London Borough of Islington

Report to 31st December 2023

19 February 2024

Table of Contents

Contacts

Karen Shackleton
Senior Adviser
+44 20 7079 1000
karen.shackleton@apexgroup-fs.com

Fund Manager Overview

Table 1 provides an overview of the external managers, in accordance with the Committee's terms of reference for monitoring managers.

TABLE 1:

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Legal and General (passive equities)	Not reported by LGIM.	Funds are tracking as expected.	The pooled funds in which Islington pension fund invests have a combined assets under management of £5.12 billion at end December 2023.
Schroders (multi-asset diversified growth)	There were no team changes during Q4 2023. The Manager updated its Global Asset Allocation Committee in October.	Fund made a return of +3.62% during the quarter and delivered a return of +0.66% p.a. over 3 years, -13.01% p.a. behind the target return.	Total AUM stood at £724.3 billion as at end September 2023, (latest data available) down from £726.5 billion as at end June 2023.
Polen Capital (active emerging equities)	No staff changes reported. Shortly after Q4 23 end, the Manager acquired the Somerset Capital Emerging Markets team.	Outperformed the benchmark by +0.19% in the quarter to December 2023. The fund is behind over three years by -1.15% p.a.	Total AUM stood at approximately $61bn as at end March 2023 (most recent data available).

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
LCIV Global Equity Fund (Newton) (active global equities)	Following the departure of the lead portfolio manager, LCIV have downgraded their rating of the manager to “enhanced monitoring”. An in-depth review took place in December, and findings are to be announced shortly.	The LCIV Global Equity Fund outperformed its benchmark during Q4 2023 by +0.02%. Over three years the portfolio outperformed the benchmark by +0.03% and therefore under the performance target of benchmark +1.5% p.a. Over five years it remains ahead of the benchmark by +0.13% p.a.	At the end of Q4 2023, the London CIV sub-fund’s assets under management were £561.4 million. London Borough of Islington owns 47.42% of the sub-fund.
LCIV Sustainable Equity Fund (RBC)	Team is stable but LCIV is concerned about the oversight of less experienced team members. An in-depth review is due to be undertaken, and findings will be reported in Q2 2024.	Over Q4 2023 the fund made a return of +5.50%, and this underperformed the benchmark return of +6.67%. The one-year return was +4.55%, positive in absolute terms but behind the benchmark by -12.25%. The three-year return underperformed the benchmark by -8.06% p.a.	As at end December 2023 the sub-fund’s value was £1,271 million. London Borough of Islington owns 13.66% of the sub-fund.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
M&G Alpha Opportunities Fund	Not reported by the manager.	The Fund made a return of +2.79% over Q4 2023, ahead of the target return by +0.68%. Over one year, the fund returned +10.14% which was ahead of the target return by +2.03%.	The fund size was £5,083 billion as at end December. London Borough of Islington's investment amounts to 1.65% of the fund.
Standard Life (corporate bonds)	There were 15 joiners and 49 leavers during the quarter. There were a number of leavers from the fixed income group, including an Investment Director, two Investment Managers and Head of Fixed Income in Hong Kong.	The portfolio outperformed the benchmark return during the quarter by +0.66%, delivering an absolute return of +8.01%. Over three years, the fund was behind the benchmark return (by -0.16% p.a.) and behind the performance target of +0.80% p.a.	As at end December the fund's value was £2,125 million, up from £2,218 million as at end September. London Borough of Islington's holding of £72.7m stood at 3.4% of the total fund value.
Aviva (UK Property)	There were no joiners or leavers during the quarter	Underperformed against the gilt benchmark by -11.65% for the quarter to December 2023 and outperformed the benchmark over three years by +10.69% p.a., delivering a return of +1.02% p.a., net of fees.	The fund was valued at £2.96 billion as at end Q4 2023. London Borough of Islington owns 6.0% of the fund.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Columbia Threadneedle	The Manager undertook a restructuring of its investment teams in Q4, and this saw two departures from the Property group.	The fund outperformed the benchmark in Q4 2023, with a quarterly return of -1.08% compared with -1.16% for the benchmark. Over three years, the fund is outperforming the benchmark by +1.11% p.a.	Pooled fund has assets of £1.44 billion. London Borough of Islington owns 8.33% of the fund. This compares with 2018 when the fund owned just 4% of the fund.
Franklin Templeton (global property)	Not reported.	The portfolio return over three years was +4.62% p.a., and so behind the target of 10% p.a. Over 5 years the fund is behind the benchmark by -2.92% p.a.	£1,460 billion of assets under management for the Franklin Templeton Group as at end December 2023.
Hearthstone (UK residential property)	Not reported.	The fund underperformed the IPD UK All Property Index by -3.48% p.a. for the three years to end December 2023.	Fund was valued at £56.8 at end Q4 2023. London Borough of Islington owns 40.5% of the fund which is now in a redemption process.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Quinbrook (renewable energy infrastructure)	Not reported.	For the three years to Q3 2023 the fund returned +3.75% p.a., and therefore was behind the annual target return of +12.00% p.a.	Net Assets were £602 million as at June 2023 (latest figures available).
Pantheon (Private Equity and Infrastructure Funds)	Not reported.	The private equity fund returned +6.51% p.a. over three years, and +0.93% p.a. over five years. The infrastructure fund returned +17.91% p.a. over three years to end December relative to the target of 10% p.a.	$62.3bn of assets under management as at September 2023 (latest figures available).
Churchill (Middle Market Senior Loan Fund)	Not reported.	Over 1-year, the fund is underperforming the absolute return target of 5% by -1.07%, delivering a return of +3.93%.	
Crescent (Credit Solutions Fund)	Not reported.	The fund returned +7.91% for the year to December 2023, underperforming the target return of +10%.	$41 billion of assets under management as at March 2023. (latest figures available)

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Permira	Not reported.	The fund returned +10.93% over 1 year, ahead of the target return of +6.0%	€78 billion of committed capital.

Source: Apex

Minor Concern

Major Concern

Individual Manager Reviews

Legal and General Investment Management (LGIM) – Overseas Equity Index Funds

Headline Comments: The three passive index funds (FTSE-RAFI Emerging Markets Reduced Carbon Pathway fund, MSCI World Low Carbon Target index fund, and the ESG Paris Aligned World Equity Fund) were within the expected tracking range, when compared with their respective benchmarks, in Q4 2023.

Mandate Summary: The London Borough of Islington invests in three of LGIM's index funds. The first is designed to match the total return on an LGIM customised reduced carbon pathway Index. The second is designed to match the total return on the MSCI World Low Carbon Target Index. The MSCI World Low Carbon Target is based on capitalisation weights but tilting away from companies with a high carbon footprint. In August 2022, the fund's passive UK equity mandate was transitioned into the third passive fund: the ESG Paris Aligned World Equity Fund. This fund is designed to match the total return on the Solactive Paris Aligned Index. It differs to the Low Carbon passive fund because it has a more ambitious goal of targeting net zero by 2050 in line with the Paris Agreement.

Performance Attribution: The three index funds tracked their respective benchmarks as expected, as shown in Table 2. The wider MSCI World Index returned +3.29%, compared with 6.95% for the MSCI World Low Carbon Index and +7.73% for the Solactive Paris Aligned World Index.

TABLE 2:

	Q4 2023 Fund	Q4 2023 Index	Tracking
FTSE – RAFI Emerging Markets	+3.29%	+3.29%	+0.00%
MSCI World Low Carbon Target	+6.98%	+6.95%	+0.03%
ESG Paris Aligned World Equity Fund	+7.80%	+7.73%	+0.08%

Source: LGIM

Portfolio Risk: The tracking errors over three years are all within expected ranges. The allocation of the portfolio, as at quarter end, was 49.66% to the MSCI World Low Carbon Target index fund, 41.41% to the ESG Paris Aligned World Equity Fund, and 8.93% allocated to the FTSE RAFI Emerging Markets Reduced Carbon Pathway index fund.

Staff Turnover/Organisation: Not reported by LGIM.

Schroders – Diversified Growth Fund (DGF)

Headline Comments: The DGF made a return of +3.62% in Q4 2023, and in relative terms it underperformed the CPI + 5% target by -3.31% (as reported in the BNY performance report) but outperformed the cash + 4.5% target by +1.12% (this being the manager's preferred target since March 2022). Over three years, the fund is behind the CPI + 5% target return by -13.00% p.a.

Mandate Summary: The fund invests in a broad mix of growth assets and uses dynamic asset allocation over the full market cycle, with underlying investments in active, passive and external investment, as appropriate. The target for this fund changed on 1st April 2022 and is now the ICE BofA Sterling 3-Month Government Bill Index plus 4.5% per annum (before fees have been deducted) over a 5-7-year period. The manager aims to deliver capital growth and income, with a volatility of less than two-thirds the volatility of equities.

Performance Attribution: The DGF made a return of +3.62% in Q4 2023 while global equities (MSCI All Country World Index hedged to sterling) made a return of +9.2%. Over three years, the DGF delivered a return of +0.66% p.a.

In Q4 2023, equity positions contributed +2.4% to the total return, alternatives contributed +0.3%, credit and government debt contributed +2.9%, while cash and currency detracted -0.6% (figures are gross of fees).

Portfolio Risk: The portfolio is expected to exhibit less than two-thirds the volatility of equities over a full three to five-year market cycle. Over the past three years, the volatility of the fund was 6.4% compared to the three-year volatility of 14.9% in global equities (i.e., 43.0% of the volatility) which is in line with target.

Portfolio Characteristics: The fund had 71% in internally managed funds (the same as last quarter), 0% in active bespoke solutions (down from 3% last quarter), 1% in externally managed funds (down from last quarter), and 20% in passive funds (up from last quarter) with a residual balance in cash, 8% (up from last quarter), as at end December 2023. In terms of asset class exposure, 43.4% was in equities, 19.4% was in alternatives, 29.6% in fixed income, with the balance in cash.

Alternative assets include absolute return funds, property, insurance-linked securities, commodities, private equity, private credit, infrastructure debt and investment trusts.

Following the Managers change in stance in Q2 from gearing up for an imminent recession to an economic slowdown further in the future, the Manager remains positioned for a soft-landing. However, given the rally in markets towards year end, the Manager states it now has slightly less positive views across asset classes, while being too early in the rally to turn negative.

Schroders reported that the carbon intensity of the fund (scopes 1, 2 and 3) was 82% as at end Q4 2023 of the comparator (a mix of equities, bonds, and alternative indices), although the manager notes that coverage is only at 73% of the portfolio (compared with 93% for the comparator). Using a Science Based Targets Initiative methodology, the portfolio temperature alignment stood at 2.55 degrees as at end December over a medium term horizon.

Organisation: There were no team changes during Q4 2023.

Polen Capital (formerly Columbia Threadneedle/BMO) – Global Emerging Market Growth and Income Fund

Headline Comments: The portfolio made a return of +3.53% in Q4 2023, compared with the benchmark return of +3.34%, an outperformance of +0.19%. Over one year the fund is behind the benchmark by -3.05%, and over three years it is trailing by -1.15% per annum (this is still a big improvement from last year when the portfolio was trailing the three year benchmark by -4.4% p.a.)

Mandate Summary: The manager invests in a selection of emerging market equities, with a quality and value, absolute return approach. The aim is to outperform the MSCI Emerging Markets Index by at least 3% p.a. over a three-to-five-year cycle.

Performance Attribution: The portfolio outperformed the index in the quarter. Overexposure in comparison to the benchmark to China contributed positively to performance, though overexposure to Vietnam States detracted from performance.

During the quarter, the largest positive contributors to the quarterly relative return came from Tencent Music Entertainment (+1.49% and the largest holding in the portfolio at 5.8%), Dino Polska (+1.02%), and Wizz Air Holdings plc (+0.75%). Companies which detracted most from performance included Netease Inc (-0.84%), Mobile World Investment Corp (-0.79%), and Dlocal ltd (-0.77%). *(Return contributions in US dollar terms).*

Portfolio Risk: Within the emerging markets portfolio there is a 19.0% allocation to non-benchmark countries (excluding the holding in Cash & Equivalents). The largest overweight country allocation in the emerging markets portfolio was Uruguay (+8.7% overweight). The most underweight country allocation was Taiwan (-6.6%). The manager also held 12.8% of the portfolio in three developed countries, compared with the benchmark's 1.5% in Hong Kong and 0.3% in United States.

Portfolio Characteristics: The largest absolute stock position was Tencent Music Entertainment Group at 5.8% of the portfolio, while the largest absolute country position was China/HK and accounted for 28.4% of the portfolio.

As at end December, the portfolio had a 17.6% allocation to technology, below the benchmark allocation of 22.1%. The Manager states that its bottom-up stock selection process means it puts less emphasis on sector diversification, believing that it can reduce risk by only holding the highest conviction positions. It also states that the technology sector has a very broad range of underlying sub-industries.

The Manager looks to hold investments for 5 years, and has previously stated that it has a turnover of below 20%. However, it is worth noting that turnover for the 12 months to end December 2023 stood at 46%.

Staff Turnover/Organisation: Shortly after quarter end, the Manager announced the acquisition of the Emerging Market capabilities of Somerset Capital, along with four of its experienced investment personnel. According to the Manager, the Emerging Markets strategy at Somerset Capital shares a closely aligned investment philosophy with its existing team.

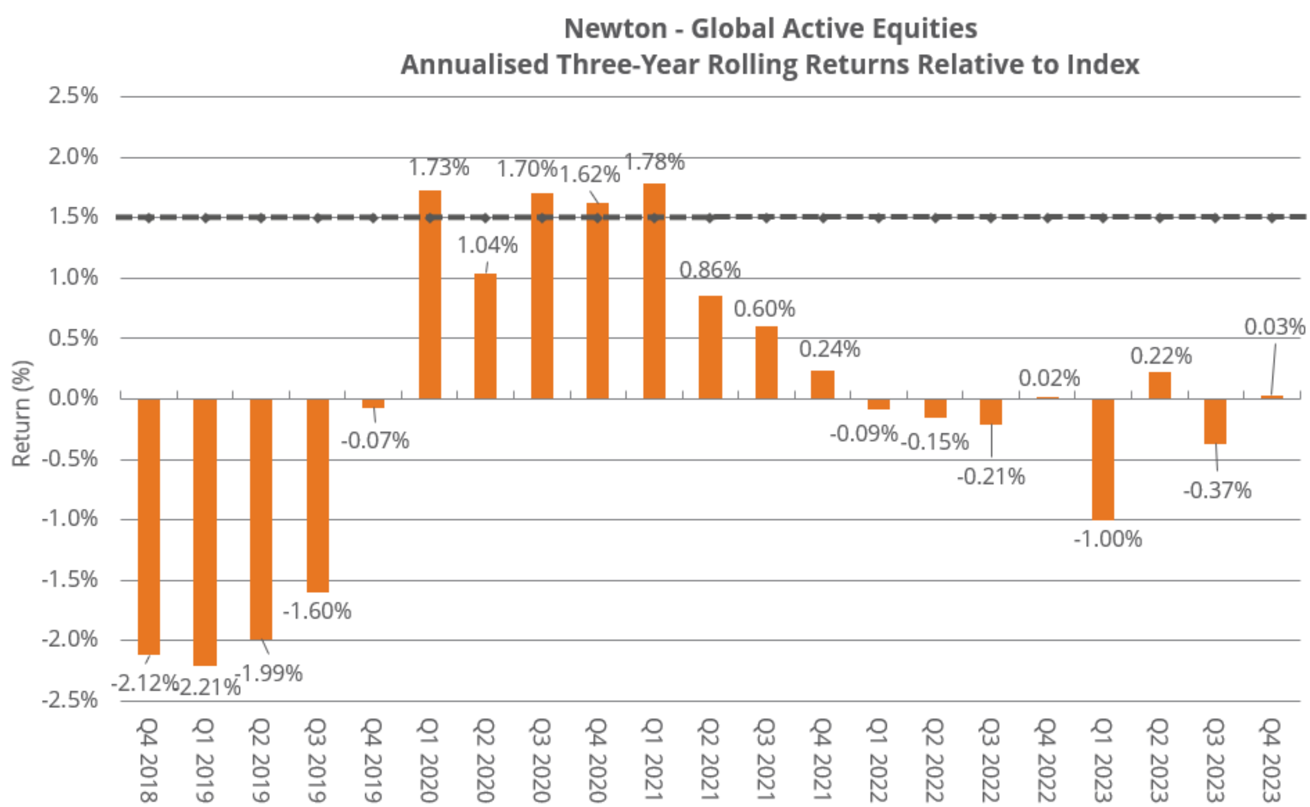
LCIV Global Equity Fund (Newton) – Global Active Equities

Headline Comments: The LCIV Global Equity Fund marginally outperformed its benchmark during Q4 2023 by +0.02%. Over three years the portfolio outperformed the benchmark by +0.03% p.a. Over five years the manager is ahead of the benchmark return by +0.13% p.a.

Mandate Summary: An active global equity portfolio. Newton operates a thematic approach based on 12 key themes that they believe will impact the economy and industry. Some are broad themes that apply over the longer term; others are cyclical. Stock selection is based on the industry analysts' thematic recommendations. The objective of the fund since 22nd May 2017 is to outperform the FTSE All-World Index by +1.5% p.a. over rolling three-year periods, net of fees. The London CIV monitors this manager.

Performance Attribution: Chart 1 overleaf shows the three-year rolling returns of the portfolio relative to the benchmark (the orange bars) and compares this with the performance target, shown by the grey dotted line.

CHART 1:



Source: Apex; BNY Mellon

Chart 1 shows that the level of outperformance over three years has been falling since Q1 2021, when the fund was ahead of the benchmark by +1.78% p.a. By Q4 2023 the fund was only slightly outperforming the benchmark over three years by +0.03% p.a. and as such is underperforming the performance objective by -1.47% p.a. (the performance objective is shown by the dotted line).

Positive contributions to the total return came from holdings such as Microsoft (+0.80%), Amazon (+0.62%), and Apple (+0.38%). Negative contributions came from positioning in Sanofi (-0.28%), Scor (-0.18%), and Lonza Group (-0.16%).

In its peer group analysis, the London CIV reported that Newton is now delivering returns in line with the median over 3 years and over the longer term (7 years+). Over the past three years the risk has been low relative to peers.

Portfolio Risk: The active risk on the portfolio stood at 3.13% as at quarter end, slightly higher than as at end September when it stood at 2.99%. The portfolio remains defensive, with the beta on the portfolio at end December standing at 0.94 (if the market falls by -10% the portfolio can be expected to fall -9.8%).

At the end of Q4 2023, the London CIV sub-fund's assets under management were £561.4m, compared with £528.0m last quarter. London Borough of Islington now owns 47.47% of the sub-fund.

Portfolio Characteristics: The number of stocks in the portfolio stood at 57 as at quarter-end (unchanged from last quarter). The fund added ten positions, and made ten sales.

The portfolio continues to be heavily weighted to Technology (an allocation of 26.4%), and remains overweight against the Benchmark. Financials is the second largest allocation (18.4%) and is also overweight against the benchmark.

The Manager typically envisages a holding period of between 3 to 5 years, though where long term thematic trends remain very supportive of investment case, a security may be held for a longer period.

In Q4 2023, LCIV reported that the Newton sub fund had a weighted average carbon intensity of 55% that of the benchmark index (the MSCI World Index). The highest contributor was Nestle (6.18% contribution to the weighted average carbon intensity) followed by Taiwan SMC (3.35% contribution).

The Manager has a generally cautious view about companies in the oil and gas sector, and the outlook for energy companies, and has therefore been underweight in the sector for at least the last 10 years. During the quarter, the Manager sold its two energy holdings, Shell and Exelon. There were concerns around Shell's pace of growth given poor performance in the company's renewable energy operations. Exelon has been adversely impacted by regulatory ruling in the US which has increased the company's risk profile.

During Q3, London CIV had announced that the Global Equity Fund has been downgraded to "Enhanced Monitoring" following the departure of the lead portfolio Manager. There are concerns that the new management team may introduce significant changes to the investment process. The new team took full responsibility for the portfolio in September. LCIV Executive Investment Committee are to discuss the full in-depth review completed during December, during its meeting on the 13th February, and will be issuing an update to investors shortly.

Staff Turnover: The lead portfolio manager left the firm in September 2023. No additional staff turnover reported by London CIV.

LCIV Sustainable Equity Fund (RBC) – global equities

Headline Comments: Over Q4 2023 the fund made a return of +5.50%. This underperformed the benchmark return by -1.18%. The one-year return was +4.55%, positive in absolute terms but behind the benchmark by -12.25%. The three-year underperformance was -8.06% p.a. against the benchmark. Islington's investment makes up 13.66% of the total London CIV sub-fund.

Mandate Summary: A global equities fund that considers environmental, social and governance factors. The fund aims to deliver, over the long term, a carbon footprint which is lower than that of the MSCI World Index Net (Total Return). The fund also aims to achieve capital growth by outperforming the MSCI World Index Net (Total Return) by 2% per annum net of fees annualised over rolling three-year periods.

Performance Attribution: With continued market uncertainty, the fund has underperformed the benchmark in Q4 2023, but has made a gain for the quarter in absolute terms. The portfolio has overweight allocations to the Financials, Consumer Staples, Communication Services, Industrials, Consumer Discretionary, Energy, and Health Care sectors. Over the quarter the largest contributors to return included Microsoft (+1.02%, and the largest holding in the portfolio), Salesforce Inc (+0.68%), and Amazon (+0.65%). The largest detractors include positioning in First Quantum Minerals (-1.11%), Estee Lauder (-0.26%), and EOG Resources (-0.24%).

The London CIV is now comparing managers against their peer group and reported that RBC is performing well over the long term (7 years +). However, the short- and medium-term has been challenging, ranking in the third or fourth quartile for all periods that it tracks up to 5-years.

Portfolio Characteristics: As at end of December 2023 the fund had 37 holdings (two down last quarter) across 12 countries. The active risk of the fund was 3.42%, slightly higher than Newton.

London CIV report that the fund continues to tilt towards quality and growth factors.

In Q4 2023, LCIV reported that the RBC sub fund had a weighted average carbon intensity of 62% that of the benchmark index (the MSCI World Index) which is lower than last quarter (when it was 70%). The highest contributors were InterContinental Hotels Group (excluding this holding from the portfolio would reduce the weighted average carbon intensity by 19.00%), Equinor ASA (9.42%) and EOG Resources (4.75%)

In June, London CIV completed a full due diligence review of the manager. 'Resourcing' now has an amber rating and 'Cost transparency/Value for Money' has a red rating, reflecting concerns about the investment team and performance. Somewhat surprisingly, London CIV has kept the overall rating as "normal monitoring" because they believe the manager can reverse the trend and deliver improved returns in future. The Manager is, however, undertaking another in-depth review in February and is expected to share findings with investors in early Q2 2024.

M&G – Alpha Opportunities Fund

Headline Comments: During Q4 2023 the M&G Alpha Opportunities Fund made a return of +2.79%, outperforming the benchmark return of +2.11%. Over one year it is outperforming the benchmark (cash plus 3.5%) by +2.03%.

Mandate Summary: A Multi Asset Credit fund, in which M&G aims to take advantage of opportunities in public and private credit markets by identifying fundamental value across securities and credit asset classes, funded with proceeds from the equity protection strategy which matured in 2021. In periods when the fund is not being sufficiently compensated for taking risk, the manager seeks to protect capital through allocating to low-risk asset classes. The objective of the fund is to deliver a total return of SONIA/one-month Euribor plus 3-5% gross of fees p.a. over a market cycle.

Performance Attribution: During the quarter, the fund made a return of +2.79% compared to the benchmark return (one month SONIA plus 3.5% being used in Northern Trust's performance analysis) of +2.11%. Exposure to financial corporate bonds was the top contributor (+0.97%), with industrial corporate bonds also performing well (+0.70%). Cash marginally detracted from performance over the quarter. Over one year, the fund is outperforming the target return by +2.03% p.a.

Portfolio Characteristics: The largest allocations in the portfolio were to Financials (28%), Industrials (25%), and Cash & Derivatives (18%). 36% of the portfolio was rated BB* or below. The manager reduced exposure to various utility, industrial and sub-insurance bonds following strong performance, and instead increased exposure to UK building societies.

In terms of outlook, the Manager feels that while there is talk of a soft landing, the number of elections scheduled in 2024 could pose a risk in terms of geopolitical events, and so continues to follow a patient and highly selective approach.

As at end December, the weighted average carbon intensity (WACI) of the portfolio was 34% of the WACI of a benchmark index, with 70% of the portfolio being measured where data was available (compared with 88% coverage for the benchmark).

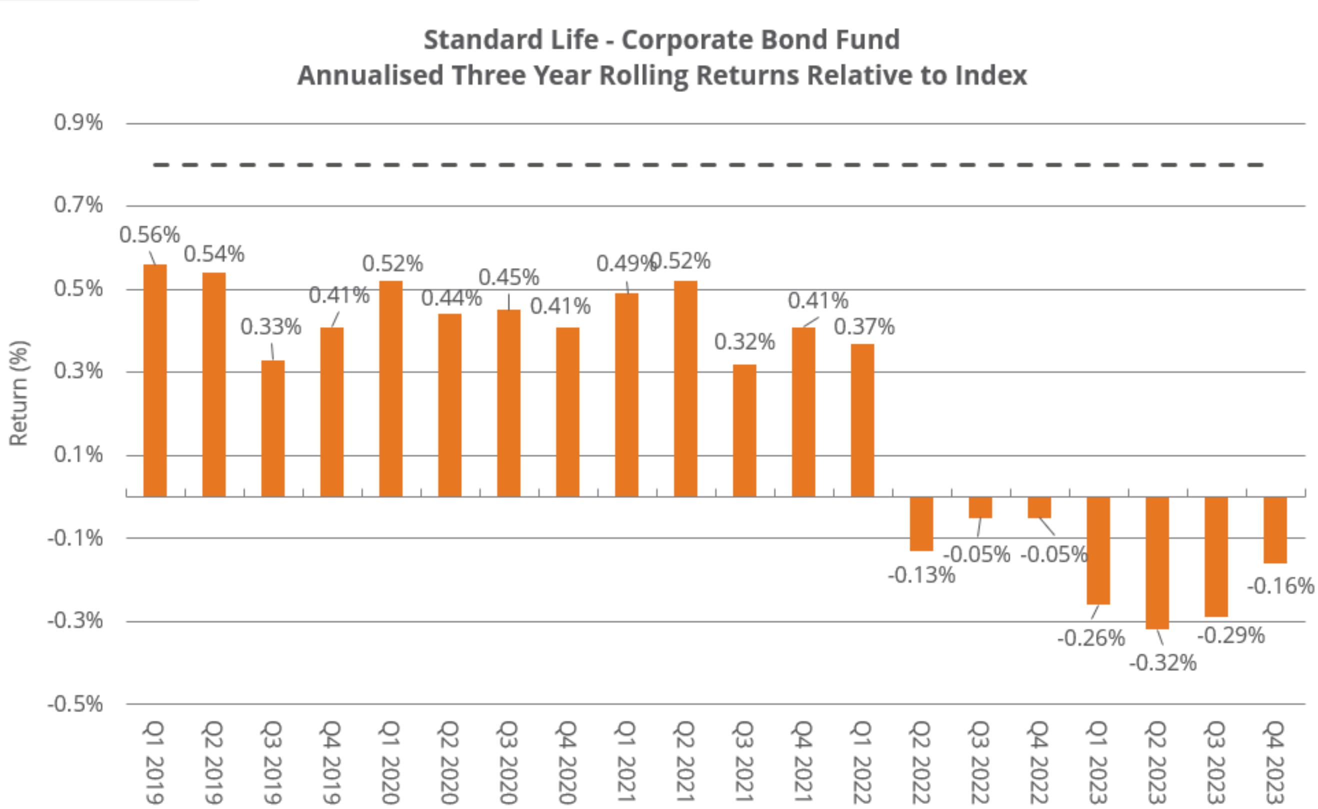
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio outperformed the benchmark return during the quarter by +0.66% and made an absolute return of +8.01%. Over three years, the fund was behind the benchmark return (by -0.16% p.a.) for the seventh consecutive quarter since inception and behind the performance target of benchmark +0.80% p.a.

Mandate Summary: The objective of the fund is to outperform the iBoxx Sterling Non-Gilt Index (a UK investment grade bond index) by +0.8% p.a. over rolling three-year periods.

Performance Attribution: Chart 2 shows the three-year performance of the Corporate Bond Fund compared to the Index, over the past five years. This shows that the fund is now behind the benchmark over three years, as well as behind the performance objective (shown by the dotted line in Chart 2).

CHART 2:



Source: Apex; BNY Mellon

Over three years, the portfolio has returned -4.85% p.a. net of fees, compared to the benchmark return of -4.69% p.a.

Portfolio Risk: The largest holding in the portfolio at quarter-end was UK Gilts at 3.6% of the portfolio.

Portfolio Characteristics: The value of Standard Life's total pooled fund at end December 2023 stood at £2,125 million. London Borough of Islington's holding of £72.7m stood at 3.4% of the total fund value. This allocation is being gradually drawn down to fund the infrastructure investments.

Staff Turnover: There were 15 joiners and 49 leavers during the quarter, a higher number of departures than has been seen recently. There were no new joiners to the fixed income group, but in terms of leavers, UK departures include an investment director, two investment managers, the head of nominal rates, and an analyst.

Aviva Investors – Property – Lime Property Fund

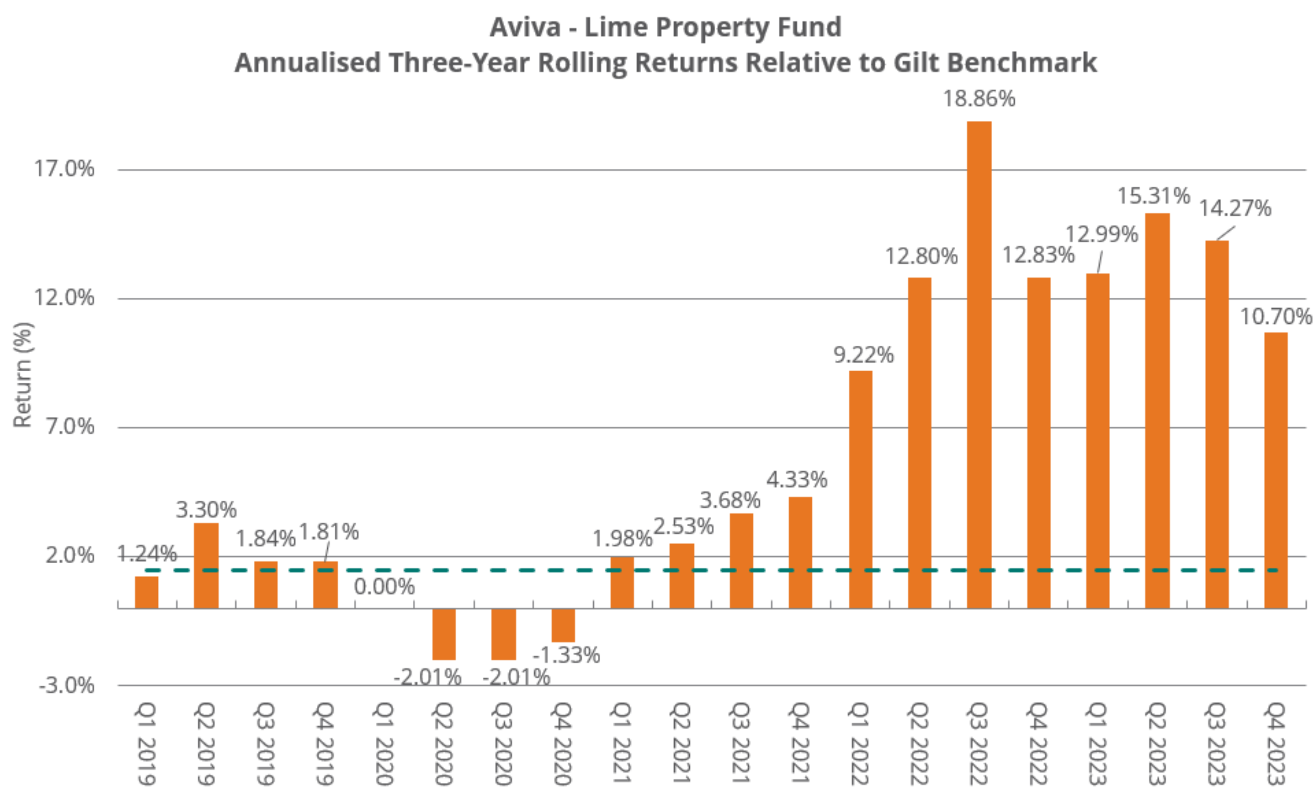
Headline Comments: The Lime Fund made a loss of -0.39%. It underperformed the benchmark return by -11.65% in Q4. Over three years, the fund is ahead of the benchmark return by +10.69% p.a., but over one-year underperformed by -9.88%. It is ahead of the benchmark since inception in October 2004, by +5.66% p.a.

Mandate Summary: An actively managed UK pooled property portfolio, the Lime Fund invests in a range of property assets including healthcare, education, libraries, offices and retail. The objective of the fund is to outperform a UK gilt benchmark, constructed of an equally weighted combination of the FTSE 5-15 Years Gilt Index and the FTSE 15 Years+ Gilt Index, by +1.5% p.a., over three-year rolling periods.

Performance Attribution: The fund's Q3 2023 return was attributed by Aviva to -1.27% capital return and +1.07% income return.

Over three years, the fund has returned -1.02% p.a., ahead of the gilt benchmark of -11.72% p.a., and ahead of its outperformance target of +1.5% p.a., as can be seen in Chart 3. However, it is worth noting that the 3-year absolute return is much lower than was seen a year ago (when it was +8.7%).

CHART 3:



Source: Apex; BNY Mellon

Portfolio Risk: within the MSCI quarterly index of UK real estate funds, the Lime Fund is the least volatile fund over ten years. There was one acquisition over the quarter and three sales. It is worth noting that, as at 30th June, redemption requests amounted to £470 million, (or 15.9% of the value of the fund). As of the end of December, the Manager had raised nearly £400m of available cash to pay out the redeeming investors (equating to 85% of the redemption amount).

The average unexpired lease term was 20.70 years as at end December 2023. 12.0% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 24.94% (proportion of current rent), and the number of assets in the portfolio is 77. The weighted average tenant credit quality rating of the Lime Fund remained at BBB+ this quarter.

Portfolio Characteristics: As at December 2023, the Lime Fund had £2.96 billion of assets under management, a decrease of -£35 million from the previous quarter end reflecting the fall in capital value. London Borough of Islington's investment represents 6.0% of the total fund.

Staff Turnover/Organisation: There were no joiners or leavers during Q4.

Columbia Threadneedle – Pooled Property Fund

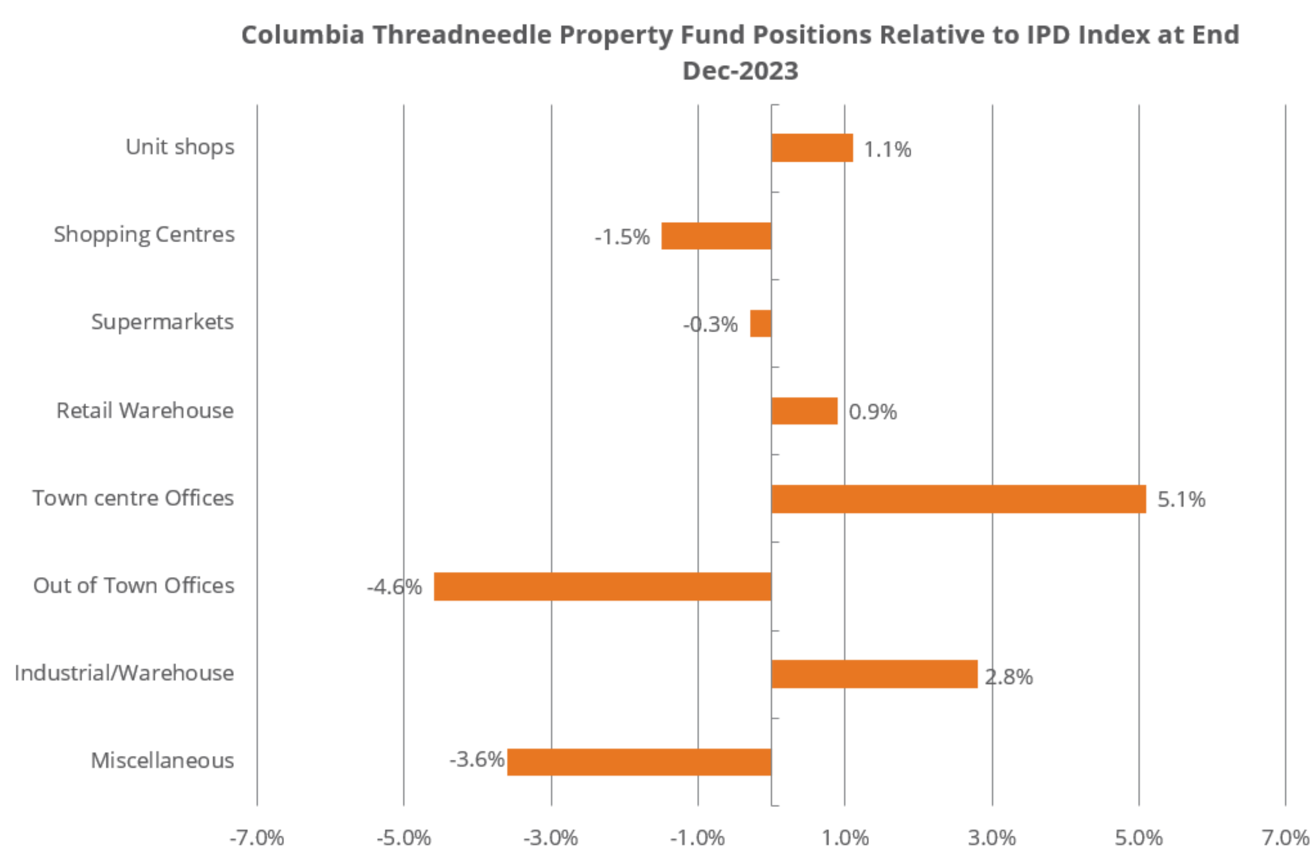
Headline Comments: The fund delivered a negative absolute return but outperformed the benchmark in Q4 2023, with a quarterly return of -1.08% compared to the benchmark return of -1.16%. Over three years, the fund outperformed the benchmark by +1.11% p.a.

The Manager wrote to investors during the quarter to notify that the redemption deferral procedure that has been in place for the last 12 months will be extended until further notice. The Manager has also appointed a new third-party administrator for the fund, SS&C Financial Services Europe Ltd to provide administration services including client servicing, registration and dealing services, subject to regulatory approval.

Mandate Summary: An actively managed UK commercial property portfolio, the Columbia Threadneedle Pooled Property Fund invests in a diversified, multi-sector portfolio of UK property assets. Historically, the performance objective has been to outperform the AREF/IPD All Balanced – Weighted Average (PPFI) Index by at least 1.0% p.a., net of fees, on a rolling three-year basis. However, during Q2 2023 the manager amended their performance target to be outperformance on their quarterly benchmark over three years (i.e. losing the 1% per annum outperformance target).

Portfolio Risk: Chart 4 shows the relative positioning of the fund compared with the benchmark.

CHART 4:



Source: Apex; Columbia Threadneedle

During the quarter, the fund made no acquisitions and eight sales. The cash balance at end September was 3.0%, compared with an average cash allocation of 6.1% for the peer group benchmark. The Manager states that it continues to monitor liquidity closely as a means of protecting the fund against the prevailing market volatility.

Performance Attribution: The fund outperformed the benchmark in Q4 2023, with a quarterly return of -1.08% compared to -1.16%. Over 1-year the fund outperformed the benchmark by +1.97%. The fund is now outperforming the benchmark over three years by +1.11% p.a.

Portfolio Characteristics: As at end December 2023, the fund was valued at £1.44bn, a decrease of £65m from the fund's value in September 2023. London Borough of Islington's investment represented 8.33% of the fund.

Staff Turnover: The manager has been restructuring a number of its investment teams in part due to strategic changes as well as industry-wide challenges under the current environment. As a result, there have been 35 leavers and 6 joiners during Q4, although it is important to note that there were only 2 leavers from the Property Management group.

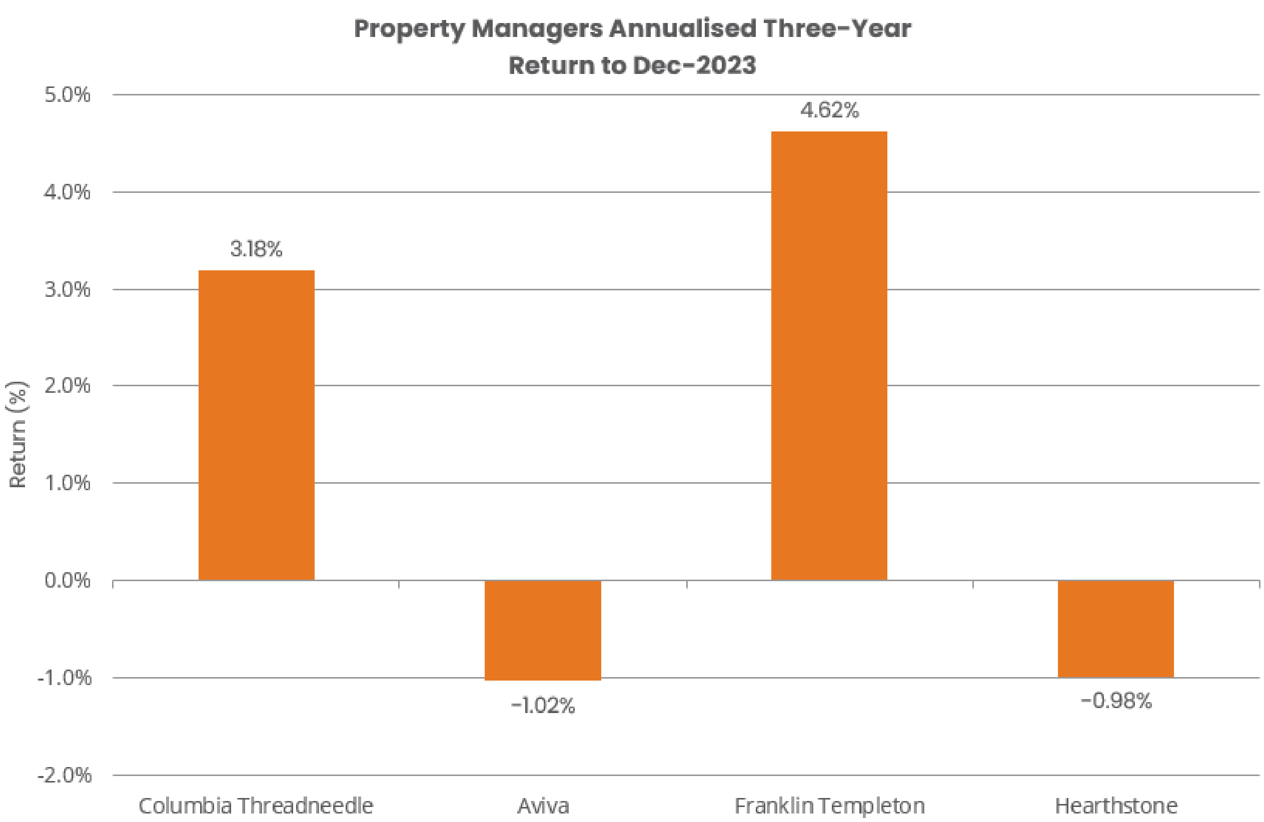
Franklin Templeton – Global Property Fund

Headline Comments: This is a long-term investment and as such a longer-term assessment of performance is recommended. There are now three funds in which London Borough of Islington invests. The portfolio in aggregate underperformed the absolute return benchmark of 10% p.a. over three years by -5.38% p.a.

Mandate Summary: Three global private real estate fund of funds investing in sub-funds. The performance objective is an absolute return benchmark over the long term of 10% p.a.

Performance Attribution: Notwithstanding the poor relative performance, over the three years to December 2023, Franklin Templeton ranks the highest out of the property managers for absolute performance. Chart 5 compares their annualised three-year performance, net of fees.

CHART 5:



Source: Apex

Portfolio Risk: Fund I continues to be in its harvesting phase. Ten of the underlying Funds in the portfolio have now been fully realised, with four remaining, and total distributions to date have been US$503.6 million, or 138% of total fund equity. Overall, the manager reported that the return on this fund has exceeded the target return, to date.

The largest remaining allocation in Fund I is to the US (82% of funds invested), followed by Europe (18%). As the fund distributes, the geographic exposure is likely to become increasingly concentrated.

Fund II is fully invested in a diverse mix of property sectors including office, industrial and retail uses. As at end December 2023, 87.0% of committed capital had been distributed and there now remain six active underlying holdings. Leverage remains at 53% for the quarter to December 2023. The manager notes that the pandemic followed by the dramatic increase in interest rates has led to some delays in implementing business plans for the residual portfolio. However, the return has exceeded the original return target, to date.

The largest geographic allocation in Fund II is to Europe (64% of funds invested), followed by the US (27%), and Asia (9%).

Fund III is invested mainly in the residential and retail sectors. The portfolio consists of five investments, two of the original seven having already been realised. There was no change to the total distributions made over the period, and no new investments or realisations. The portfolio is allocated 58% to Europe and 42% to the US.

During the quarter, the Manager announced that the extension to the investment period for Fund III had been approved by a majority of the limited partners, to end December 2024 (an extension of 12 months).

Staff Turnover/Organisation: Not reported at the time of going to print.

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio underperformed the benchmark over three years by -3.48% p.a. A phased redemption of this fund was negotiated with the manager during Q2 2023.

During Q4, the Manager obtained approval from the FCA to terminate and liquidate the fund. This termination will be effective from 1st December 2023, and an initial distribution of £5.7 million to investors was made on 12th December 2023, equivalent to approximately 9% of the funds value.

Mandate Summary: The fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

Performance Attribution: The fund underperformed the IPD index over the three years to December 2023 by -3.48% p.a., returning -0.98% p.a. versus the index return of +2.50% p.a. The manager has underperformed over 5 years by -1.61% p.a. The gross yield on the portfolio as at end December 2023 was 5.2%. Adjusting for voids and property management/maintenance costs, however, the yield on the portfolio falls to 2.7%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 1.35% (£0.8 million), which is 6.95% lower than at the end of September 2023.

Portfolio Characteristics: By value, the fund has an 8% allocation to detached houses, 33% allocated to flats, 31% in terraced accommodation and 27% in semi-detached.

As at end September there were 217 properties in the portfolio and the fund stood at £56.8 million. London Borough of Islington's investment represents 40.5% of the fund. This compares with 72% at the start of this mandate in 2013.

Organisation and Staff Turnover: There were no joiners or leavers during the quarter to December 2023.

Quinbrook – Low Carbon Power Fund and Net Zero Power Fund

Headline Comments: Performance for the year to 31st December 2023 on both funds was negative at -24.13%, and underperforming the target return of +12.00%. Over three years, the fund returned +3.75% p.a. and therefore was behind of the target by -8.25% p.a.

Mandate Summary: The Low Carbon Power Fund invests in renewable energy and low carbon assets across the UK, US and Australia as well as selected OECD countries. The fund expected to make between 10 and 20 investments in its lifetime and targets a net return of 12% per annum. The fund held a final closing in February 2019 with approximately $730 million committed by 15 limited partners and has now reached the end of its investment phase. Islington subsequently committed $100m to Quinbrook's Net Zero Power Fund on 25 August 2023. This fund also invests in the UK, US and Australia with an emphasis on net zero transition and a target net return of 12% p.a. over a 5-8 year holding period.

Portfolio Characteristics: information on the Low Carbon Power Fund was not available at the time of going to print. A verbal update will be provided at the meeting.

Organisation: Not reported at the time of going to print.

Pantheon – Infrastructure and Private Equity Funds

Headline Comments: Over three years the return on the private equity fund was +6.51% per annum. This compares with a three-year return on listed global equities of +11.21% per annum. The three-year return on the infrastructure fund was +17.91% versus the absolute return target of 10%.

Mandate Summary: As at 30th September 2023, London Borough of Islington have made total commitments of £106.8m across five Pantheon strategies including two US primary funds, two global secondary funds and one global infrastructure fund. In October 2023, London Borough of Islington committed £83.6m / $100m to the Pantheon's latest Global Infrastructure Fund, Pantheon Global Infrastructure Fund IV (PGIF IV).

Portfolio Characteristics: The net internal rate of return (IRR) at 31st December 2023 across all strategies was 10.6%, with a net multiple of 1.31x. Over the quarter, there were three drawdowns totalling £45,728,751 and one distribution totalling £1,000,823, both from PGIF IV.

Overall, the programme's rolled for cash valuation at Q4 2023 was £119.4m, down 3.9% from Q3 2023. It is worth noting that this fall in NAV was caused by the in-period foreign exchange movement and does not reflect any movement in underlying asset value.

Permira – Credit Solutions Senior Fund

Headline Comments: The Permira Credit Solutions V ("PCS5") is a new allocation for the London Borough of Islington and part of the private debt allocation. To end September 2023 (latest data available) the Fund had a total of 16 investments remaining in the portfolio. No defaults have been reported.

Churchill – Middle Market Senior Loan Fund

Headline Comments: The Churchill Middle Market Senior Loan Fund IV is part of the new private debt allocation. As at end December 2023, it has 11 new investments totalling £143.5 million ($182.8 m). The portfolio has a weighted average net total leverage of 5.8x and a weighted average company EBITDA of USD 78 million. The fund has achieved a return of +3.93% for the year to 31 December 2023, underperforming the absolute target return of +5.00% by -1.07%, although like other private markets investments, performance should normally be assessed over a longer (3-year) time-period. No defaults have been reported.

Crescent – Credit Solutions Fund

Headline Comments: The Crescent Credit Solutions Fund VIII is part of the new private debt allocation. The fund achieved a return of +7.91% for the year to 31 December 2024, underperforming the target return of +10.0% by -2.09%, although like other private markets investments, performance should normally be assessed over a longer (3-year) time-period.

Karen Shackleton
Senior Advisor, Apex

19th February 2024