

Investment Advisory Committee (IAC) Quarterly Meeting

Summary of Meeting

<u>Date and Time</u>	30 November 2022 at 11.30
<u>Place</u>	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
Vidur Bahree (VB)	RLMIS	Group Investment Director	N
Piers Hillier (PH)	RLAM	RLAM Chief Investment Officer	Y

Others in attendance

Name	Organisation	Role
Charlotte Dalton (CD)	RLMIS	Secretary (VC)
Michelle Charlesworth (MC)	RLMIS	Coordinator (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
Trevor Greetham (TG)	RLAM	Head of Multi-Asset (VC)
Michael Clarkson	RLAM	Fund of Funds Manager (VC for items 5-6)
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 2 SEPTEMBER 2022 AND 3 NOVEMBER 2022 (INTERIM MEETING) AND ACTIONS

The minutes of the quarterly meeting held on 2 September and 3 November 2022 were reviewed and approved.

3. IAC EFFECTIVENESS REVIEW



The collated responses and analysis of key themes arising from the review were noted. A number of comments had centred around stewardship of responsible investment activities and the monitoring of both RLAM and external fund managers. The IAC's value in helping in the investment proposition design process was stressed.

Outcome: actions as documented in the review to be taken forward.

4. GOVERNED RANGE (GR) STRATEGIC ASSET ALLOCATION (SAA) UPDATE

RH advised that, following the approval of previously proposed changes to the SAA, implementation had been deferred due to the extreme market turbulence of September / October 2022. This decision had proven to work well for customers, as steep rises in bond yields reversed and settled at lower levels, and a fall in the value of sterling would have rendered diversification into global fixed income relatively expensive. He noted that most of the changes previously recommended remained valid, such as increasing the global diversification of the bond portfolio and reducing sector biases in the bond funds to by combining 'all maturities' with 'short duration'. Adjustments to reflect anticipated recessionary conditions in the UK and potentially the US were yet to be made, but the review was scheduled for completion and implementation within Q1 2023.

TG outlined thinking on ways to improve agility of SAA reviews, currently carried out every three years, with an annual light touch review, and overlaid with tactical asset allocation decisions.

JB raised concerns on the speed of reaction within Moody's models over the economic cycle, noting that the extreme market turbulence had settled. Taking recent economic shocks into account, the inflationary outlook was discussed, particularly related to the merits of increasing bond holdings.

The weighting towards property was reviewed, noting that competitors offered far lower property allocations.

Outcome: interim IAC meeting to be called if needed prior to completion.

5. MATRIX RANGE PROPOSED REVIEW

EC introduced a paper on the review of the Matrix external fund range, emphasizing the number of factors behind fund selection including charges, performance, investment philosophy and process, and external ratings. He suggested one area for consideration would be to define more clearly the strategy of each fund to limit the possibility of style bias. In the short term, further information would be prepared for customers and advisers on the performance of different funds in different market environments.

CK highlighted the longer-term consideration that the existence and purpose of the Matrix range should be consistent with the investment beliefs of Royal London. She also noted a concern relating to the charges on some under-performing external funds, and PH agreed these needed to be looked at. PH further articulated that the Matrix process needed to be driven principally by persistency, overlaid with an understanding of risks, including manager concentration risk. KS emphasized the different needs of different customer groups.

The IAC agreed that a fundamental review of the Matrix range, including its purpose and the inputs used from a research view, was welcomed.

Outcome: Matrix proposition design and use of external ratings to be reviewed in 2023; proposal on fund manager ESG information to be brought to future IAC.

6. PERFORMANCE PACK TO 30 SEPTEMBER 2022

All Governed Portfolios (GPs) and Governed Range Investment Portfolios (GRIPs) had performance above benchmark over one, three and five years, with the exception of GP7 over one year.

EC advised that Matrix persistency scores remained lower than he would like, but that these had picked up of late. Two more of the Matrix funds were flagging amber, with two moving from amber to green over the period. He commented that market rotation in outperforming styles had had a big impact over the past twelve months, and shorter-term poor performance was dragging down three- and five-year figures.

Baillie Gifford was discussed in more detail. JB advised it would be helpful to understand if BG had made any changes in response to recent performance issues and what the redemption clauses were, if any.

Outcome: As for 5 above.

7. GOVERNED RANGE RISK METRICS

RH set out the following proposed changes to the risk metrics:

- Incorporate adjustments to the standard Moody's Analytics model for both the SAA review and regular reporting to reflect RL beliefs. This would have no significant impact on the GP reporting but would slightly reduce predicted maximum one-year loss in the GRIPs.
- Add two additional risk metrics to better monitor the GRIPs portfolios in periods of high inflation.
- Introduction of a metric to monitor GRIPs efficiency.

Having reviewed back testing and discussed, the IAC were supportive of the proposed changes.

Outcome: proposed changes to be introduced to future Strategic Packs.

8. STRATEGIC PACK TO 30 SEPTEMBER 2022

The pack was noted. CK asked about review of the Global Managed fund and KS advised that this was ongoing.

Outcome: review of Global Managed to be provided in due course.

9. ISA UPDATE

TG noted comments around fund range implementation and operational items. JB highlighted concerns around trying to replicate the Governed Range and the difficulty in being able to achieve the same customer experience.

10. FOLLOW UP TO INTERIM IAC MEETING – COMMUNICATIONS PLAN

KS agreed to report back at next IAC communication proposals.

11. ANY OTHER BUSINESS

There was no other business to be discussed and the meeting closed at 14.30.