

## Investment Advisory Committee (IAC) Quarterly Meeting

### Summary of Meeting

**Date and Time** 2 September 2022 at 10.00  
**Place** RLMIS, Thistle Street, Edinburgh and by MS Teams Video Conference (VC)

### 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 (VC)
Vidur Bahree (VB)	RLMIS	Group Investment Director	Y (VC)
Piers Hillier (PH)	RLAM	RLAM Chief Investment Officer	Y

### Others in attendance

Name	Organisation	Role
Charlotte Dalton (CD)	RLMIS	Secretary (VC)
Ken Scott (KS)	RLMIS	Head of Investment Solutions
Euan Craig (EC)	RLMIS	Proposition Manager, Investment Solutions
Ryan Hamill (RH)	RLMIS	Investment Actuary, Investment Solutions
Robert Whitehouse (RW)	RLMIS	Unit Linked Actuary, Investment Office
Helen Carter (HC)	RLMIS	Proposition Actuary, Investment Solutions
Trevor Greetham (TG)	RLAM	Head of Multi-Asset (VC)
Michael Clarkson	RLAM	Fund of Funds Manager (VC for item 8)
Raymala Navaratnam (RN)	RLMIS	Investment Actuary, Investment Solutions
Sadia Ghani (SG)	RLMIS	Proposition Manager, Investment Solutions
Emer Drayne (ED)	RLMIS	Actuarial Trainee, Investment Solutions

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

There were no new conflicts of interest declared.

## **2. MINUTES OF MEETINGS HELD ON 1 JUNE 2022 AND 28 JULY 2022 (INTERIM MEETING) AND ACTIONS**

The minutes of the quarterly meeting held on 1 June and 28 July 2022 were reviewed and some amendments were noted to be sent through post-meeting.



The assessment of value (AoV) process was discussed, and it was noted that AoV would be considered when selecting funds in the Matrix range. TG explained how RLAM assign red/amber/green ratings on an AoV basis. Independent members of the IAC stressed that the proposition team and IAC needed to remain mindful of AoV considerations, despite responsibility for the process having moved out of the RL proposition team.

### **3. IAC TERMS OF REFERENCE**

The IAC reviewed the draft updated Terms of Reference. CK suggested some changes in relation to environmental, social and governance issues and JB suggested clarity was required to ensure that the IAC remit stayed within the area of investment delivery and did not veer into the shape of the wider proposition.

**Outcome: comments to be sent to KS after meeting and final terms to be agreed.**

### **4. IAC EFFECTIVENESS REVIEW**

The process as outlined in the meeting papers was agreed, noting that individual interviews would be hosted by CK and KS.

**Outcome: review to be carried out in October with outcome reported at next IAC.**

### **5. STRATEGIC ASSET ALLOCATION (SAA) UPDATE – GOVERNED RETIREMENT INCOME PORTFOLIOS (GRIPs) REVIEW**

RH introduced the review of SAAs for the GRIPs, incorporating feedback from the Investment Committee and the IAC. Proposed changes were noted for duration, index-linked bond exposure, global diversification and allocations to cash/real assets. The review suggested changing the risk metrics for the GRIPs by replacing the existing, single risk metric (which had been found to be overly sensitive to short-term inflation) with two new risk metrics which would better monitor both short-term sequencing risk and longer-term portfolio risk.

CK asked for a breakdown of sequencing risk and long-term real return risk, in order to see movements over time, and questioned whether the one-year loss metric should be real or nominal. TG advised he supported the proposed change to a short-term nominal metric which would better allow for volatility in inflation expectations. ES commented that, in order to measure sequencing risk, it was intuitive for inflation to be included in the short-term risk metric, but that he was comfortable to break down the problem and consider sequencing risk separately, given inflation was still being included in the round. JB emphasised that asset volatility and inflation were not independent and that the interdependence should be factored in. After discussion, the IAC concluded their support for a dual one-year metric.

Looking at the proposed SAA overall, CK concluded that she was now comfortable and was pleased in particular to see an increase in real assets. ES agreed. PH commented that it would be helpful for IAC to understand the net impact on risk and, in particular, credit default risk. ES asked for a deeper dive on short duration credit and high yield in particular so that the IAC could better understand the modelling assumptions for those asset classes against the risk metrics. RH advised that the quality aspect of credit had been addressed in the review. Exposure to short duration high yield tended to be tactical rather than strategic so not included in the SAA.

**Outcome: new GRIPs risk metrics approved; new SAAs approved subject to IAC getting comfort after separate session on short-duration high yield assumptions.**

## **6. STRATEGIC PACK TO 30 JUNE 2022**

Key points noted included:

- Changes to latest capital market assumptions, with higher risk premiums for index-linked bonds and corporate bonds (due to rising inflation and credit spreads respectively), and notable increases in expected returns across most asset classes;
- Governed Portfolios flagging green against risk metrics while GRIPs 1-4 were flagging red against the short-term risk metric (addressed under 5 above); and
- Strong investment performance relative to peers.

**Outcome: no action required.**

## **7. GLOBAL GROWTH PAPER**

MC introduced his updated paper on the Global Growth fund, commenting that short-term performance had been disappointing, with active funds struggling over the last 12 months. He took the IAC through actions being taken by his team.

JB asked if any funds in the UK portfolio had particularly surprised him. MC replied that no fund had particularly performed outside of expectations but that macro events had been radically different than predicted.

The IAC discussed the role of the fund within the proposition, with PH suggesting that RL needed to review whether the parameters and risk budget continued to meet customer needs. It was agreed that no need for immediate action was required at IAC level.

**Outcome: continued review of Global Growth.**

## **8. INVESTMENT PATHWAYS REVIEW**

RN introduced the annual review of the RL Investment Pathways, focused on the suitability of the investment solution based on customer behaviour – recognizing that the Pathways were still new, with only a short period of experience. Assumptions, performance and charges had also been considered. Overall, the analysis had concluded that:

- Investment solutions remained appropriate;
- Absolute performance was disappointing, although in line with benchmark and favourable against competitors;
- Charges, based on average post size, were at or better than industry average; and
- Customer experience was generally in line with expectations.

The IAC considered it encouraging to see the analysis and were comfortable with the outcome. CK asked about the changing needs of investors at different ages post-retirement and RH confirmed this would be looked at.

**Outcome: confirmation that Investment Pathways remained appropriate.**

## **9. PERFORMANCE PACK TO 30 JUNE 2022**

EC highlighted that the number of funds flagging red was up in general and that he was concerned of style bias within the Matrix range. He proposed to outline a scope for review of the Matrix range for next IAC and asked for comment on what the IAC would wish to see included.

CK agreed with the proposal for review and suggested options for moving away from looking at past performance as the primary flag for monitoring the funds. PH agreed and suggested involving MC in the process given his knowledge of monitoring funds and looking at style rotation. JB agreed that the former persistency of the Matrix funds was now of concern and that the possibility of style bias needed to be focused on in the review. ES agreed with the suggestion of shifting the Matrix funds towards the approach MC takes to build his fund of funds portfolio. He believed that performance should still be the flag but that consideration needed to be taken of the performance drivers. JB suggested adding the delay between the decision to change a fund manager and implementation of that decision. VB stressed that the impact on the customer should be the focus.

**Outcome: review of Matrix selection process to be brought to next IAC.**

## **10. GOVERNED PORTFOLIO SAA IMPLEMENTATION**

The paper on implementation of the Governed Portfolio SAAs was noted with no questions.

## **11. ANY OTHER BUSINESS**

KS asked if the IAC would be comfortable for responsible investment to be removed as a standing item, given its consideration was integrated into all aspects of the investment proposition, and the IAC agreed.

There was no other business to be discussed and the meeting closed at 13.00.