

## Investment Advisory Committee (IAC) Quarterly Meeting

### Summary of Meeting

**Date and Time** 24 February 2023 at 13.00  
**Place** by MS Teams Video Conference

### Members

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	Y
Piers Hillier (PH)	RLAM	RLAM Chief Investment Officer	N

### Others in attendance

Name	Organisation	Role
Charlotte Dalton (CD)	RLMIS	Secretary
Michelle Charlesworth (MC)	RLMIS	Coordinator
Ken Scott (KS)	RLMIS	Head of Investment Solutions
Euan Craig (EC)	RLMIS	Proposition Manager, Investment Solutions
Ryan Hamill (RH)	RLMIS	Investment Actuary, Investment Solutions
Dr James McCourt (JM)	RLMIS	Group Chief Risk Officer
Robert Whitehouse (RW)	RLMIS	Unit Linked Actuary, Investment Office
Trevor Greetham (TG)	RLAM	Head of Multi-Asset (from item 5)
Michael Clarkson	RLAM	Fund of Funds Manager (for item 7)
Meridith Glasse-Davies (MGD)	RLMIS	Senior Strategy Manager

### **1. WELCOME, CONFLICTS OF INTEREST AND INTRODUCTION**

There were no new conflicts of interest declared.

### **2. MINUTES OF MEETINGS HELD ON 30 NOVEMBER 2022 AND ACTIONS**

The minutes of the quarterly meeting held on 30 November 2022 were reviewed and approved subject to minor changes.

### **3. INVESTMENT PROPOSITION REVIEW**



VB provided some background to RLMIS's stewardship and engagement policy, advising that he was comfortable with progress related to climate goals. KS referred to a recent study rating the Royal London proposition as amber for ESG due to its focus on stewardship and engagement rather than exclusions. It was acknowledged that stewardship was more difficult to evidence than exclusions.

The IAC discussed the three new proposed FCA sustainable investment labels: sustainable focus, sustainable improvers and sustainable impact. It was agreed that labels would provide welcome clarity for investors, albeit the current proposed labels lacked recognition of engagement as an effective driver of change above exclusion. RLMIS's emphasis on ESG improving and transitioning companies was agreed to be most closely aligned to the 'improvers' label.

ES noted that it was vital that the Governed Range proposition was aligned with Royal London's purpose and vision as a business.

The Committee reviewed current thinking on the Governed Range Income Portfolios (GRIPs) and potential developments and supported the possibility of making GRIPs more flexible. The need to maintain simplicity was emphasized. JB suggested that the concept of wealth transfer within the decumulation period needed some focus.

**Outcome: review the outcome of FCA sustainable labels consultation Q3, but maintain focus on Royal London's core beliefs; return to GRIPs consideration in Q2/3.**

#### **4. IAC OVERSIGHT ON ESG INTEGRATION**

The role of the IAC in providing oversight on ESG integration was debated. Various views were expressed, including the importance of the independent voice, IAC's role in advising on trends and ultimate responsibility sitting with the RLMIS board. It was agreed that the IAC would require more detailed ESG input information in order to carry out an effective oversight role, and that CK and EC would discuss this outside the meeting.

**Outcome: a proposal to be presented on enhanced ESG input to allow effective monitoring.**

#### **5. STRATEGIC ASSET ALLOCATION (SAA) REVIEW – GOVERNED RANGE UPDATE**

RH presented the updated SAAs, advising that the proposals reflected the feedback previously provided by the IAC.

CK noted the sell-off of illiquid assets by final salary pension schemes following the liquidity strain arising from the 'mini-budget' of September 2022. She asked to hear more from RLAM about the tactical underweighting to property. RH commented that there was sufficient cash within the property fund to avail of buying opportunities. TG noted his concern about the possibility of impending recession, stating that RLAM did not wish to sell in a 'panic cycle'. Reducing the benchmark allocation to property would avoid that need. VB agreed that reducing property exposure provided diversification from a UK recessionary outlook.

CK asked for thoughts on the regional equity allocations, yet to be finalised. The merits of the current 28% UK allocation were debated, noting the sectoral imbalance within the UK, but also globally on a market cap basis. The value bias of the UK market was noted, and the build of expertise within RLAM's global stock-picking team. Timing of any reduction in UK allocation was also discussed, with TG noting that, after a relatively strong UK run, this appeared a favourable time. JB asked whether divesting from UK plc could be seen as less than responsible investing.

Despite a variety of views on the optimal allocation to the UK, it was agreed that a level of reduction in UK equity exposure was to be supported.

**Outcome: final SAAs to be enacted once global allocation has been finalized.**

## **6. STRATEGIC PACK to 31 DECEMBER 2022**

RH highlighted that the biggest change over the quarter was the significant fall in the UK index-linked bond risk premium. TG discussed his views on the likelihood of future '*spikeflation*': a time of periodic spikes in inflation on the back of structural drivers such as heightened geopolitical risk, underinvestment in energy and deglobalization. He noted that models developed in periods of low and stable inflation may be inadequate in such environments. JB advised the benefits of overlaying the Moody's model with alternative data and experience.

The IAC noted the rapid recovery in income sustainability metrics for the GRIPs due to higher interest rates and expected returns. All were mindful of the drawdown pressure on GRIPs with cost-of-living increases, but noted the benefits of deferring annuity purchase for those that could afford to do so.

**Outcome: no action**

## **7. PERFORMANCE PACK to 31 DECEMBER 2022**

Poor one-year returns were noted for the majority of Matrix funds. Internal and external analyses had been considered, along with MC's analysis and Morningstar ratings, which had all held stable. EC advised all funds were believed to remain appropriate to hold despite the short-term volatility.

It was noted that Governed Portfolios (GPs) 1, 4, 5 and 7-9 and all GRIPs had outperformed benchmarks over three and five years but underperformed over one year. GPs 2, 3 and 6 had outperformed over one, three and five years.

EC advised that RLAM had recently removed the RLP UK Opportunities fund manager and the fund was under review as a standalone fund within the Governed Range.

On the Matrix funds, EC noted the team's recent meeting with Baillie Gifford, advising their conclusion that the team remained well resourced, staying true to their 'bottom up' investment philosophy with well-integrated ESG practices. MC advised that 2022 had been an exceptionally difficult year for active funds and that Baillie Gifford were not trying to hide from addressing poor performance. He retained confidence in the manager.

Prioritisation of the Matrix review was discussed and a timetable for this was requested.

**Outcome: decision on RLP UK Opportunities fund to be made at Q2 IAC; timetable on Matrix review to be provided.**

## **8. COMMUNICATIONS**

The IAC reviewed and discussed the paper on communications relating to increases in the cost of living and consumer duty.

**Outcome: suggested communications to be produced.**

## **8. ANY OTHER BUSINESS**

There was no other business to be discussed and the meeting closed at 16.00.