Investment Advisory Committee (IAC) Quarterly Meeting

Minutes of Meeting

Date

07/06/2021

Present members

Candia Kingston (Chair)
Ewan Smith
JB Beckett
Vidur Bahree (New member)

In attendance

Robert Whitehouse
Carrie Johnson
Trevor Greetham (RLAM)
Michael Clarkson (RLAM)
Ken Scott
Niall Aitken
Steven Kellas
Euan Craig
Ryan Hamill
Lewis Daley
Mayer Raichura
Emer Drayne

Apologies

Dr James McCourt
Piers Hillier (RLAM)

Owner

1. **REVIEW OF PREVIOUS MINUTES** — CK

The minutes of 23/02/2021 were approved. No new conflicts of interest were notified.

2. **TERMS OF REFERENCE (ToR)** — KS

Ken Scott provided an update to the committee on the proposed IAC ToR. These updates are a result of the impact of the new target operating model.

Ken Scott highlighted the proposed addition of members to the IAC and the impact this has on the ratio of independent to internal members. Candia Kingston stated that the addition of both Carrie Johnston and Vidur Bahree as IAC members was valid given their roles. JB Beckett stated that if the IAC were going to follow CFA best practice then 50% independent representation would be required and highlighted that it may be something that needs to be reviewed. Ewan Smith highlighted the fact that the external market places a high value on the independence of members, and hence the potential need to review the make-up of the committee. He also stated the importance of transparency and the need for Royal London employees to be members due to the conflicts of interest that arise within any business.

Following the meeting it was concluded that the ratio of independent to internal members should be kept as it was previously, and hence Vidur Bahree became a new member, whilst Carrie Johnston and James McCourt agreed to become standing invitees rather than voting members. The new membership as stated in the updated ToR was ratified.

Carrie Johnston ensured the IAC were happy with their role in focusing on Royal London's Governed Range and Matrix funds. Candia Kingston confirmed this. Ewan Smith stated that the focus/role of the IAC needs to be updated as Royal London's proposition changes.

JB Beckett raised the point that the ToR states it will be published online. Ken Scott confirmed that he would ensure the ToR, along with the IAC minutes would be published online.

3. **INVESTMENT PATHWAYS UPDATE** NA

Niall Aitken and Steven Kellas provided an update to the committee on the usage of investment pathways and an initial view of performance since launch.
Niall Aitken confirmed the investment pathways were launched at the start of February, with some customer transactions in the pipeline at the end of January that hadn't completed. He highlighted the importance of changes in non-advised customers now choosing one of the four investment pathways, compared to previously choosing the default investment choice.

Candia Kingston asked for information regarding the difference in returns relative to benchmark for the RLP Annuity fund underlying Investment Pathway 2 (plan to buy an annuity within 5 years). Niall Aitken and Trevor Greetham noted the difference is due to last year's change in the RLP Annuity fund and the strong Q1 tactical performance of GMAP Conservative which RLP Annuity fund transferred into.

Candia Kingston noted that previously a large proportion of customers were not choosing to take income in the 5 years after retirement and asked why there wasn't a higher proportion of customers in Investment Pathway 1 (no plans to take a income within 5 years). Niall Aitken stated that this observation would reflect customers not going into the Pathways at all, and highlighted the need to support those not making an active decision as well.

Candia Kingston requested the ongoing Investment Pathways update to the IAC to include information regarding customer behaviour and to monitor whether the selected pathways best meet the needs of customers over time. Ewan Smith stated the importance in tracking customers experience through to the end and measuring that.

Candia Kingston questioned how we would communicate with customers once invested in pathways to ensure the pathway chosen and risk level remained appropriate. Steven Kellas reassured the committee that as a minimum, customers would receive an annual statement regarding their chosen pathway and the other available options. Other ad hoc action would be taken to ensure that the pathway remained appropriate for the customer's needs.

Carrie Johnston highlighted the importance of communicating with the customer before a decision needs to be made rather than at the last moment. Steven Kellas noted the need to consider other actions that could be taken to communicate with customers throughout the year, in addition to the annual statement already provided.

4. **STRATEGIC PACK** NA

Governed Portfolios & Managed Strategies
All portfolios are within their target ranges for real volatility and are relatively close to the centre point of the target risk ranges for all portfolios.

Governed Retirement Income Portfolios (GRIPs)
There has been a **strategic asset allocation change** for Governed Retirement Income Portfolios 1 and 2: an increase in equities and high yield bonds and a reduction in gilts, index linked gilts and corporate bonds. Furthermore, within equities, exposure to global developed and emerging market equities has increased out of UK equities. All portfolios remain within their target ranges for the income risk metric. Income sustainability scores have increased from last quarter as annuity rates increased slightly and the expected future returns across most asset classes have increased.

The fund risk metrics for all GRIPs are within tolerance, with GRIP 2 flagging amber. This is a significant improvement from last quarter.

Moody's Analytics updated the inflation metric embedded within the real return metric for the GRIPs from RPI to CPI this quarter. Generally, this has improved expected real outcomes although this has been offset by the significant increase in inflation expectations and the slightly higher risk profile for GRIP 1 and GRIP 2 following the SAA changes.

2 **Tactical Analysis**

GPs, Managed Strategies and GRIPs

- All portfolios remain within their tactical risk budgets.

- RLAM gave the following update on their tactical changes in the last quarter:

    - **JANUARY**: Global equities rose again in December despite Covid-19 case numbers increasing and renewed restrictions in many countries, boosted by the approval of the first vaccine and the start of vaccination programmes as well as the $900bn US fiscal package and last-minute Brexit deal. With increased confidence in a 'return to normal' later in the year, we have increased our overweight positions in global equities, global high yield bonds and commodities, funded by moving more underweight in commercial property and cash. Otherwise, we remained moderately underweight in gilts and overweight in investment grade corporate bonds.
    - **FEBRUARY:** Global equities marked time in January following strong performance, impacted by viral mutations and extended lockdowns. However, the positive start for vaccination programmes increased confidence in a return to more normal conditions later this year. In the meantime, the $1.9trn fiscal package proposed by the Biden administration should boost the US economic recovery. We used market weakness to add to our overweight in equities by moving more underweight in cash and gilts, and also added further to commodities.

Otherwise, we remained overweight in global high yield and neutral in investment grade corporate bonds and underweight in commercial property.

- **MARCH**: The success of vaccination programmes and declining Covid-19 case numbers in the US and Europe fuelled expectations of a strong economic recovery this year, driving positive global equity returns. Meanwhile, anticipation of significant US fiscal stimulus raised concerns about inflation causing global bond yields to rise. Due to short-term market volatility we have reduced our overweight exposures to equities, commodities, corporate bonds and global high yield bonds. We also moved further underweight in gilts. This benefited our cash allocation, which moved less underweight. The underweight exposure to commercial property remained unchanged.

Candia Kingston questioned the split of Global Managed regarding Core and Satellite holdings. Niall Aitken and Trevor Greetham reassured the committee that this is an area that is under review, with the need to consider how and where the components of the fund take active risk.

JB Beckett noted that although the sector analysis is useful, contribution to risk, as well as regional contribution and macro attribution would be more beneficial. Niall Aitken confirmed that he and Trevor Greetham would discuss how to best present the fund's attribution for the next IAC meeting.

Vidur Bahree questioned whether there was any information regarding the performance of the asset allocation. He also emphasised the need for increased future projections and the impact of this. Niall Aitken confirmed the need to review the contents of the Strategic Pack to ensure the committee could best benefit from the resources available. Trevor Greetham emphasised the importance of measuring performance relative to benchmark and understanding the drivers of performance.

JB Beckett highlighted the importance of inflation scenarios, particularly given the current environment, with regards to the asset allocation mix and expected return. He also stated his caution when comparing competitor performance due to variability in asset mix and riskiness.

James McCourt raised concerns regarding the cash levels within the property fund. Niall Aitken provided reassurance through the use of the updated conscious rebalancing approach to liquid exposure to ensure a smoother cash experience. Carrie Johnston reiterated the point that the current cash target of 5-10% may not be an appropriate range and the implications of this. Robert Whitehouse reassured the committee that work is being carried out to review these limits with customers' experience at the forefront.

5. **PERFORMANCE PACK** EC

All data is at end March 2021.

RLI Governed Range
All Governed Portfolios outperformed their benchmarks over the quarter as well as 1, 3 and 5 years.

All five GRIPs are ahead of their benchmark over the quarter as well as 1, 3 and 5 years.
Global Managed
The fund has outperformed benchmark over 1 and 3 years but is behind over 5 years.

Property
The fund has outperformed benchmark over 1, 3 and 5 years to end of March 2021.
As at the end of March 2021, RLPPF cash holding was 12.8%.

Commodity
The fund is passively managed and has performed in line with expectations benchmark over 1 and 3 years to the end of March 2021.

Sterling Extra Yield
The fund has outperformed benchmark over 1, 3 and 5 years to the end of March 2021.

Absolute Return Government Bond
The fund has outperformed benchmark over 1, 3 and 5 years to the end of March 2021.

Global High Yield Bond
The fund is outperforming over 1 and 3 years to the end of March 2021.

RLI Pension Funds
Equity Income
The fund is triggering amber is underperforming over 1 year to end March 2021, however the level of underperformance over the quarter and 1 year has been high.

Franklin UK Mid Cap
The fund has just fallen into performance monitoring due to flagging red for three consecutive quarters. Euan Craig stated that his team are comfortable to continue holding the fund based on the 3Q rating of 2 and their belief in the investment process. He noted that if the score fell then considerations would be made regarding potential replacements.

Invesco Asian
The fund had been triggering red for three consecutive quarters before turning amber last quarter and is now green. The fund is outperforming over all time periods. Piers Hillier was in favour of removing the fund from the reporting framework. IAC agreed.

Jupiter North American Equity
The matrix box is now triggering amber, so short term performance is improving and some longer-term underperformance is falling out of the reporting cycle.

Invesco Global Equity
The fund is now triggering amber for the fourth consecutive quarter, but had been triggering red for seven consecutive quarters and is underperforming over 3 years. Piers Hillier noted the improvement in performance but thought it should remain on the watchlist for another quarter. IAC supported this.

Candia Kingston questioned how responsible investment is embedded into the Matrix Funds, with the possibility of funds being added to a watchlist if they do not conform with Royal London's beliefs. Lewis Daley confirmed that quarterly meetings were taking place with key asset managers, with reassurance that the IAC would be updated with any due diligence concerns.

6. **MATRIX FUND REPLACEMENT (CLOSE)** EC

Euan Craig presented his paper on the proposal to replace two Close TEAMS UK Equities Matrix funds with the launch of a new fund. Euan requested approval from the committee to close these funds and move the mandate across to RLAM.

Ewan Smith and Candia Kingston agreed on the principle of this change, noting points on customer impact, practicality, and consistency of this decision. The committee also agreed on not being able to approve the change as yet, as there was not enough information provided to make an informed decision. In particular, the committee would like to see more describing the level of diversification that this proposal provides and quantifying impacts.

JB Beckett added that he would like to see more evidence to support keeping a fund of funds structure. Candia also asked to see an explicit comparison of the chosen UK funds which helped support this proposal.

Euan agreed with the committee's points and suggested to adjust the paper and re-propose this before the next quarterly meeting.

7. **TRANSACTION COSTS** EC

Euan gave a summary on the current transaction costs for workplace pension strategies and portfolios, and reasons for change over the year.

The committee queried whether there were any comparisons to competitors available. Euan replied noting that it can be difficult to provide comparisons individually although an annual review will take place later in the year that compares competitor IGC's and will also include a comparison of transaction costs. Euan offered to provide this to the committee if it is required.

8. **LEGACY DEFAULTS TO GOVERNED RANGE** RH

Ryan Hamill introduced the project and noted this presentation is primarily for information purposes rather than seeking approval from the committee.

Ryan highlighted that legacy customers are currently invested in the three Managed funds which closely map to the modern Governed Portfolios. The closure of our legacy investment strategies and transfer to the modern strategies will therefore provide a similar mapping to their current structure.

The committee were supportive of the project objective to bring legacy customers into the Governed Range and to provide more governance for this cohort.

JB queried on how 'gone aways' are to be dealt with and whether there are any cost savings for customers from this move. Ryan clarified that the goneaways process is still to be ironed out but that customers will gain from having a target retirement option in addition to the extra layer of governance. Ryan also confirmed there will be no change in charges for customers migrating.

Piers Hillier provided some questions via email after his apologies to the meeting; firstly, querying whether the Legacy Migration Project (#ThinkBeyond) would cover some of this migration and secondly whether the funds are only available to legacy customers.

Ryan explained that this migration was included as a part of #ThinkBeyond but given the migration date is further away, the project recommended to make this change now. In addition, Ryan confirmed that the funds are only available to legacy customers and that modern products will have access to the current Governed Portfolios so there is no need for them to access the same funds.

9. RESPONSIBLE INVESTMENT (RI) UPDATE LD

Lewis Daley provided an update on the three RI developments: a propositional, policy and monitoring update, as well as how Royal London are establishing foundations to achieve the long-term RI/climate change (CC) objective of being industry leading.

Lewis highlighted the refresh of the Investment Philosophy and Beliefs (IPB) and how this change reshapes the group-wide approach in defining a good customer outcome to now consider both the financial outcome and the environment that a customer will live in. Supporting the IPB is the RLMIS Stewardship and Engagement Policy, which has now received governance approval. This includes the sub-policies of the exclusion policy and voting principles, which will be applied to all RLMIS assets (both internally and externally managed) on a 'comply or explain' basis.

The RI propositional developments relate to the evolution of passive equity solutions by RLAM (tilts); and BlackRock introducing exclusions into some of their ACS funds.

Lewis noted that, as per previous IAC updates, Royal London has developed a new external fund manager monitoring process to cover RI and CC. Quarterly stewardship meetings will also be conducted to provide regular updates on fund managers' RI/CC activities, including voting activities and engagement practices.

JB Beckett suggested the committee and Lewis think about how this group could provide more governance on RI updates. It was suggested some forms of evidence showing other committee approvals may be sufficient. Lewis mentioned there are some dashboards available showing external management actions which can be provided, and other forms of MI can be bottomed out.

10. AOB ALL

There was no other business to discuss.