Investment Advisory Committee (IAC)

Extraordinary Meeting Summary

11 December 2023

Members

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| --- | --- | --- | --- |
| **Name** | **Organisation** | **Role** | **Present** |
| Candia Kingston (CK) | Independent | Chair | Y |
| JB Beckett (JB) | Independent | Non-Exec member | Y |
| Ewan Smith (ES) | RLMIS | CEO Office Director | Y  |
| Vidur Bahree (VB) | RLMIS | Group Investment Director | N |
| Piers Hillier (PH) | RLAM | RLAM Chief Investment Officer | Y |

Others in attendance

|  |  |  |
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| **Name** | **Organisation** | **Role** |
| Charlotte Dalton (CD) | RLMIS | IAC Secretary  |
| Stephanie Fox (SF) | RLMIS | CoSec Support  |
| Ken Scott (KS) | RLMIS | Head of Investment Solutions |
| Euan Craig (EC) | RLMIS | Proposition Manager, Investment Solutions |
| Ryan Hamill (RH) | RLMIS | Investment Actuary, Investment Solutions |
| Michael Clarkson (MC) | RLAM | Fund of Funds Manager |
| Phil Beamish (PB) | RLMIS | Head of Oversight, Investment Office |

This note presents a summary of the discussion that was had at the Independent Advisory Committee in November 2023. This was an extraordinary meeting.

The Committee were presented with papers on:

* performance of the funds used within the Governed Range and/or available to Royal London Pension (RLP) customers as alternative investments; and
* proposals to change the funds underlying two Matrix Funds.

**Performance**

The discussion focused on funds that were flagged in the performance framework as underperforming relative to their benchmarks.

The following funds were discussed:

* MAST: this fund has a dual aim of managing downside losses and returning cash +4%. The fund achieves this through a multi-asset strategy coupled with a tactical volatility-capping mechanism. Volatility capping has been utilised at various times over the last few years, limiting the ability for the fund to meet the performance aim. Nevertheless, shorter-term performance of this strategy has been strong relative to industry peers.
* RL UK Smaller Companies: it was noted that UK small cap has been a challenging area of the market in general. This fund was underperforming, but so too were many of its peers: only 4 of 47 UK smaller companies funds outperformed their benchmarks year-to-date in 2023. Morningstar still rated the fund highly. A deep dive review of the fund’s processes was underway. The Committee were comfortable that the appropriate actions were being taken for now.
* RLP Global High Yield: there has been a short period of a small level of underperformance. There was clear rationale around the fund moving to a more defensive position. The Committee were not concerned with this fund and were confident in the management team.
* Fidelity UK Opportunities: this is a Matrix Range fund and it was noted that this fund is being considered as part of the review of underperforming Matrix funds. Analysis will be completed on potential replacements for this fund and presented to the Committee in February 2024.
* Fidelity Money Builder Dividend: the underlying fund is actually benchmarked against the FTSE All Share which the fund has been outperforming over a sustained period. This fund will be benchmarked against the FTSE All Share moving forward, which change will be communicated to customers.
* Baillie Gifford Japanese: whilst currently underperforming, this fund continues to hold strong rating from investment research teams. It is a specialist fund, meaning divergence from benchmark should be expected. The Committee agreed to keep this fund on their watchlist, but that no further action was required at this stage.
* Fidelity Emerging Markets: this is a Matrix Range fund and it was noted that this fund is being considered as part of the review of underperforming Matrix funds. Analysis will be completed on potential replacements at February’s meeting.
* JPM UK Equity Growth: this is a Matrix Range fund and it was noted that this fund is being considered as part of the review of underperforming Matrix funds. Analysis will be completed on potential replacements at February’s meeting.
* Ninety One UK Smaller Companies: this is a Matrix Range fund and it was noted that this fund is being considered as part of the review of underperforming Matrix funds. Analysis will be completed on potential replacements at February’s meeting.
* Fidelity European Blended: this fund is a blend of two funds. Royal London will consider whether the current blend of two Fidelity funds is appropriate, given one is causing the performance drag. Fund has been flagging red for three consecutive quarters and review will begin in Q2 2024.
* Baillie Gifford UK Equity Alpha: whilst currently underperforming, this fund continues to hold a strong rating from investment research teams. It is a specialist fund, meaning divergence from benchmark should be expected. The Committee agreed to keep this fund on their watchlist, but that no further action was required at this stage.
* Baillie Gifford Japanese Income Growth: this fund is currently underperforming, but continues to hold strong ratings from investment research teams. The Committee agreed to keep this fund on their watchlist, but that no further action was required at this stage.
* Artemis Income: historic performance had been consistently positive, and ratings favourable. The Committee challenged whether the benchmark was appropriate for this fund but were otherwise comfortable that no immediate action was required.
* Columbia Threadneedle European Select: it was agreed to keep this fund on watch, but no immediate action was necessary.
* Franklin UK Mid Cap: the fund is now outperforming benchmark over 1 and 3 years. Over 5 years, underperformance is minimal. The Committee agreed to remove this fund from underperformance reporting.

**Matrix Fund Recommendations**

Potential replacement for two current Matrix Funds were discussed: Ninety One Global Strategic Equity and Close Teams UK Equity Funds.

These funds were being reviewed after having been flagged for underperformance relative to their benchmarks on Royal London’s performance framework. Research was presented to the Committee exploring the current fund and potential alternatives for comparison.

Fund research from Mercer and Morningstar, and primary research by Royal London was presented.

* Ninety One Global Strategic Equity: this is a specialist fund, meaning it is expected to take significant risk relative to benchmark. This was considered and compared with Wellington Durable Enterprises and Ninety One Global Franchise. Both alternative funds appealed for different reasons, but there were also concerns raised – for example about the high concentration in the Wellington fund and whether that was appropriate for the current customers. Concerns were also raised about the cost to customers of switching funds and it was noted that this should only be done if there was strong conviction. The Committee concluded that, compared to these alternatives, they would recommend staying with the current Ninety One fund for now. This fund will be kept on the watchlist.
* Close Teams UK Equity (1%) and Close Teams UK Equity (2%) Funds: these are ‘core plus’ funds, meaning they are expected to take modest risk relative to their benchmarks. These were considered and compared to JP Morgan UK Dynamic and JP Morgan UK Equity Growth. Recent ownership and management of these funds had been transferred to Phoenix, and they were no longer actively managed. After discussion of the potential alternatives presented, an initial recommendation to move to the JP Morgan UK Dynamic was supported due to the consistent team and investment approach which has delivered returns in line with expectations over a sustained period. The Royal London team will now undertake full due diligence on the fund and, should that present no concerns, seek to migrate to this fund in 2024.