

# **Investment Advisory Committee (IAC)** **Quarterly Meeting**

**28 February 2024**

## Members

<b>Name</b>	<b>Organisation</b>	<b>Role</b>	<b>Present</b>
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

<b>Name</b>	<b>Organisation</b>	<b>Role</b>
Charlotte Dalton (CD) Catherine Hughes (CH) Karen Burgess (KB)	RLMIS	IAC Secretary Assistant Company Secretary Board Support Coordinator
Ken Scott (KS)	RLMIS	Head of Investment Solutions
Euan Craig (EC)	RLMIS	Proposition Manager, Investment Solutions
Ryan Hamill (RH)	RLMIS	Investment Actuary, Investment Solutions
Michael Clarkson (MC)	RLAM	Fund of Funds Manager
Trevor Greetham (TG)	RLAM	Head of Multi-Asset
Jack Timson (JT)	RLMIS	Senior Actuarial Trainee
Mayer Raichura (MR)	RLMIS	Senior Actuarial Trainee

This note presents a summary of the discussion that was had at the Independent Advisory Committee in February 2024.

Alongside standing items to review performance and strategic management information, the Committee discussed:

- Proposals for Matrix Fund replacements
- GP Objective Changes
- Pathways
- Alignment of Benchmarks

### **Matrix Fund Replacements**

A wider matrix review was planned to be conducted in the future and the discussion focused on the following funds:

- **JP Morgan UK Equity Growth:** The Committee considered a proposal to replace JP Morgan UK Equity Growth with Artemis Income, noting its focus on dividends and capital growth. This fund had already been classified as 'income' within the Core Plus Matrix. Prior ESG testing was satisfactory. One alternative option offered lower charges however, Artemis fund was found to offer value for money. The Committee offered broad support and recommended that communication with the advisers would need to be managed sensitively given the previous 'income' categorisation.
- **Fidelity UK Opportunities:** The Committee reviewed a proposal to replace the Fidelity UK Opportunities fund and compared it against a potential alternative fund. The consensus view was that the potential replacement was not like for like and there was insufficient evidence to support a fund switch. The Committee recommended staying with the current Fidelity UK Opportunities fund for now.
- **Ninety One UK Smaller Companies:** The Committee considered a proposal to replace this fund and reviewed an alternative. The Committee had concerns with the proposal, given the Morning Star 'Bronze' rating of the alternative fund. They also questioned value for money for investors. The Committee were not in favour of the recommended fund replacement and did not believe it was appropriate to switch this fund.
- **Fidelity Emerging Markets:** The First Sentier FSSA Emerging Markets Focus fund was discussed as a potential replacement fund. The Committee's response was neutral; however, they wouldn't be against replacing the existing Fidelity fund with First Sentier given their strong track record in the Emerging Markets region.

### **Performance Pack**

The key highlights from the performance pack were:

- The Fidelity European Blended fund had underperformed over 1, 3 and 5 year periods. An internal review of this fund was planned.
- RLP UK Smaller Companies fund had underperformed against its benchmark over 1, 3 and 5 years as at the end of September 2023. However, it had outperformed its peer group. Several competitors had stepped back from the Investment Association UK Smaller Companies category which could provide scope for the RL fund to gain traction. The Committee recommended that the fund's volatility and performance should be quantified against its peer set.

## **GP Objective Changes**

The concept of a new 1-7 rating scale of investment risk was introduced as part of broader strategic changes which had not yet received internal approval.

The proposal had been market tested. The Committee challenged whether 7 categories was too many. The selected wording offered a balance to both unsophisticated and sophisticated investors, with the latter more likely to also access risk information on the fund factsheets together with composite benchmark information. The terminology was consistent with the fund prospectuses. The Committee supported the intention of the proposal and suggested that the narrative should continue to be refined.

## **Pathways**

- Pathways 1 and 3: Customer behaviour was in line with expectations for pathways 1 and 3; no changes were proposed. The Committee challenged why pathway 3 was matched to GRIP 3 and not GRIP 4 and was reassured that this match was determined by the fact that most investors in this pathway had a balanced approach to risk. A future GRIPs review was planned.
- Pathway 2: Data revealed that customers had typically taken all their tax-free cash before entering pathway 2. A high proportion of customers had also remained on this pathway longer than expected. Peer set competitor analysis for similar pathways revealed that RL was the only firm with a major cash allocation. Customers had benefited from this asset allocation over the past two years. The stated aim for individuals to annuitize, coupled with the fact that behaviour showed a longer delay in annuitizing than initially expected and the changing interest rate environment backed the need to change the allocation. The conclusion was a proposal to change the underlying investment of pathway 2 from RLP Annuity to GRIP and the Committee concurred with the proposal.

## **Alignment of Benchmarks**

The Committee discussed consistency in benchmark setting across the proposition.

- Alternative benchmark options were target and composite benchmarks; internal and external benchmarks; and a single official benchmark that aligned with the funds underlying investment.
- The Committee's view was that benchmarks needed to provide a competitive comparison for performance amongst peer sets and be aligned with customer needs. The Committee stated that any changes must be comprehensible by the specified audience, particularly to meet Consumer Duty needs. The debate was welcomed. A final decision had not yet been made internally.

## **Strategic Pack**

The Committee noted that all key indicators remained 'green' on the Matrix.