# Investment Advisory Committee (IAC) Quarterly Meeting

## Minutes of Meeting

**Date**

22/11/2021

### 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 |
| Piers Hillier | RLAM | RLAM Chief Investment Officer | Y |

### Others in attendance

| Name | Organisation | Role |
|---|---|---|
| Carrie Johnson | RLMIS | UK Product Director |
| Trevor Greetham | RLAM | Head of Multi-Asset |
| Michael Clarkson | RLAM | Fund of Funds Manager |
| Matt Burgess | RLAM | Head of Passive and Quantitative Equities |
| Hiroki Hashimoto | RLAM | Fund Manager |
| Ken Scott | RLMIS | Head of Investment Solutions |
| Niall Aitken | RLMIS | Senior Investment Actuary, Investment Solutions |
| Euan Craig | RLMIS | Proposition Manager, Investment Solutions |
| Lewis Daley | RLMIS | Proposition Manager, Investment Solutions |
| Mayer Raichura | RLMIS | Actuarial Trainee, Investment Solutions |
| Emer Drayne | RLMIS | Actuarial Trainee, Investment Solutions |

**Owner**

1. **REVIEW OF PREVIOUS MINUTES** CK

Comments were made regarding potential changes needed to the minutes of 28/09/2021. Niall Aitken confirmed the requested changes would be made and uploaded to the website as required. Ewan Smith confirmed that no conflicts of interest existed as a result of him being a member of both the Investment Governance Committee (IGC) and the Investment Advisory Committee (IAC).

2. **RI UPDATE** LD

Lewis Daley provided an update to the committee on the ongoing Responsible Investment (RI) and Climate Change developments across Royal London.

He highlighted the positive feedback from advisers surrounding the launch of the ESG tilts. Euan Craig reiterated this point, noting that strong short-term performance may also have played a factor in improved adviser sentiment. It was noted that adviser awareness of ESG considerations has improved, however there may still be more room for education to ensure the best outcomes are achieved for both clients and scheme members.

Vidur Bahree and Ewan Smith questioned the competitive position of Royal London regarding the RI environment. Lewis Daley noted that further industry engagement with risk profiling companies was required to provide further/a more detailed insight into the developments taken by Royal London with regards to ESG factors. Carrie Johnson highlighted the usefulness of understanding the factors favored by assessment and rating agencies such as AKG.

Piers Hillier highlighted his appreciation on the steps taken in 2021 to embed ESG considerations within the proposition. He noted the improvements in the data availability front, but it was collectively agreed that further effort to promote companies to be as transparent as possible was required.

Lewis Daley acknowledged the data improvements although mentioned there are still some limitations around establishing a baseline to measure our climate progress against. Lewis also noted the lack of data available to implement targets at a cross asset level. Ewan Smith acknowledged some of the industry challenges as data expands and the speed of which data quality will improve. He raised the point that clear communication to the market is key.

Candia Kingston challenged the use of derivatives within the proposition, as they provide less ability to engage with companies in comparison to direct holdings. Piers Hillier provided reassurance that most of the exposure is held directly, and the use of derivatives would be an overlay for tactical weightings. Piers added that this creates less transactional costs in trading every month and therefore a better customer outcome.

JB Beckett noted that the market transition to net zero involves uncertain assumptions, so the reliance on this target may need to be used carefully. JB also highlighted the uncertainty around how much tracking error budget may be needed to meet our stated climate targets, as the net zero benchmark evolves.

JB also spoke about Royal London's investment philosophy and beliefs around responsible investment and felt this needed to be articulated slightly better to describe the underlying work being completed in this area.

The committee also discussed the engagement strategy that is publicly available and agreed that this may need updating to align with the engagement process and benefits seen by this process.

## 3. STRATEGIC PACK NA

Niall Aitken 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. This quarter sees a change to the way inflation is modelled by Moody's Analytics, moving from a 'market implied' basis to one based on long-term economic forecasts of inflation.

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. GRIP 2 continues to flag amber on the fund risk metric as it nears the top of the allowable range. An increase of around 2%-3% in sustainability scores on a real basis can be seen since the last quarter which is largely driven by the inflation modelling changes.

The committee requested further analysis regarding customer behavior for those entering drawdown and in investment pathways. It was noted that this would be included as part of the ongoing investment pathways review in the future.

The committee welcomed the strategic asset allocation (SAA) comparison with competitors across Individual pensions, Workplace pensions and Decumulation areas. Niall Aitken highlighted the importance in understanding what drives differences in performance between the Governed Range and key competitors alternatives. It was noted that this comparison would be updated on a quarterly basis to highlight the strategic developments across the industry.

Candia Kingston questioned the UK exposure within the Portfolios. Niall Aitken reassured the committee that extensive analysis was carried out to determine the most appropriate/optimal asset allocation, noting that the exposure would be reviewed under the upcoming SAA review. It was noted that further analysis surrounding country positioning and the relationship between SAA and TAA would be added to the pack for future meetings.

## 4. PERFORMANCE PACK EC

All data is at end September 2021.

*Governed Range*

All Governed Portfolios outperformed their benchmarks over the quarter. 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.

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 September 2021. As at the end of September 2021, RLPPF cash holding was 13.3%.

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

*Sterling Extra Yield*
The fund is outperforming benchmark over 1, 3 and 5 years to the end of September 2021.

*Absolute Return Govt Bond*
The fund has outperformed benchmark over 1, 3 and 5 years to the end of September 2021.

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

*Global Growth*
The fund outperformed benchmark over 3 and 5 years to the end of September 2021 and is marginally 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*
The majority of the duration bond funds are ahead of benchmark with any underperformance being marginal. All funds are ahead of benchmark over 5 years

*RLI Pension Funds*
*Worldwide*
This fund had been flagging red the last two quarters and is now green and over performing vs benchmark over 1, 3 and 5 years. This is mostly down to the long-term overweight position in US equities and shorter-term overweight position in UK. This proposed to be removed from the performance reporting

***Matrix Pension Funds***
Euan Craig highlighted that there was an improvement in performance over many of the funds, particularly to some of those on watch from previous quarters. Invesco Global Equity, Franklin UK Mid Cap and Invesco Asia have all been on watch and have seen improvements in the 3- and 5-year performance.

*Fidelity MoneyBuilder Dividend*
The fund has been flagging red for three consecutive quarters and is underperforming over 1 and 5 years. The team are still comfortable to continue holding the fund, particularly as the 1-year performance is improving. This underperformance here is largely down to a poor Q4 2020.

*Franklin UK Mid Cap*
The fund had been flagging red for four consecutive quarters and is now flagging green with strong over performance over 1, and 5 years. Euan Craig proposed that this fund is removed from the performance reporting for future committee meetings.

Some discussion on the proportion of matrix funds that are overperforming was had. Conclusions were that although proportionately they look low, they are statistically significant in comparison to peers. The committee added that the performance framework continues to be successful in monitoring and replacing underperforming funds.

5. **ESG TILTS UPDATE** MB

Matt Burgess introduced the update by providing positive news on performance figures since the transition from the original passive equity funds in August. Matt mentioned there have been signs of success where a 5 to 10 basis points outperformance vs benchmark was seen, on average across the transitioned funds over the last three months. Matt also noted that this outperformance includes any costs associated with trades, management and transitioning. Even though the fund objectives are to deliver returns in line with a traditional index, this highlighted the fact that member outcomes have not been compromised in this transitional period.

Matt provided more details on the costs of the transition and where risk has been taken since the move from a passive fund. On the tilts specifically, Matt spoke about how the optimisation considers both carbon emissions but also the level of engagement when considering underweighting a company, which is in line with Royal London Asset Management's (RLAM's) exclude and engage policy.

He explained that now the funds allow for a tracking error budget, they can be managed more flexibly than they previously were. For example, stocks can be traded more sensibly to make shorter term gains for the funds. This allows the funds to add more value on a ESG and risk and return point of view.

JB Beckett asked about any current or future innovations that are potential 'game changers'. Matt provided some insight into new modelling techniques that are being used. The techniques make exclusions more dynamic, allowing for shorter term weightings with the ability to include them again in the future, if that company improves its engagement or the market progresses.

6. **AOB** ALL

There was no other business to discuss.

**ACTIONS REQUIRED**

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

| Section | Actions | Responsibility | Time frame |
|---|---|---|---|
| Strategic Pack | Further analysis regarding customer behavior for those entering drawdown and in investment pathways. | NA/RH | Q1 2022 |
| | Further information surrounding country positioning | NA/RH | Q1 2022 |
| SAA review | Strategic asset allocation and default review | NA/RH | Q1 2022 |
| RLP Property | RLP Property/REITs review | NA | Q1 2022 |
| Performance pack - Franklin UK Mid Cap | Approve or reject removing this fund from the performance reporting due to positive performance. | Committee | Q1 2022 |
| Performance Pack - RLI Worldwide | Approve or reject removing this fund from the performance reporting due to positive performance. | Committee | Q1 2022 |