Long-Term Investment Strategy Video Transcript:

Long Term Investment Strategy Team, or LTIS for short, are responsible for determining the optimal strategic asset allocation and hedging policies across a range of products. This includes the with profits funds, the unit linked funds, as well as a range of annuity funds, and these total about one hundred and eighty billion sterling. As part of this, we develop a number of in-house capital markets assumptions, and stochastic modelling capabilities within LTIS and these really aim to model the risks, returns and interactions across a range of different asset classes, geographies, as well as macroeconomic factors over a different set of time periods. Additionally, these assumptions and modelling capabilities are heavily utilized not only for the strategic asset allocation for a range of functions internally, including financial decisions, risk management. as well as business planning activity, the team's expertise is also used to provide advice on a number of ALM activities, as well as being heavily involved in the design and development of new products. Ultimately, the key aspect of the strategic asset allocation process is a focus on the customers and ensuring that ultimately we provide the best risk return outcomes for a range of different customers. This is very much tailored to our different sets of customers or customer objectives whilst having the same consistent process across all the different funds. So, for example, firstly, it starts with a deep and broad understanding of capital market returns across asset classes, geography and macroeconomic factors. This not only looks at expected return and volatility, but also the interaction across different asset classes. Additionally, we have a strong belief that whilst there's only one past they're many potential futures and have developed a set of high quality in-house tools and scenario modelling that that allows us to look at both qualitative and quantitative scenarios and tailor the portfolios for future macroeconomic outcomes. Finally, we get the portfolio that is expected not only to do well in the best estimates scenario, but in particular to robust a wide range of different weather conditions outcomes as fundamentally we all live in an uncertain world. This portfolio is finally since checked against any other investment objectives or constraints, stress tests and liquidity tests and we aim to work with other teams within the Treasury Investment Office to create a robust and practical solution. In terms of scenario modelling, we firmly believe that whilst there's only one realized past they're many potential futures, such a lot of intellectual capital, is devoted towards exploring the range of quantitative as well as qualitative global economics and capital market scenarios on the quantitative side we have access to an in-house stochastic model called Genesis And that is allowing us to project future scenarios, over many different time periods, and that covers a range of asset classes, geographies as well as macroeconomic factors. This has been developed as well as refined over the last decade and a half internally and very much allows for a tailored fit toward the asset classes that we invest the customers funds into . On the qualitative side, we also consider a number of scenarios and topics that are of interest in the markets currently. Currently, we're looking at the consideration of the many possible manifestation covid a range of different climate scenarios. And recently we've looked at trade scenarios, monetary policy scenarios, as well as a number of technological disruption scenarios. We're also looking at the range of global climate scenarios and in particular what the world might look like. post the covid crisis, this is all integrated together as part of the SAA process and allows us to get the portfolio which is robust not only to the mid point of the central estimates of our scenarios, but to a range of different outcomes and hopefully serve the customers well on a range of different journeys. ESG factors are absolutely considered as part of the process, the three main channels by which we consider the ESG process Firstly, within the SAA we have a detailed country risk categorization framework and that allows us to look at each of the environmental, social and governance factors separately and allow for it in the risk budgeting. Secondly, there's a number of stress tests and sensitivities across the portfolios in terms of physical transition and mitigation risks. And finally, one thing to bear in mind is that for any given index, there's a huge amount of dispersion of the stock and sector level. And this is considered within the investment office, both in terms of the asset owner ESG policy and exclusions, as well as active decisions by the managers. Finally it's worth touching on some of the longer term themes that are influencing our thinking right now. So just as an example, the most recent SAA in 2021, considered a range of scenarios, and thematic research. And here's a quick flavour of some of the key aspects. Firstly, taking a step back. We need to remember, back in March 2020, we substantially increased the risk in the portfolios on the back of extremely strong valuations, as well as the enormous fiscal and monetary policy instigated by governments and central banks. Since then, the risk assets have done extremely well and this has been very much to the benefit of our policyholders. So to some extent, we are taking profits and bringing risk levels back to neutral after such a significant market event. Secondly, there has been a huge amount of focus on inflation in 2021 and for good reason. And we want to ensure that there is sufficient amount of diversified, high quality, real assets that not only provide inflation protection, but in addition have a range of beneficial risk return characteristics. This is not something we've done overnight but is something the portfolio has been migrating towards over the last decade. And I feel is extremely well positioned now. Thirdly, we are looking at fixed income and moving away from standard developed market debt towards a diversified range of emerging market debt. Some countries who are much better debt to GDP ratio dynamics, we are also leveraging M&Gs, excellent origination capabilities with private debt to get the best risk return to the customers. And finally, we are remiss of us not to mention some of the debate around the longer term global implications of covid. Firstly, different economies are coming, coming back at very different speeds and geographical diversification has never been more important. Pleased to say our portfolio is extremely well diversified and if anything, have a tilt towards Asia, which have some of the faster emerging economies. Secondly, we are also thinking about the upside. We're thinking about globalization of services which might accelerate due to covid and focusing on infrastructure where for the economies, which might give some upside to that. And finally, we'd be remiss not to talk about the extensive range of climate scenarios and modelling. Again, this was prevalent well before covid, but some of the considerations have, if anything, accelerated over the last 12 months.