

Investment Advisory Committee (IAC) Special Meeting

Minutes of Meeting

Date

08/04/2020

Present members

Candia Kingston (Chair)
Ewan Smith
Piers Hillier (RLAM)
JB Beckett
Dr James McCourt

In attendance

Lorna Blyth
Robert Whitehouse
Niall Aitken

Apologies

Carrie Johnson
Trevor Greetham

1. AUTO REBALANCING SWITCH OFF

Royal London had shared the decision to switch off automatic rebalancing for Governed range customers with IAC at the time of implementation. This was done to mitigate the of significantly different asset allocation changes as a result of portfolio drift for customers, which in the current markets could vary within a wider range depending on the day of the month that a customers' auto-rebalance is due. In order to avoid this and treat our customers as fairly and consistently as possible the rebalancing will now be controlled through the tactical asset allocation process. The decision was taken following the March Tactical Asset Allocation (TAA) change which resulted in a £500m outflow from the RLP Property fund as part of rebalancing to the updated TAA positions. This reduced the cash balance from 20% to just under 10%. IAC members confirmed they were comfortable with this decision and asked what action had been taken by other multi asset funds. It was noted that most don't have specific rebalancing dates and that this is managed through the flows and as funds move out with broader target ranges.

2. RLP PROPERTY FUND SUSPENSION

RW and NA provided an update on the timeline following the addition of the generic material uncertainty clause. This, coupled with reduced transactions across the market, led to the decision to suspend the fund for direct investors. It was reiterated that this decision was not due to concerns over liquidity. The instruction to RLAM has been to continue to purchase properties where opportunities exist and PH confirmed that RLAM would continue to manage the fund efficiently. There are challenges in the retail sector, particularly secondary retail, however values for office and industrial are holding.

JB asked if there was any indication that deals in the retail sector were including a change of use request. PH confirmed that they were seeing some change of use in retail parks to industrial in order to



fulfil last mile demand for online retailers, however this was not widespread. PH further detailed some ongoing transactions that are expected to complete at a price that will add value for our customers. There was some discussion around the impact on Real Estate Investment Trusts (REITs) as these are exposed to the same issues as open-ended funds and are currently trading at deep discounts. PH confirmed that this tended to depend on sector exposure and the extent of leverage in their structure. REITs are not allowed to suspend and will remain tradeable as long as the exchange market is open.

3. APPROACH TO TAA DURING THIS PERIOD

IAC were updated on how the TAA process was now taking account of the Property fund suspension. The approach aims to maintain the same unit holding in the property fund for customers while rebalancing and applying new TAA positions across other asset classes. New premiums into the governed range will continue to invest in the RLP Property fund but will be held as cash rather than being invested in the underlying property fund. This will result in cash building up in the fund initially and future tactical decisions will take account of this and reallocate this to other assets based on market views at that time. This is reviewed daily and governed by a group of key senior stakeholders across RLI, RLAM and Investment Office on a weekly basis. NA agreed to share the minutes from these meetings with IAC going forward. IAC asked about expanding the asset universe and how this impacted Investment Management Agreements. RW confirmed the agreements could be updated to reflect any changes but that any expansion of assets would impact the operational model and there might be little appetite for this at the current time. CK asked about the cash target range for the fund and what the lower end of this range is. RW confirmed that it is 5% however there are no concerns about liquidity currently and if cash levels were to reduce towards this point then our enhanced monitoring process would identify the appropriate liquidity management option at that time. Currently cash is within the upper end of the target range. JB asked whether cash levels in the fund could cover direct holder redemptions. This had been considered however it was agreed that this could put the fund under some stress and the decision not to do so was considered fairest to all policyholders in the fund as well as the long term prospects of the fund.

Separately, it was noted that restrictions on movements made it difficult to view properties and that the material uncertainty clause is expected to remain in place until lockdown measures get relaxed.

4. COMMUNICATIONS TO ADVISERS AND CUSTOMERS

These were shared with the IAC and they confirmed they were comfortable with the approach and communications that had been issued.

5. SERVICING/CUSTOMER BEHAVIOUR

CK asked what customers were doing and/or requesting at this time. NA advised that initially we had seen requests for new money to go into cash, but this was now slowing. Some customers were looking to switch out, but these were a very small minority relative to the total no of customers in the RLP Property fund. Some customers had deferred taking income particularly those who normally take an annual income around this time of year.

IMPORTANT INFORMATION

Past performance is not a guide to the future. Prices can go down as well as up. Investment returns may fluctuate and are not guaranteed so you could get back less than the amount paid in.

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