Investment Advisory Committee (IAC)
Quarterly Meeting Summary

4 September 2023

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
Charlotte Dalton (CD) Karen Burgess (KB)	RLMIS RLMIS	Secretary (by VC) Coordinator (by 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
Trevor Greetham (TG)	RLAM	Head of Multi-Asset
Michael Clarkson (MC)	RLAM	Fund of Funds Manager (for part)
Raymala Navaratnam (RN)	RLMIS	Investment Actuary (for part)
Mayer Raichura (MR)	RLMIS	Senior Actuarial Trainee (for part)

This note presents a summary of the discussion that was had at the Independent Advisory Committee in September 2023.

Alongside standing items to review performance and strategic management information, the Committee were presented with papers on:

- initial results from a review of target lifestyle strategies;
- recommendations for changes to the framework of metrics used to monitor Governed Retirement Income Portfolios (GRIPs);
- proposals to migrate c£2bn of legacy assets into the Governed Range;
- an update on work that had commenced to review the Matrix range funds;
- a review of the underlying investments in supporting Royal London Pensions (RLP) Annuity fund; and
- recommended investment mappings for some funds which were being closed.

Target Lifestyles Review

Following the review of the strategic asset allocation of all Governed Range portfolios that was implemented across Q2 2023, work has begun on reviewing the lifestyle strategies that use these portfolios. These lifestyles are open to all customers, but predominantly used by workplace customers. The purpose of this review is to ensure lifestyles use the appropriate portfolios to give customers an appropriate exposure to growth assets over time and optimize their opportunities for good outcomes.

The work focused on three areas: whether younger customers are taking enough risk in the early stages of accumulation; whether at-retirement customers are balancing the competing risks of sequencing and longevity appropriately; and what is the optimum shape of the glidepath between these two points. The Committee discussed each of these points in turn. Behavioral considerations were raised and need considered alongside optimal theoretical results.

It was recognized that, should this analysis result in any significant step change in risk, careful consideration would be required about when and how to phase implementation of this.

The team will reflect on the Committee's feedback and continue to analyse potential solutions.

GRIPs Metrics

With their focus on managing downside risk in decumulation, the GRIPs are currently managed and monitored relative to maximum one-year real loss. Two issues were explored. First, that in the current economic environment, the current real loss targets are being breached by expectations of high inflation rather than market volatility. The Committee agreed it was at odds with the long-term objectives of the GRIPs to de-risk the portfolios to bring them back to target here. The second issue was that, as customers are increasingly staying longer in drawdown, the portfolios need to balance longevity (which means taking risk exposure to grow their pot) and sequencing (which often leads to taking less risk).

The proposal was to enhance the monitoring metrics framework to consider maximum one-year loss on both a real and nominal basis. Alongside this, the framework would also consider long-term volatility as a measure of whether portfolios were taking sufficient market risk to mitigate the risk of running out of money. The Committee were supportive of the aims of this framework. It was agreed to implement this and review its effectiveness in 12 months' time.

Migrating Assets into the Governed Range

Two significant blocks of pensions business for long-standing customers – Phoenix Life and Refuge Investment – are being reviewed. These are legacy funds brought into Royal London via. Historic M&A

activity. There is a recommendation to migrate this business from the current investment portfolios into the Governed Range. It is believed that the broader diversification and ongoing oversight in the Governed Rage will lead to better outcomes for these customers. The Committee were presented with analysis evidencing that the Governed Range portfolios were more efficient: offering a modest improvement in expected returns and a modest reduction in expected volatility.

There was discussion about the implementation of this change and where any costs of migration were borne. These should be minimised and not impact the experience of existing customers in the Governed Range. There was also discussion about lifestyling: some of this business was from workplace products and did not currently lifestyle. It was noted that there are contractual limitations to unilaterally moving these customers into lifestyles that would need to be considered before any such move.

The Committee were supportive of this migration.

Matrix Range Review
Following issues that were raised with the Committee in June in respect of seven underperforming funds on this Range, it has been agreed that a formal review of the funds in question should be carried out. External resource is being secured to expedite this review. The Committee were supportive of this review, and it was agreed that any resulting recommendations for changes to the fund managers would come back to IAC for review.

RLP Annuity
RLP Annuity is the fund used as an endpoint for customers in lifestyle strategies that target annuity purchase at retirement. This fund is not part of the Governed Portfolio Range and instead is invested wholly in RLAM’s Global Multi-Asset Portfolio (GMAP) Conservative.

The Governed Range portfolios all underwent strategic asset allocation review in Q2 2023. At the same time the RLAM GMAPs carried out a similar exercise. This review was to ensure that any changes made to GMAP Conservative did not undermine the suitability of this fund to deliver on the needs of customers in RLP Annuity.

The changes to GMAP Conservative were modest and reflected similar themes to those implemented in the Governed Range. The paper also suggested a change in benchmark for RLP Annuity to match GMAP Conservative, which better represents the fund’s underlying investment.

The Committee were comfortable the fund remained suitable for customers and were supportive in aligning the fund benchmark. Customer communications were discussed. It was agreed that a standard approach of mailing to direct investors in the fund was appropriate.

Fund Closures and Mappings
The Committee were presented with a proposal to close twenty-two external funds which are currently available to RLP customers. These would no longer be available for new investment, and existing money would be mapped to alternative funds that were a close match. The rationale was that these funds were all small and on outflow. The Committee were presented with proposed mappings to alternative funds and were supportive of the analysis and conclusions.

There were no significant performance concerns with these funds, meaning the work was not urgent. It was agreed implementation of this would be prioritised with operational teams.