

## Investment Advisory Committee (IAC) Quarterly Meeting

### Minutes of Meeting

#### Date

04/03/2022

#### 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	Y

#### Others in attendance

Name	Organisation	Role
Carrie Johnson (CJ)	RLMIS	UK Product Director
Trevor Greetham (TG)	RLAM	Head of Multi-Asset
Michael Clarkson (MC)	RLAM	Fund of Funds Manager
Hiroki Hashimoto (HH)	RLAM	Fund Manager
Ken Scott (KS)	RLMIS	Head of Investment Solutions
Niall Aitken (NA)	RLMIS	Senior Investment Actuary, Investment Solutions
Ryan Hamill (RH)	RLMIS	Investment Actuary, Investment Solutions
Lewis Daley (LD)	RLMIS	Proposition Manager, Investment Solutions

Owner

CK

#### 1. **REVIEW OF PREVIOUS MINUTES**

The minutes of 22/11/2021 were approved. No new conflicts of interest were notified.



## 2. **UKRAINE DISCUSSION**

ALL

TG updated the committee on the current RLAM positioning with regards to the Ukraine-Russia conflict and subsequent actions that have been or will be taken. He confirmed the current tactical underweight position in emerging market equities resulted in reduced exposure to Russian equities. As a further action cash within RLP Global Managed was allowed to build up marginally to better manage the market uncertainty. He noted that the ability to adjust currency, regional and sector exposures within RLP Global Managed on a daily basis has been utilized, as the European exposure within RLP Global Managed has been reduced. He highlighted the resilience of the current strategic asset allocation (SAA), and the benefits inflation-hedging assets such as commodities, and commercial property have generated year-to-date.

PH provided an update on the impact of index providers which have removed Russian securities from their respective indices. He noted that RLAM divestment of Russian securities within UK markets has taken place and beyond that of the frozen indices, zero Russian exposure remained. He highlighted the benefits of the ESG tilts that were launched last year in further reducing Russian exposure pre-crisis by utilizing part of the tracking error budget. He reiterated TG's point of the benefits of a diversified strategy and commodities as an inflation hedge.

Questions were asked about the planned reduction in the Governed Range commodity exposure through the tactical asset allocation (TAA) and the impact of the size of the corresponding trade. After the very strong performance of the commodity fund, the intention was to take profits from this and reduce the TAA position back down toward the benchmark. Given the scale of the outperformance, this was going to be a large trade and TG confirmed this would be traded over multiple days. Cash exposure within the commodity fund could be accumulated over a few trading days to manage this.

## 3. **STRATEGIC PACK**

RH

RH provided an update to the committee on the strategic positioning of the Governed Range. He highlighted updates made to the pack which included further analysis regarding changes to Moody's Analytics model, including short-term inflation assumptions used.

### Governed Portfolios

All portfolios are within their target ranges for real volatility.

### Governed Retirement Income Portfolios (GRIPs)

All portfolios remain within their target ranges for the income risk metric. Increased expectations of inflation in the short-term by Moody's translates to lower short-term real returns. Hence, the maximum 1-year loss has increased from last quarter for all five portfolios. This impact can be seen particularly for GRIPs 1 and 2, which are now flagging red. It was noted that the nature of this risk metric means that it's very sensitive to short term changes in risk characteristics such as inflation. HH questioned the suitability of the current risk metrics. It was agreed that this would be reviewed within the current SAA review that is being carried out for each portfolio. RH reassured the committee that extensive analysis including macroeconomic factors and climate scenarios would be incorporated into the SAA review.

The committee raised concerns regarding the current inflationary environment and the impact on drawdown customers. It was noted that ongoing support should be offered to

advisers to enable them to have meaningful conversations with clients regarding the sustainability of their current income. ES reiterated this point and highlighted the importance of tools such as the drawdown governance service. Committee members noted the importance of incorporating the current inflationary environment within the current SAA review being carried out.

#### 4. **PERFORMANCE PACK**

LD

All data is at end December 2021.

##### Governed Range

All Governed Portfolios outperformed their benchmarks over 1, 3 and 5 years.

All five GRIPs are ahead of their benchmark over 1, 3 and 5 years.

##### RLAM funds

###### 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 December 2021. As at the end of December 2021, RLPPF cash holding was 16.3%.

###### Commodity

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

###### Sterling Extra Yield

The fund is outperforming benchmark over 1, 3 and 5 years to the end of December 2021.

###### Absolute Return Govt Bond

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

Global High Yield Bond The fund is outperforming over 1, 3 and 5 years to the end of December 2021.

###### Global Growth

The fund outperformed benchmark over 3 and 5 years to the end of December 2021 and is behind over 1 year.

###### Blackrock Aquila Global Blend

This is a passive fund which has performed in line with expectations against a composite benchmark of the FTSE All Share Index, FTSE All World Index and MSCI Emerging Markets ESG Leaders Index.

###### Duration bond funds

All duration bond funds are ahead of benchmark over 1,3 and 5 years with the with the exception of the Short Index Linked Gilts fund with underperformance being marginal.

VB raised concerns regarding the general persistency of returns of externally managed Royal London pension funds. NA acknowledged this point and reassured the committee

that this would be addressed in an upcoming project in the latter part of the year. RH highlighted the figures shown do not reflect the additional charges associated with these funds and the committee showed interest in seeing performance figures net of these charges. Discussions were had regarding whether this was within the IAC's remit, and it was confirmed that only Governed Range and Matrix funds are within the IAC remit, but that this could be reconsidered and a terms of reference review was later in the year could address this. It was confirmed that the oversight of the wider fund range comes under the governance remit of RLMIS.

5. **SAA UPDATE**

NA

NA introduced the section and explained the improvements being made to the SAA review process which better cater for shorter term views, climate consideration and scenario testing. In summary, RLMIS aim to formalise and better govern the more quantitative aspects of SAA design. NA noted that this involves documenting a pragmatic approach to incorporating medium-term views into a long-term SAA.

NA added that this design would be achieved through both RLMIS and RLAM expertise. NA also highlighted that this is still in early stages and asks the committee to provide support on the design.

All members were fully supportive of the better governance and formalizing of these decisions.

6.

NA

**ISA PROPOSITION UPDATE**

NA provided an update on the ISA launch and any considerations that are currently being ironed out.

The committee raised a query on the different behaviour of an ISA customer, and whether this may mean higher liquidity risk for RLMIS. NA responded by saying the ISA products will primarily be made available to pension customers and should therefore see similar behaviours, although agreed that this is to be monitored closely. NA also added that this is targeted at an adviser market, where guided advice on decisions will be provided.

JB requested that the pricing structure for the ISA proposition should be considered. ES mentioned that the intent of this proposition is for it to work alongside our current pension proposition rather than entering a new market with a new product. ES continued by confirming that the cost of acquisition should be like current and therefore a similar pricing structure should be seen.

The committee also discussed the potential changing tax nature of ISAs and the need to monitor this from an operational risk perspective.

**AOB**

There was no other business to discuss.

