Investment Advisory Committee (IAC)

Quarterly Meeting Summary

20 November 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 (by VC) |
| Piers Hillier (PH) | RLAM | RLAM Chief Investment Officer | N |

Others in attendance

|  |  |  |
| --- | --- | --- |
| **Name** | **Organisation** | **Role** |
| Charlotte Dalton (CD) | RLMIS | Secretary (by VC) |
| Karen Burgess (KB) | RLMIS | 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) |
| Helen Leslie (HL) | RLMIS | Senior Proposition Mgr, Investment Solutions |
| Graham Carson (GC) | RLMIS | Proposition Manager (for part) |

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

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

* analysis from a review of target lifestyle strategies;
* a recommendation for changes to the risk metrics used to monitor Matrix Funds; and
* recommendations for investment mappings for a second phase of workplace migrations.

**Target Lifestyles Review**

Discussion followed on from initial analysis on this subject that had been presented to the Committee in September.

The Committee were supportive of increasing the risk exposure of younger customers early in their savings journey, but remained mindful of current market conditions – in particular the short-term risk of recession – in terms of timing of implementation.

The Committee also acknowledged the need for customers intending to remain in drawdown throughout retirement to take an appropriate level of risk to help address longevity. There was, however, concern raised about doing this without careful consideration of the impact this had on sequencing risk. Ways of controlling this risk were discussed.

Finally, there was discussion around ‘moderately cautious’ and ‘moderately adventurous’ lifestyle strategies and whether their de-risking glidepaths could be made smoother as part of any update. There was agreement on this being a positive move.

**Matrix Risk Metrics**

The Matrix Range funds are currently presented split by geographical region and amount of active risk. Many of the external funds hosted on this range do not use active risk as a limit in how they are managed. As a result, the segmentation presented within the Matrix has always been a guide rather than hard limits.

In some cases, higher market volatility over the last couple of years has led to similar sized bets by fund managers resulting in higher realized volatility relative to benchmark. The Committee were presented with a recommendation to move from using a backwards-looking volatility metric to using a forward-looking metric. This would be aligned with how the Governed Range is managed, where forward-looking volatility is the target for each portfolio.

It was noted that the calculation of forward-looking volatility requires assumptions and was therefore more subjective. Therefore, alongside this forward-looking metric, it was proposed that active share is monitored. This is an objective measure of the size of active positions relative to benchmark.

Subject to this additional metric, the Committee were supportive of this change.

At this stage, a very brief update on the ongoing review of underperforming funds was also given. The Committee have been asked to convene for an extraordinary meeting in December to focus specifically on proposals for two potential replacements.

**Workplace Migration Investment Mappings**

In June 2023, the Committee were asked to comment on proposed mappings for legacy workplace investment solutions into modern solutions. A second phase of this work is now underway and the Committee were asked to review these mappings.

As noted in June, the Committee were reminded that there were legal limitations to ensure customers are no worse off. This limits the range of potential mapping options available.

The Committee sought to better understand the demographics of the customers in each product. Within the confines of what was permitted, the Committee was supportive of the recommendations.