

Investment Advisory Committee (IAC) Quarterly Meeting

Minutes of Meeting

Date

28/09/2021

Members

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

Others in attendance

Name	Organisation	Role
Carrie Johnson	RLMIS	UK Product Director
Dr James McCourt	RLMIS	Group Chief Risk Officer
Robert Whitehouse	RLMIS	Unit Linked Actuary, Investment Office
Trevor Greetham	RLAM	Head of Multi-Asset
Michael Clarkson	RLAM	Fund of Funds Manager
Rosie Bichard	Independent	IGC Member
Ken Scott	RLMIS	Head of Investment Solutions
Niall Aitken	RLMIS	Senior Investment Actuary, Investment Solutions
Euan Craig	RLMIS	Proposition Manager, Investment Solutions
Ryan Hamill	RLMIS	Investment Actuary, Investment Solutions
Mayer Raichura	RLMIS	Actuarial Trainee, Investment Solutions
Emer Drayne	RLMIS	Actuarial Trainee, Investment Solutions



1. **REVIEW OF PREVIOUS MINUTES**

CK

The minutes of 07/06/2021 were approved. No new conflicts of interest were notified.

2. **RLP Global Growth**

MC/EC

Mike Clarkson provided an update on the RLP Global Growth fund since it transitioned from Rathbones to RLAM in June 2020.

Mike confirmed to the committee that he was happy with the performance of the fund both in absolute terms and relative to benchmark. Mike highlighted that only one fund change has taken place since the transition, as Blackrock Emerging Market was added following the benchmark change in March 2021.

Questions were asked around the performance of the Asia Pacific region, with JB Beckett questioning the active risk that Mike would be willing to take to avoid the structural risk in the current market. Mike confirmed that the strategy adopted ensures that the risk taken is kept at an acceptable level, due to the different processes and styles carried out by the fund managers.

Mike noted that the previous approach taken by managers was to choose funds that best suited their views, rather than choosing those that were appropriate for the fund of fund structure.

Candia Kingston questioned whether overlaps existed between Asia Pacific and Emerging Markets equity. Mike reassured the committee that although overlaps exist between the two sectors, he doesn't deem it practical to adjust weightings as a result of this. Committee members highlighted their desire for further information and visibility regarding attribution, decomposition of risk, factor exposures and other metrics including climate analysis. Mike confirmed that a more detailed attribution analysis would be available soon, and that other tools within the company would be utilised to try to obtain the required information.

Carrie Johnson questioned whether ESG factors were taken into consideration when making decisions, and Mike confirmed that although no strict criteria exist for the majority of funds, ESG factors are taken into account in their scoring/value mechanism. The committee highlighted the need to ensure ESG factors were embedded in the process. Euan Craig reassured the committee that quarterly stewardship meetings conducted provide regular updates on external fund managers' RI/CC activities, including voting activities and engagement practices.

Beyond these requests for more granular MI on the fund and an understanding of how ESG plays into selection, no further requests were made.

3. **INFLATION OUTLOOK**

NA

Niall Aitken presented this paper to provide an insight into the impact of a more inflationary post-Covid recovery on the Governed Range, looking at how inflation resilience is incorporated into the SAA and TAA design.

Committee members were supportive of the paper, with JB Beckett highlighting the requirement for further tools and factor analysis to assess the full extent of inflation sensitivity.

Piers Hillier highlighted the need to monitor the position to assess whether the recent rise in inflation is transitory or a longer-term issue. Trevor Greetham noted how the focus on inflation is reflected in the broad asset class mix within the Governed Range and how this diversification of the SAA is well positioned for an inflationary outcome. He also highlighted the use of the investment clock in the TAA process which explicitly links the stage of the business cycle with growth and inflation.

James McCourt questioned whether more could be done for customers in drawdown without an advisor. Niall Aitken reiterated the use of the drawdown governance service that is currently available for customers, which highlights changes to their income sustainability scores. He also highlighted the importance of the governance of the investment pathways, against their targeted outcomes.

4. **STRATEGIC PACK**

RH

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)

All portfolios remain within their target ranges for the income risk metric, with GRIP 2 being amber as it nears its upper limit. Sustainability scores have decreased slightly from last quarter due to a fall in expectations of future returns for some assets.

The fund risk metrics for all GRIPs are within tolerance, with GRIP 2 flagging amber. This is similar to last quarter.

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:
 - **APRIL:** Global equities were strong in March, as successful vaccine programmes and loose monetary and fiscal policy reinforced positive sentiment. While global government bond markets settled, regional performance was mixed; ECB support saw European yields fall in contrast with global trends. Given strong global growth, we increased our overweight in equities, cut our commodities overweight, and increased underweights in gilts and corporate bonds. We also marginally tempered our overweight in global high yield bonds. Our underweight in commercial property was also slightly reduced.

- **MAY:** Global equities delivered strong returns in April, as Covid-19 case rates fell across leading markets and stimulative fiscal and monetary policy stayed in place. While central banks ruled out near-term rate rises, bond markets remained conscious of medium-term inflation risks given expansionary policy in a strong global recovery this year. Given strong equity performance over the last three quarters, we tempered our equities overweight and increased our positive tilt to commodities which benefit in a global recovery. We remained overweight in global high yield bonds, underweight gilts, and slightly underweight commercial property.
- **JUNE:** Global equities were volatile in May but posted positive returns. After weaker than expected US jobs data dampened tapering concerns, proving constructive for equities, stronger than expected US inflation data dented markets in the following week. However, the Federal Reserve reassured markets that inflation is transitory, encouraging equities back towards all-time highs. Given strong equity performance over the last three quarters, we tempered our equities overweight and increased our positive tilt to commodities, which benefit in a global recovery. We remained overweight in global high yield bonds, underweight gilts and corporate bonds, and extended our underweight in commercial property.

It was noted that discussions would take place following the meeting to ascertain the future contents of the paper, to ensure all relevant and required information is included.

Candia Kingston questioned the active/passive split of Global Managed and Niall Aitken confirmed that more information would be available soon. It was concluded that a paper would be brought to the next meeting to understand the process underlying the allocations/strategy taken.

James McCourt raised concerns that cash was building up within the Property fund. Piers Hillier noted that a review has been carried out and development capabilities will be put in place in 2022 to assess whether more liquid instruments such as REITs could be held to help enable improved liquidity management.

5. PERFORMANCE PACK

EC

All data is at end June 2021.

Governed Range

All Governed Portfolios outperformed their benchmarks over the quarter except for GP7. All portfolios are ahead over 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, 3 and 5 years.

Property

The fund has outperformed benchmark over 1, 3 and 5 years to end of June 2021. As at the end of June 2021, RLPPF cash holding was 11.9%.

Commodity

The fund is passively managed and has performed in line with expectations benchmark over 1, 3 and 5 years to the end of June 2021.

Sterling Extra Yield

The fund has outperformed benchmark over 1, 3 and 5 years to the end of June 2021.

Absolute Return Government Bond

The fund has outperformed benchmark over 1, 3 and 5 years to the end of June 2021.

Global High Yield Bond

The fund is outperforming over 1 and 3 years to the end of June 2021.

RLI Pension Funds

Worldwide

The fund is triggering Red for the second consecutive quarter and is marginally underperforming over 1 and 3 years to the end of June 2021. Performance has picked up, and no concerns were highlighted.

Matrix Pension Funds

Fidelity MoneyBuilder Dividend

The fund has been flagging red for two consecutive quarters and is underperforming over 1 and 5 years. The team are comfortable to continue holding the fund but remain mindful of the poor 12-month performance, although this is beginning to turn around somewhat so far in Q3.

Franklin UK Mid Cap

The fund has now been flagging red for four consecutive quarters and is underperforming over 1 and 3 years. 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.

Fidelity European Blended

The fund had been flagging red for two consecutive quarters and is underperforming over 1, 3 and 5 years. The fund has a 3Q rating of 3 and hence it was agreed that the blend would continue to be held as performance has recently picked up and action has been taken on the underperforming element.

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 fifth consecutive quarter but had been triggering red for seven consecutive quarters and is underperforming over 3 years. After meeting with the fund manager and acknowledging the performance against benchmark is improving, it was agreed the fund would be removed from underperformance reporting due to the continued improvement.

Concerns were raised regarding the use of performance statistics to assess funds rather than a range of other metrics including AoV and ESG. Euan Craig reassured the committee that work is being carried out with external vendors to provide ESG reporting/analysis

across the fund range. He also noted that commentary and ratings from Morningstar and the RLAM fund of fund manager are a useful insight in assessing the funds.

6. **ASSESSMENT OF VALUE**

EC

Euan Craig updated the committee on the assessment of value reports for key asset managers and the outcome of the FCA's review of these reports. He stated that the reports will be reviewed on an ongoing basis and will also form part of the analysis when reviewing matrix funds currently on watch as well as potential replacements.

JB Beckett raised concerns regarding the quality of the reports with respect to the lack of standardisation and comparability. This point was reiterated by James McCourt. It was highlighted that engagement should be made with NED's regarding the AoV process, as they provide an independent oversight.

7. **COMPETITOR PERFORMANCE ANALYSIS**

NA

Niall Aitken introduced the paper and highlighted the purpose and expectations from this analysis on future IAC meetings. Niall noted that going forward this analysis aims to provide strategic insight and highlight any major changes or themes that may arise between Royal London and its competitors.

The committee and Niall agreed on the purpose of this analysis being for awareness and acknowledged that this update may not be required every quarter.

8. **LEGACY DEFAULTS TO GOVERNED RANGE**

RH

Ryan Hamill introduced the project and noted the presentation is for information.

Ryan mentioned that most customer feedback on the transition has been positive and some questions were asked on why customers are moving to an annuity strategy. Ryan explained that although this may seem like a change in strategy, the mapping for strategies is implicitly on a like for like basis.

Candia questioned whether targeting an annuity position was appropriate for these customers. It was noted that the target strategy is not changing for customers, and both the committee members and the proposition team agreed that ongoing communication will be important in ensuring good customer outcomes going forward. All attendees agreed that this had given customers appropriate opportunity to be on the right path before retirement which should happen regardless of the legacy transition.

The committee also requested to track behavior of those transitioned to better understand the impact of strategy mappings.

9. **RESPONSIBLE INVESTMENT (RI) UPDATE**

KS

Ken Scott provided an update on the Responsible Investment world. Ken highlighted the progress made on marketing the ESG tilts and the initial considerations on how this works for other asset classes.

Apart from some discussions on ESG considerations required for long term assets, there were no challenges on the responsible investment work from the committee.

10.

AOB

ALL

There was no other business to discuss.

ACTIONS REQUIRED

The table below summarizes the actions to be taken following the meeting:

Section	Actions	Responsibility	Time frame
2. RLP Global Growth	More granular MI on the fund and an understanding of how ESG plays into selection	MC/EC	Q2 2022
3. Inflation outlook	Further factor analysis to assess full extent of inflation sensitivity	NA	As and when available
4. Strategic Pack	Update of the pack to ensure all relevant and required information is included	NA/RH	From Q4 2021
	Further information regarding the Global Managed strategic overview	RW	Q4 2021
6. AoV	Engagement with NED's regarding the AoV process to provide an independent oversight	EC	Q1 2022