the portfolio time to generate the first income payouts.

Targeting higher income through innovative, active ETFs

Through our partnership with J.P. Morgan Asset Management, we use innovative ETFs that are managed on an active basis. Some of them use what is called an 'options overlay' with the aim of producing an enhanced level of income compared to what is normally achievable by a typical portfolio of higher yielding stocks. Options are a type of financial instrument and are essentially contracts that help investors manage risk. We explore these ETFs and the options overlay feature some of them use in full detail later in the document.

Income without drawing down funds

Traditionally, to generate a consistent stream of income from a portfolio, an investor approaching retirement may opt to pursue what is known as an 'income drawdown' strategy. Income payments using this strategy involve a combination of 1) investing in income-generating assets, and 2) drawing down some capital from the portfolio to be used as income, if and when needed.

There is a careful balance to be found between these two, as the latter involves selling assets to pay out an income, even if market conditions don't favour selling. A lower portfolio value will then produce less income for the investor, so trying to maintain the portfolio value as much as possible is important but can present challenges.

With our Income Investing style, there is no capital drawdown with the income payouts provided.

What affects monthly payouts.

Portfolio size

As well as paying out a monthly income, the strategy aims to grow your wealth at the same time. Depending on your investments' level of capital growth or loss, the portfolio value will increase or decrease. All other factors being unchanged, the value of the income paid out will fluctuate up and down with portfolio size.

Annually, the yield target is dependent on the risk level but ranges between 4%-5%. If a £100,000 portfolio pays out an annual dividend yield of 4.5%, it would equate to around £375 per month. If the portfolio grows to £110,000, and has the same yield, the average monthly payout would be around £410. Equally, if the portfolio value fell to £90,000 and the yield remained the same, the average monthly payout would fall to around £335.

Yield

Our investment team calculates ongoing estimates of the expected yield for each risk level. These estimates are made by evaluating the yield on each investment and aggregating it at the portfolio level. This portfolio level estimate will fluctuate and is updated on a quarterly basis or more frequently if major changes occur in financial markets.

Yield will fluctuate slightly from one month to another as it is impacted by many different factors. The value of income generated by investments can vary slightly, but monthly payments should be similar.

Factors influencing monthly yield include the following:

1. For ETFs that hold fixed income investments, in particular government bonds, interest rates are the main driver.
2. For ETFs that invest in corporate bonds, the level of credit risk — in addition to interest rates — largely influences the yield received by investors. Credit risk is the possibility of loss due to the company defaulting on the loan.
3. For equity-focused ETFs, where income comes from dividends from corporates, these dividends tend to vary with global economic strength but also the broad market environment and equity valuations.
4. The yield provided by the options overlay feature used in some of the J.P. Morgan Asset Management Income ETFs will vary depending on market conditions.

How investors generate income.

This section provides an overview of how investors typically generate income for portfolios. Our investment experts will take into account the following considerations when putting together income investing portfolios for our clients, and so to use our income investing product, you may decide that you don't yourself need to know all the details. However, many of our clients find it empowering to know the terms and how experts use investment vehicles to power income generation, so we provide further information below. If you want to invest and manage your own portfolio of income-generating assets yourself you should undertake further research.

Investors can receive income from their portfolio in a few different ways. Two typical ways are: 1) by investing in the equity of companies that pay dividends, and 2) buying bonds which pay a regular 'fixed income'.

Income from equities

Equity income is usually in the form of dividends, which are payments made to shareholders (investors) of a company. Not all companies pay dividends, and it is important to remember that equity dividends are usually discretionary. A company's board of directors may decide that it is in the best interests of the company and its shareholders to pause, lower or stop paying dividends to its investors.

Companies that are solely focused on growth will typically prioritise re-investing cash flow back into the business, so don't tend to pay dividends. But there are numerous reasons why many types of companies do pay dividends. These include: to attract and keep investors, to indicate financial health, and to return profits to shareholders.

What is dividend yield?

Dividend yield, which we refer to later on, is the annual dividend payment of a company or index, divided by the current price, expressed as a percentage.

Income from bonds

Fixed income investments, typically bonds, are — with some exceptions — expected to provide regular, set payments over a specified period. They represent a loan made by an investor to a borrower. The investor receives payment — the fixed income — in return for providing the loan. The bonds typically owned by our portfolios are tradable securities issued by governments (government bonds) and companies (corporate bonds).

Payments are called 'coupons' and are usually paid every six months but can also be monthly, quarterly, or yearly. With bonds, the investor normally knows: 1) the value of the payment they should receive, and 2) the schedule on which they should receive it.

What is bond yield?

This refers to the return generated from an investment in a bond and is usually expressed as an annual percentage of the investment's market value. As investors are provided with details of the future coupon rate and payments when they buy a bond, they can infer the yield received based on its market value.

If an investor holds a portfolio of bonds over a given timeframe, the income produced will rise and fall as the yield of the bond portfolio changes. Overall, while the immediate income from existing bonds remains unchanged if yield changes, the potential income from new bond investments or re-investments can be lower when yields fall.

Income in multi-asset portfolios

Multi-asset portfolios combine bonds and equities. How much income the portfolio generates will depend on: 1) the weighting of the allocation to each in a portfolio, and 2) the nature of the investments selected, e.g. some equities are income-focused while others aren't.

The prices of bonds and equities tend to move in opposite directions, something called 'inverse correlation'. This isn't always the case, but it has shown to be a common pattern. Because of this relationship, investors often combine equities and bonds for diversification.

From an overall portfolio perspective, having an additional source of yield that is uncorrelated to either equities or bonds – meaning it does not behave like either – could help for the stability of the portfolio and the consistency of the income generated. Our Income Investing style has this additional source of income through the 'options overlay' feature used in some of J.P. Morgan's active, income-focused ETFs.

Our approach to generating income and how it differs.

Our approach is of the multi-asset nature, but we also invest in vehicles that are a source of the uncorrelated yield that we described above. We aim to provide clients with a regular source of income and to do so, seeking out differentiated sources of income for portfolios is key.

All investments, as with all of our investment styles, are made in ETFs, which are transparent, efficient and cost-effective investment vehicles.

There are different share class structures available in ETFs depending on the objectives of your portfolio. 'Accumulating' share classes are typically more appropriate if you are focused on capital growth, as they re-invest any dividends paid, helping the investor to better benefit from compounding. 'Distributing' share classes are designed for income-focused investors, as they distribute the income received to investors. Our Income Investing style focuses on distributing share classes.

As well as traditional equity income and bond ETFs, we invest in specific income-focused ETFs developed by J.P. Morgan Asset Management. Some of these ETFs use what is known as an 'options overlay'.

How the options overlay is used

An options overlay is a type of derivative investment strategy. Derivatives are financial instruments that can take many forms, one of which is an option. Options contracts provide the holder with the right to buy (call option) or sell (put option) an asset at a certain price. In the case of our Income Investing style, the options overlay strategy used in some of the underlying ETFs is solely focused on **selling call options.**

The goal of the options overlay — used by some of the income-focused J.P. Morgan Asset Management active ETFs — is to generate higher income for the portfolio than that normally achievable by a typical portfolio of higher yielding stocks. The strategy has the potential to perform better in periods of flat or falling equity market return, but will give up some of the potential capital upside during strongly positive equity market performance.

Why we seek income with ETFs that use an options overlay, in addition to traditional income sources

By investing in some ETFs that use an options overlay we aim to provide an enhanced, consistent level of income, lower volatility, and a superior risk-to-return ratio. Even if a portfolio was to be comprised of only high-income stocks, it may not offer a significant enough yield premium compared to a normal balanced portfolio. The addition of some ETFs that use an options overlay as part of our portfolio construction allows us to target a more significant level of income.

In the US, for example, dividend yields are not typically very high, and choosing to focus only on the highest dividend paying stocks might create imbalanced portfolios in terms of sectors or style. Having some exposure to ETFs that use an options overlay allows us to preserve a high level of diversification and what we believe is the most attractive portfolio allocation, while still targeting a high dividend.

We believe a fundamentally strong portfolio coupled with this disciplined options overlay could enhance the income investors receive, while helping us to manage risk. We should note that as with all investing, returns, whether through capital growth or income payouts as prioritised with the Income Investing style, are not guaranteed.

How our portfolios are constructed.

Portfolio construction

Partnership

To construct these portfolios, we have worked in partnership with one of the world's leading investment houses - J.P. Morgan Asset Management. We are combining our core investment principles and our ETF and fractional investment expertise, with their vast experience, resources, and multi-asset knowledge.

J.P. Morgan Asset Management has a highly successful and innovative range of actively managed, income-seeking ETFs in the US. Its popularity led to the launch of a UK-listed equivalent. This is a notable allocation in our Income portfolios and is combined with investments in other more traditional actively managed J.P. Morgan Asset Management ETFs.

Decision making

Nutmeg's investment team is responsible for the overall management of portfolios. This involves setting the asset allocation of the portfolios and actively adapting it over time. Nutmeg's investment team makes tactical adjustments informed by the research of J.P. Morgan Asset Management. Tactical adjustments typically focus on shorter-term opportunities the investment team looks to take advantage of.

The role J.P. Morgan Asset Management plays is one of adviser, helping to design the structure of the portfolios and providing our investment team with ongoing investment strategy advice. This includes advice on rebalancing, asset allocation, and fund selection.

Our Income Portfolio risk levels

To allow clients to invest for income in a way they are comfortable with, we have a range of five different portfolios, spanning lower to higher risk. The investments held in the different portfolios reflect the range of risk and return goals.

	Risk level	Guide asset allocation
Lower risk	1	To preserve capital and minimise the potential for loss, this portfolio is overwhelmingly invested in bonds, typically 80% or more. Holdings of equities and other risky investments are kept low.
	2	Similarly, the majority of this portfolio is invested in bonds, but the portfolio holds, on average, around 40% in equities and other risky assets.
	3	This risk level aims for moderate growth without extreme volatility. It typically holds around 60% in equities and other risky assets over the long-term, and 40% in bonds to help reduce risk and provide what is traditionally a more stable source of income.
	4	The aim is for higher growth, with the potential for higher volatility. Holdings are around 80% in equities and other risky assets over the long-term, while investing around 20% in bonds to help reduce risk and provide stability.
Higher risk	5	Risk level 5 aims for high growth and accepts higher potential for volatility. This portfolio's holdings are normally all in equities and other riskier assets (such as property securities) and may have a larger weighting towards non-UK stocks.

Portfolio exposure

Our portfolios are built on the core principles of diversification and transparency. We use ETF-based strategies, with the aim of delivering attractive long-term returns.

Market exposure

The portfolios contain a globally diversified allocation to bonds and equities, including emerging markets. It is worth noting that the exposure to small caps (smaller companies) is minimal. Smaller businesses tend to be in an earlier stage of growth and therefore re-investing in the business tends to be higher priority than paying a dividend to shareholders. Income therefore tends to be more limited in this asset class.

The selection of underlying funds is also informed by J.P. Morgan Asset Management, leveraging innovative active ETFs that seek to perform attractively. They aim to do this by going, for example, slightly overweight (higher allocation than the benchmark) or underweight (lower allocation than the benchmark) in certain sectors or regions, based on the views of their research analysts. The benchmark for each underlying ETF depends on various factors, such as asset class or geographic exposure.

Number of holdings

The portfolios contain around 10 ETFs, with the active, income-focused J.P. Morgan Asset Management ETFs being a significant part of the equity allocation, with specific exposure varying by risk level.

Working with J.P. Morgan Asset Management.

The unique benefits

J.P. Morgan Asset Management's expertise in successfully managing active strategies is well-established. Their global active ETF range has over $200 billion in assets under management, and includes the world's largest active ETF as at the end of May 2025, which is a US Equity Premium Income strategy. The success of this strategy led to further options being made available to the market. The range now includes ETFs following a similar strategy but one focused on the Nasdaq index and another on global equities.

1. A portfolio management team with industry-leading expertise

The J.P. Morgan Equity Premium Income team's lead portfolio managers – Hamilton Reiner and Piera Elisa Grassi – have deep expertise in derivatives, with an average of 31 years of experience. Lead Portfolio Manager, Hamilton Reiner, has spent his long career investing in equities and equity derivatives. The strategy is backed by the knowledge and insights of over 80 global career analysts, who have an average of 19 years of investment experience.

2. An equity portfolio with a 30-year track record

The J.P. Morgan Equity Premium Income strategy in the US has been run for more than five years and uses a research process with a longer-than 30-year track record to achieve lower beta and reduced volatility. Further information on beta can be found in the Glossary within the Appendix.

The underlying equity allocation is an actively managed portfolio of stocks that exhibit higher quality characteristics and lower earnings volatility, based on fundamental research insights. This typically results in a portfolio with lower beta and volatility than the market.

3. An options overlay that aims to increase income generation

As described earlier, some of the ETFs we have exposure to use an options overlay strategy with the aim of providing an increased and more consistent income stream. This involves selling options to collect 'premiums', generating income but sacrificing some of the potential market gains.

Specifically, the strategy focuses on selling 1-month 'out-of-the-money' call options on a rolling weekly basis. Income is distributed monthly on those ETFs. For more detail, please see the [Appendix](#) at the end of the document.

How we use these ETFs

Nutmeg's core investment principles are centred around:

- being globally diversified
- balancing risk with potential reward
- keeping costs and fees appropriate
- being transparent
- allowing access to capital by investing in liquid assets.

A key element of this is the use of ETFs, which we believe offer investors a cost-effective, transparent way to invest in a broad range of asset classes and sectors.

Our Income Investing style focuses on ETFs that aim to provide consistent sources of income. Some of the portfolios are allocated to J.P. Morgan Asset Management's Equity Income product range, particularly the Global Equity Premium Income Active ETF.

J.P. Morgan Asset Management's innovative approach to portfolio construction pairs a portfolio of fundamentally strong companies with a disciplined options overlay. Their strategy seeks an outcome of steady income generation while targeting lower risk than traditional income strategies. It is well-aligned with the aims of Nutmeg's Income Investing style, given our focus on finding consistent sources of income for portfolios.

Other ETFs with similar approaches can be included, targeting more specific regions, themes, or sectors. Each combines the active selection of high-yield stocks, with some also using an options overlay approach.

The J.P. Morgan Equity Premium Income ETFs, by design, may not capture all market upside, given their focus on consistent income generation. However, we use these ETFs in combination with other ETFs comprising investments in different asset classes with the aim of achieving long-term performance targets comparable with our other portfolios.

Any specific ETFs mentioned are not recommendations. Always do your own research.

Comparing Income Investing with our other investment styles.

1. Expected yield and regular income comparison

The Income Investing style is designed to enhance the income a portfolio receives from its underlying investments, which investors then receive in the form of monthly payouts. Our other investment styles focus primarily on growth and re-invest any income they receive from equity dividends or bonds' coupon payments. Therefore, it should be noted that the primary objective of the Income Investing style is different to our other investment styles.

However, we believe that it is useful to provide the information presented in this section to show how our Income Investing style compares against our other investment styles.

Firstly, compared to our other investment styles, we expect that Income Investing could provide a significant income enhancement. We set out what this means for different risk levels below.

Lower risk levels

These Income Investing portfolios tend to show a more modest increase in income compared with a typical growth investing portfolio. This is because lower risk portfolios are more heavily weighted towards lower risk asset classes like bonds, which produce income, rather than equities, which are more likely to provide capital gains.

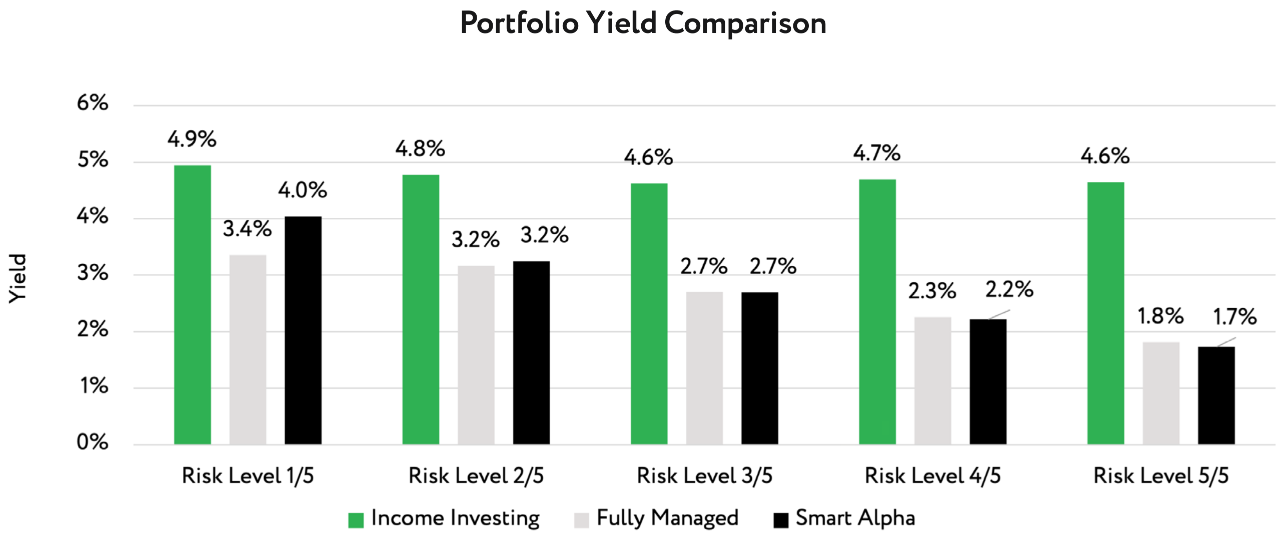
We aim to enhance the level of income the portfolio receives, while keeping a similar level of risk. We do this by adjusting the composition of the portfolio, including adding some equity income exposure.

By adjusting the composition of the portfolio and keeping a similar level of risk, we aim to enhance the level of income the portfolio receives. We aim for a target range when it comes to the yield that the portfolios produce. For the Income Investing Risk Level 1 portfolio, this is estimated at 4.9%, compared to between 3.4% and 4% for two of our other investment styles (Fully Managed and Smart Alpha) at a similar risk level (which is re-invested), as at June 2025. We set out the basis for our estimates below.

Higher risk levels

For a higher risk level, the difference between the income produced by our Income Investing strategy and growth-focused strategy is greater. This is because prioritising assets you believe have the best potential for growth naturally means that there is less scope for income to be produced. Therefore, for a higher risk level, there is subsequently a bigger gap in income between a portfolio focused on growth, vs. one prioritising income.

High risk portfolios are dominated by equity assets, which typically provide lower yields than fixed income assets. This is particularly the case for US equities, where current yields are below 2% (May 2025). The Nutmeg Income Investing strategy targets an enhanced level of income. For Risk Level 5, estimated yield is 4.6% for Income Investing vs. 1.7% to 1.8% for our other portfolios used for comparison: Fully Managed and Smart Alpha.



Source: Nutmeg, as at 6 June 2025. Yield figures rounded to nearest 0.1%.

This chart compares the dividend yield of three portfolio styles: Income Investing, Fully Managed, and Smart Alpha powered by J.P. Morgan Asset Management. The comparison assumes that all portfolios invest in distributing share classes, although this may not fully reflect actual investment practices. The estimate is based on the yield of each strategy's underlying ETFs as of May 2025. For each ETF the yield is estimated as the average of the last 12 months, ending in May.

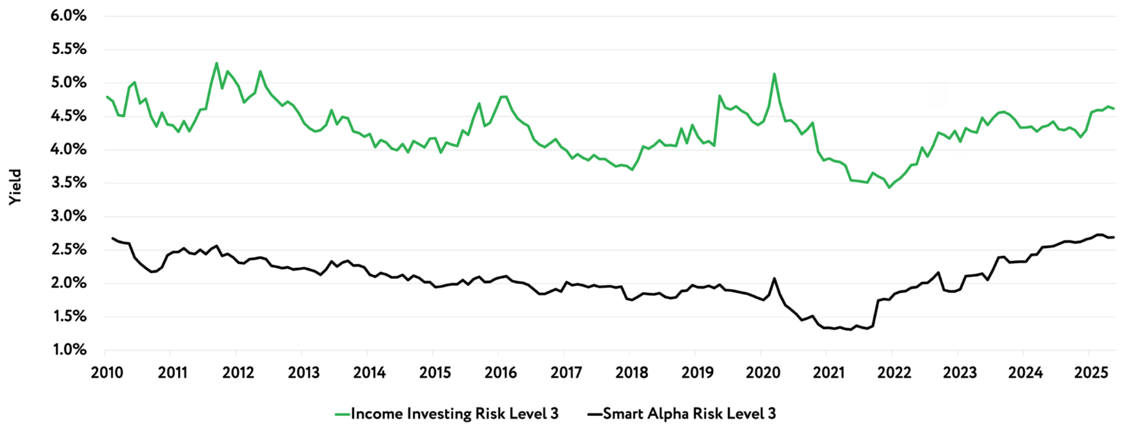
Disclaimer: This comparison is for information purposes only and does not constitute financial advice. The assumptions made in this analysis may not accurately represent real-world investment scenarios. Investors should consider their own financial situation and consult with a financial adviser before making investment decisions. All data used in this comparison are subject to change and may not reflect actual market conditions. Past yield and future yield figures are not a reliable indicator of future performance.

Historical income comparison

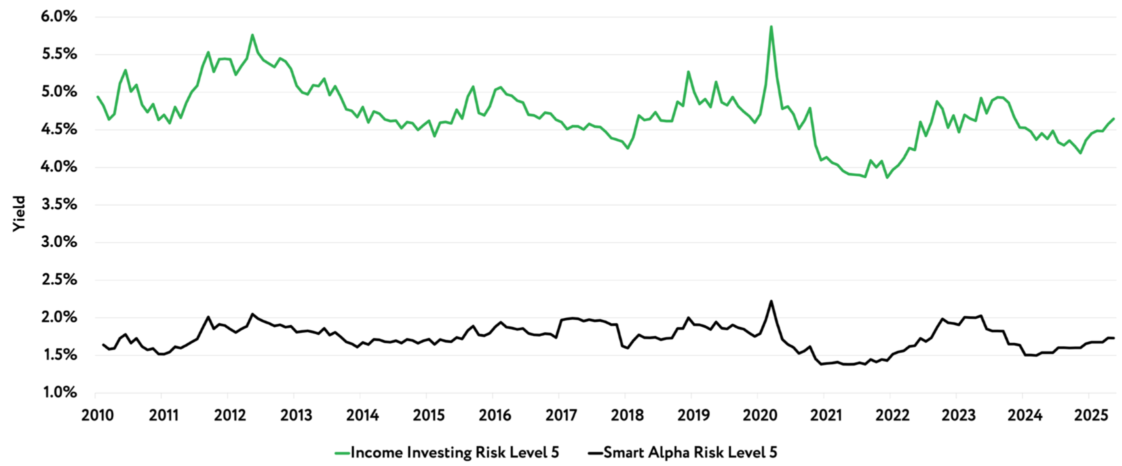
The following charts present an estimated historical income projection for a Risk level 3/5 and a Risk level 5/5 Income Investing portfolio, and a Smart Alpha portfolio of equivalent risk levels. The assumed scenario is that both have been running since 2010. The spread – the difference between the yield of the two styles – can vary over time, with the Income Investing portfolio expected to offer a consistent and significant income enhancement.

It is important to note that the simulation model assumes the Smart Alpha portfolio invests only in **distributing share classes**, as opposed to **accumulating share classes**. In practice, this isn't the case in our current Smart Alpha funds where we have predominantly accumulating share classes. This means the portfolios would in practice have a lower yield than shown in the chart below. Equivalent ETFs are used, it is just the type of share classes that differ in this simulation. Further detail on share classes is available in the **Glossary**.

Portfolio Historical Yield Simulation: Income Investing vs. Smart Alpha, Risk Level 3 of 5



Portfolio Historical Yield Simulation: Income Investing vs. Smart Alpha, Risk Level 5 of 5



Source: Nutmeg and Macrobond. The charts provide a historical simulation of yield performance based on portfolio allocation, as of May 2025. This analysis compares the Smart Alpha style with the Income Investing style. The simulation illustrates how the yield of the current portfolio allocation would have behaved from 2010 to May 2025. A full explanation of this approach is available in the **Appendix**.

Disclaimer: This simulation is for information purposes only and does not constitute financial advice. These figures refer to simulated past performance, which is not a reliable indicator of future performance. Investors should consider their own financial situation and consult with a financial adviser before making investment decisions. All data used in this simulation are subject to change and may not reflect actual market conditions.

2. Performance comparison

The Income Investing style is not expected to provide a significant level of performance divergence (total return: capital growth + income) vs. our range of other investment styles. However, compared to other styles at the same risk level, the Income Investing style is characterised by potential for:

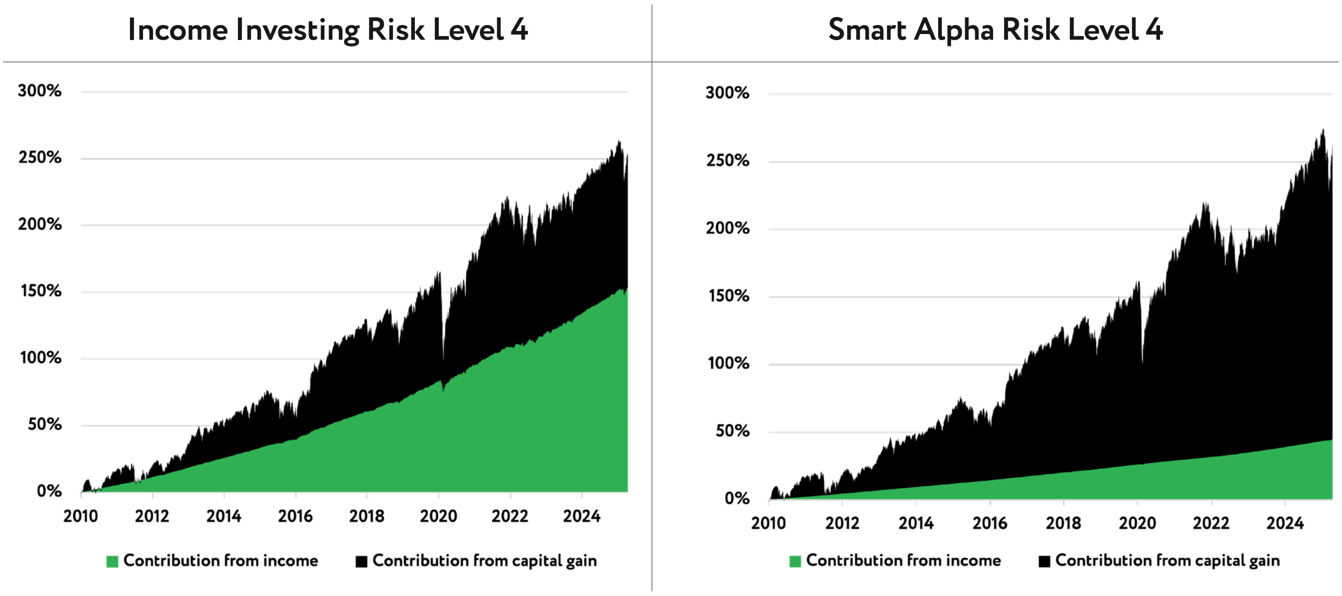
- lower target volatility
- outperformance in flat or negative markets
- underperformance in a positive market given the focus on income-paying assets

The primary goal for Income Investing is to provide a healthy level of income for investors, combined with long-term capital growth. With the goal of an enhanced level of income, it does mean that the growth potential is lower than our other range of investment styles, but this is by design. Income portfolios may not be appropriate for investors prioritising growth.

We have run a long-term performance simulation for the Income Investing style. Comparing Income Investing with the Smart Alpha style, we expect performance to be roughly in-line. But given the different investment goals and subsequent variation in underlying ETFs that are invested in, the source of performance is different. We have chosen Smart Alpha for this comparison given that the role J.P. Morgan Asset Management plays is the same for both investment styles: that of an adviser.

The source of performance for the Income Investing style compared to Smart Alpha will diverge. This is down to a much larger part of performance coming from dividends for the Income investing style, rather than capital gain. The following simulation is for illustration purposes only but highlights the potential divergence.

Simulated total return breakdown: Income Investing vs. Smart Alpha, Risk Level 4 of 5



Source: Macrobond and Nutmeg, as at May 2025.

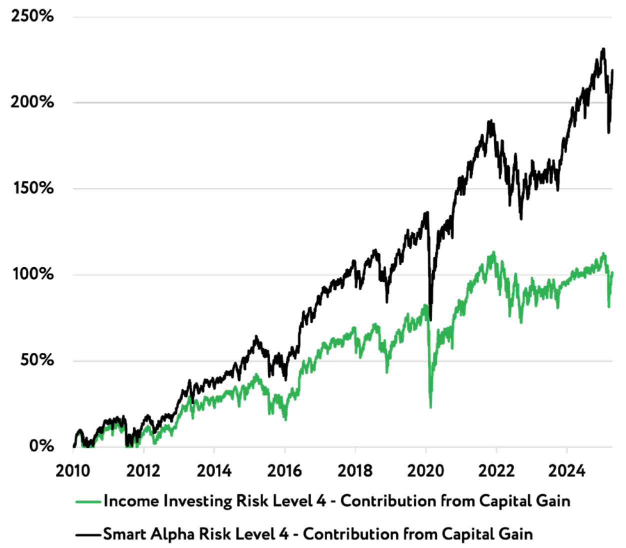
This simulation is aimed at allowing comparison between two investment styles, Income Investing and Smart Alpha, but please be aware of the following.

With our Income Investing style, all income is paid out to customers, and is not re-invested. This means these amounts will not benefit from compounding in the portfolio.

For the purpose of comparing the potential total return of the Income Investing and Smart Alpha portfolios, however, the above chart for Income Investing assumes that all income produced is in fact fully re-invested, and will therefore benefit from compounding, similar to the Smart Alpha portfolio. So the simulation compares the returns for the two different styles on the basis that the income payout received by the client in the Income Investing portfolio is immediately re-invested back into the portfolio, and thereby benefits from compounding. This enables us to make a fair, hypothetical comparison of the two different returns.

To see, on the other hand, how the capital returns compare between the two portfolios, please see the following chart. The line for Income Investing here excludes the effect of income, as this has been paid out to the customer and not re-invested, which reflects what would happen in reality.

Simulated capital gain return breakdown: Income Investing vs. Smart Alpha, Risk Level 4 of 5



Source: Macrobond, Nutmeg, as at May 2025.

Disclaimer: These simulations are for information purposes only and do not constitute financial advice. The assumptions made in this analysis may not accurately represent real-world investment scenarios. These figures refer to simulated past performance, which is not a reliable indicator of future performance. Investors should consider their own financial situation and consult with a financial adviser before making investment decisions. All data used in these simulations are subject to change and may not reflect actual market conditions.

Historical simulation

We extended the previous simulation to different risk levels to analyse how Income Investing would have performed during recent market cycles.

Our simulations suggest the Income Investing style would have outperformed our other investment styles of an equivalent risk level during the market downturns of 2018 and, in particular, 2022. It also shows the Income Investing style performing slightly below them during years of positive market performance. This reflects strong modelled outperformance in volatile backdrops, and some periods of less meaningful underperformance in more bullish markets.

The Income Investing style may provide a slightly higher return to volatility ratio (known as 'Sharpe' ratio). This is due to a mix of higher-yielding fixed income products and some exposure to ETFs that use the options overlay strategy.

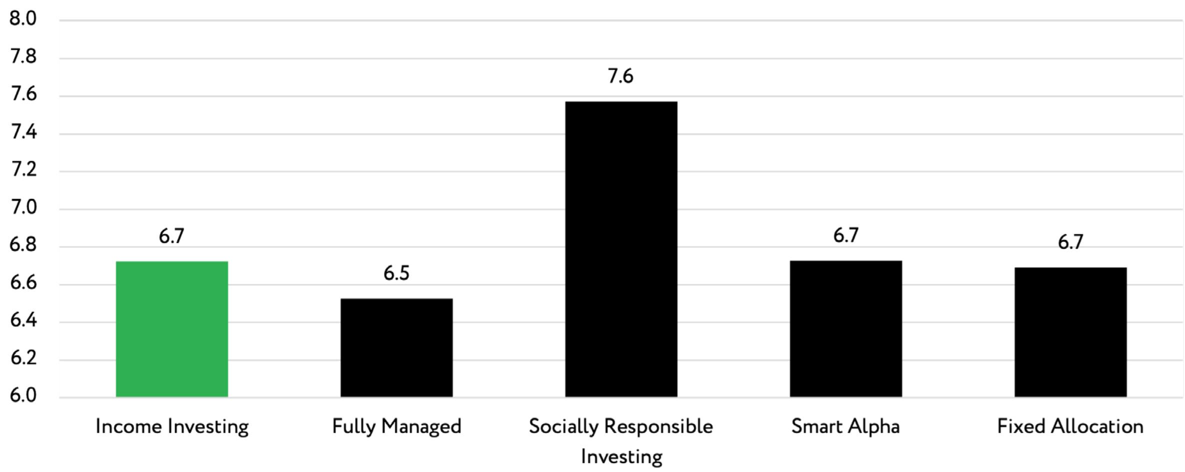
As with any simulation, there is no guarantee that it will hold in the future, as past performance is not a reliable indicator of future performance. The simulation makes some assumptions where data is unavailable, which might lead to optimistic projections compared to actual future performance.

3. What about ESG?

Score and potential comparison vs. other investment styles

The Environmental, Social, and Governance (ESG) score of the Income Investing strategy is similar to our other investment styles. This is with the exception, of course, of our Socially Responsible Investing (SRI) portfolios, which specifically incorporate ESG considerations, and produce higher overall ESG scores. It is notable that the lower risk levels of the Income Investing style have slightly lower ESG scores compared to comparable risk levels of our other styles. This is due to the fixed income allocation favouring high yield corporate bonds, which are prone to lower ESG scores, but we expect this difference to remain relatively muted.

ESG Score Comparison: Risk Level 4



Source: MSCI, Nutmeg Calculation. The value extracts the ESG score based on the MSCI scores of the underlying ETFs for each investing style as at May 2025. Income Investing is simulated based on its expected allocation as of May 2025.

Tax implications for UK investors.

Tax positions differ from person to person, and it is always worth seeking professional advice if you're unsure about where you stand. That said, if you are considering an income strategy for your investments there are some general considerations outlined below.

What kind of account is the income being generated in?

Income generated by an investment outside of 'tax-wrapped' accounts like a pension or an ISA, including Junior ISAs (JISAs) and Lifetime ISAs (LISAs), in most cases, will factor into an income tax calculation for the year. In most cases, investments that sit within one of these types of tax-wrapped accounts are protected from income tax and capital gains tax.

It is important to note that:

- income taken out of an ISA will, in most cases, not attract income tax
- income taken out of a pension will, in most cases, factor into an individual's annual income tax calculation
- pension contributions generally attract tax relief on the way in, while ISA contributions come out of taxed income
- once income is taken out of a Nutmeg ISA it cannot be paid back in without counting towards your ISA subscription limit for that tax year.

Note: you cannot use the Income Investing style in a personal pension, JISA or LISA at this time.

Income versus capital gains tax (CGT)

Those considering investing for income should also note the difference between capital gains and income. Most portfolios, as discussed earlier, will generate a combination of capital gains and income.

Capital gains will not factor into a tax calculation unless they are 'realised'. This means that an asset that has increased in value has been sold, including when Nutmeg sells assets to change the allocation of your portfolio. Gains realised in an ISA or personal pension typically will not attract CGT. Gains realised in general investment accounts (GIAs) may attract CGT. However, gains realised in a GIA will also usually need to exceed an individual's annual exempt amount to attract a tax bill. Investors may choose to defer the sale of an asset or could potentially offset a realised capital gain if they have realised losses elsewhere. We discuss capital gains tax in more detail in this **article**. Please note that tax rules vary by individual status and may change.

For some, the income generated by investments may be all or a large portion of their total income in any given tax year. Others may wish to generate income from an investment portfolio that is in addition to income received by other means, like employment. Whatever the circumstance, investors should understand the tax implications of investing for income compared with investing for growth.

A differentiated option for stable investment income.

Using our multi-asset ETF experience and the well-established expertise of J.P. Morgan Asset Management, Nutmeg's Income Investing style aims to generate a monthly income stream while also growing your wealth for the future. The Nutmeg investment team invests a lump sum from you into ETFs likely to pay dividends, and actively manages your portfolio towards delivering a monthly payout using our unique 'income smoothing' feature.

The investment style is differentiated by:

- Monthly income rather than the typically less frequent payment schedule of ETFs
- The way the portfolio is constructed, enabling us to not only provide income payouts but also to pursue capital growth
- The exposure to J.P. Morgan Asset Management's innovative, active ETFs and the options overlay's goal of delivering an enhanced level of income

Everyone's financial goals are slightly different, and the way your portfolio is invested should align with your long-term ambitions. That may involve being purely focused on growth, or you may want a steady income stream to be the main priority, while still having the potential to see your wealth grow. Our Income Investing style allows us to cater to an even broader range of diverse client needs.

Income from your investment portfolio could help to support you at different stages in life for a wide range of personal circumstances. Whether this spans years or decades, your investment portfolio could be a powerful income source.

We should note that to generate a meaningful level of income, the minimum permitted level of investment is £10,000.

Appendix.

Options overlay

The Income Investing style uses a combination of ETFs managed by J. P. Morgan Asset Management, some of which seek additional income through employing a financial derivative instrument ("FDI") overlay strategy. This strategy entails systematically selling equity call options and/or equity index call options, which will typically have exposure to indices comprised of benchmark securities.

Options are a type of contract drawn up between two parties that can agree terms on a future transaction. Common types of options are 'call' and 'put' options.

Call options allow one party to pay a fee – a 'premium' – to another party, to agree a purchase price for an asset at a fixed future date. Put options allow one party to pay a premium to another to agree a sell price for an asset at a fixed future date. Options are often used to manage risk.

Selling call options, as is the case with the JPM Global Equity Premium Income Active UCITS ETF, means the portfolio receives 'premiums' (payments) for the options. This secures income that is used to increase and stabilise the income stream paid to investors.

The options strategy involves selling 'out-of-the-money' options. This means that at the time they are sold, the option does not hold any value for the purchaser. Options become 'in-the-money' if the asset that the option refers to rises beyond what is called the 'strike price'. The strike price is the price the option seller must accept for the asset the option relates to, according to the contract terms.

However, investors should also note that the sale of equity call options may also mean the portfolio misses out on a portion of the profits from increases in the value of the underlying equity portfolio.

The options strategy is updated on a weekly basis to actively manage market volatility and the impact of market movements. As discussed earlier, the income portfolio is expected to participate in part of the upward moves in the underlying assets, and less of the downward movements (depending upon the risk level selected).

Technical overview of the JPM Global Equity Premium Income Active UCITS ETF

This fund, which forms part of Nutmeg's Income Investing portfolios' asset allocation, aims to achieve the following outcomes:

- Overall target of 7-9% annual income, paid monthly
- Expected income from dividends of around 1% to 3%, while premiums from options are anticipated to be between 5% and 8%
- Exhibit lower volatility and beta compared to the MSCI World

- Reduced downside risk (losing less during market downturns)
- Offer a better return-to-volatility ratio than global equities.

Source: J.P. Morgan Asset Management, as at May 2025.

Our portfolio simulation

In this paper, the Nutmeg team has employed simulations to illustrate how the Income Investing portfolios might have performed historically. Since they did not exist during the historical period analysed, the simulation utilises the weightings of the different ETFs as they were at the time of the portfolio launch. These simulations are inherently imperfect and are intended to provide an indicative understanding of potential performance. They remain theoretical and are solely for illustrative purposes.

The charts and historical numbers provided in the comparison with our other investment styles are based on simulations. As the investment style is new, past performance data is not available. Simulations use assumptions to provide an idea of how the portfolio might have performed historically, but they offer no guarantee of future replication. Some of these assumptions include historical portfolio weight estimation, estimating the past performance of ETFs that didn't exist at the time (using comparable ETFs or indices), and estimating dividend yield from ETFs that exist only as accumulating share classes. Returns shown in the simulation are calculated before Nutmeg's management fees and other charges, and are net of ETF (fund and market spread) charges, unless otherwise stated.

Glossary.

Accumulating & Distributing Share Classes: The ETF share classes we invest in can take two forms:

- an accumulating share class, where the ETF provider re-invests the dividend received from equities or coupons from fixed income directly
- a distributing share class, where an ETF pays a dividend to investors at regular intervals (monthly, quarterly, half-yearly, etc.) and so the dividend is not re-invested.

It is noteworthy that the dividend paid can be relatively stable from one period to another or diverge significantly, usually depending on the underlying portfolio. It is also noteworthy that the J.P. Morgan Asset Management range of Income ETFs pays coupons monthly, and has demonstrated relatively stable values due to the options overlay, which is an attractive feature of their offering. Past performance and forecasts are not a reliable indicator of future performance.

Benchmark: a benchmark is a standard or point of reference against which the performance of a financial instrument, investment portfolio, or fund can be measured. Benchmarks are typically used to evaluate the relative performance of investments and to assess the effectiveness of investment strategies.

Beta: This refers to the amount a strategy participates in the benchmark index's upward or downward moves, and the scale is between 0 and 1. If an equity has a historic beta of 0.6, it has historically participated in 60% of the benchmark movements up or down. Lower beta therefore means the strategy is expected to experience smaller movements up or down than the benchmark.

Capital Gain: The portion of total return that isn't paid as a dividend, i.e. the rise in the investment capital value (gain) or fall in capital value (loss).

Growth Stocks: Stocks in a business or industry that is expanding and usually growing their revenue or business at an above-average rate compared to their competitors, the rest of the market, or industry. Growth stocks are often more expensive as their revenue is expected to increase faster and often pay no or low dividends compared to 'value stocks'. Value stocks are shares of companies that are considered undervalued compared to their intrinsic worth based on metrics such as earnings.

Volatility: This refers to short-term changes in valuation. High volatility would suggest more significant short-term changes in valuation. Seeking reduced volatility in this context means the portfolio is intended to fluctuate less in value than the benchmark.

Yield: Yield is a measure of the income return on an investment, typically expressed as a percentage. It represents the earnings generated and realised on an investment over a particular period of time, typically a year. Below we explain yield in different contexts.

- **Dividend yield:** The annual dividend payment of a company or index, divided by the current price, expressed as a percentage. At the portfolio level, this is the annual dividend yield expected to be received by investing in a specific Income Investing portfolio. The portfolio dividend yield is estimated by our investment team and is updated every quarter. It will likely fluctuate, and the dividend received may diverge from the estimated proposal.

- **ETF dividend yield:** This is the annual dividend income an investor can expect from an exchange-traded fund relative to its current share price. It is expressed as a percentage and helps investors assess the income potential of an ETF investment. An ETF's underlying investments' yield indicates the combination of dividends and/or coupons generated by the assets held by the ETF. An ETF's dividend yield can differ from the underlying investments' yield due to factors like management fees, tracking errors, and the timing of dividend distributions. ETFs may also hold cash or derivatives, affecting yield. Additionally, differences in how dividends are re-invested or distributed can cause variations between the ETF and underlying assets' yield.

Risk warning

As with all investing, your capital is at risk. The value of your portfolio with Nutmeg, and any income or yield from it, can go down as well as up and you may get back less than you invest. Income isn't guaranteed, and yield can fluctuate. £10,000 minimum investment required for a Nutmeg Income Investing portfolio.

Past performance and yield figures and forecasts are not a reliable indicator of future performance. We do not provide investment advice in this article. Always do your own research.

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To learn more go to **nutmeg.com**

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