London Borough of Islington

Report to 30th September 2024

7 November 2024

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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 £6.38 billion at end September 2024.
Schroders (multi-asset diversified growth)	There were no team changes during Q3 2024.	Fund made a return of +2.26% during the quarter and delivered a return of +1.26% p.a. over 3 years, -11.37% p.a. behind the target return. The five-year return was +4.19%, -6.77% p.a. behind the target return.	Total AUM stood at £773.7 billion as at end June 2024, up from £750.6 billion as at end December 2023. (most recent data available)
Polen Capital (active emerging equities)	Not reported by Polen	Outperformed the benchmark by +2.88% in the quarter to September 2024. The fund is behind over three years by -2.56% p.a. and by -3.65% p.a. over five years.	Total AUM stood at approximately $58bn as at end June 2024 (most recent data available).

LCIV Global Equity Fund (Newton) (active global equities)	The monitoring status of the Sub-fund was downgraded to 'Enhanced' in September 2023 following the departure of the lead portfolio manager. This was re-confirmed in February 2024, but with a more positive outlook. LCIV will update the monitoring status again in Q4 2024.	The LCIV Global Equity Fund underperformed its benchmark during Q3 2024 by -0.27%. Over three years the portfolio outperformed the benchmark by +0.68% p.a. but was behind the performance target of benchmark +1.5% p.a. Over five years it remains ahead of the benchmark by +0.74% p.a.	At the end of Q3 2024, the London CIV sub-fund's assets under management were £620.7 million. London Borough of Islington owns 49.36% of the sub-fund.
LCIV Sustainable Equity Fund (RBC)	Given the Sub-fund's 'Enhanced' monitoring status, LCIV continue to monitor 'Resourcing', 'Process' and 'Investment Risk', where LCIV have identified weaknesses and assigned an 'Amber' score in their last in-depth review.	Over Q3 2024, the fund made a return of -0.26%, and this underperformed the benchmark return of +0.24%. The one-year return was +19.44%, positive in absolute terms but behind the benchmark by -1.06%. The three-year return underperformed the benchmark by -7.17% p.a. and by -2.25% over five years.	As at end September 2024 the sub-fund's value was £1,438 million. London Borough of Islington owns 13.67% of the sub-fund.

M&G Alpha Opportunities Fund	Not reported by the manager.	The Fund made a return of +2.11% over Q3 2024, outperforming the target return by +0.04%. Over three years, the fund returned +5.73% which was behind the target return by -1.06% p.a.	The fund size was £5.58 billion as at end September. London Borough of Islington's investment amounts to 1.61% of the fund.
Standard Life (corporate bonds)	There were 11 joiners and 15 leavers during the quarter. There were four leavers from the fixed income group, including an Investment Director, two Investment Managers and an Investment Analyst.	The portfolio underperformed the benchmark return during the quarter by -0.11%, delivering an absolute return of +2.17%. Over three years, the fund was ahead of the benchmark return (by +0.09% p.a.) but behind the performance target of +0.80% p.a. Over five years the fund was +0.2% p.a. ahead of benchmark.	As at end September the fund's value was £2,026 million, up from £1,975 million as at end June. London Borough of Islington's holding of £74.7m stood at 3.7% of the total fund value.
Aviva (UK Property)	There were no joiners or leavers during the quarter.	The fund underperformed against the gilt benchmark by -2.36% for the quarter to September 2024 but outperformed the benchmark over three years by +6.46% p.a., delivering a return of -3.08% p.a., net of fees.	The fund was valued at £2.54 billion as at end Q3 2024. London Borough of Islington owns 7.1% of the fund.

Columbia Threadneedle	There were some real estate departures, but none relating to the TPEN Property team.	The fund underperformed the benchmark in Q3 2024, with a quarterly return of +1.27% compared with +1.34% for the benchmark. Over three years, the fund is outperforming the benchmark by +0.72% p.a.	Pooled fund has assets of £1.38 billion. London Borough of Islington owns 9.0% of the fund. This compares with 2018 when the pension fund owned just 4% of the fund.
Franklin Templeton (global property)	There were no changes to the investment team in Q3 2024.	The portfolio return over three years was -5.18% p.a., and so behind the target of 10% p.a. Over 5 years the fund is behind the benchmark by -13.60% p.a.	£1,640 billion of assets under management for the Franklin Templeton Group as at end May 2024 (most recent data available).
Hearthstone (UK residential property)	Not reported.	The fund underperformed the IPD UK All Property Index by -2.38% p.a. for the three years to end September 2024 although is now being redeemed.	Fund was valued at £59.7m at end Q3 2024. London Borough of Islington owns 39.5% of the fund which is now in a redemption process.
Quinbrook (renewable energy infrastructure)	The Global Head of Sustainability and Impact Investment left Quinbrook during Q3 2024 and is going to be replaced by Hilkka Komulainen	For the three years to Q3 2024 the fund returned +9.23% 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 -4.83% p.a. over three years, and -1.60% p.a. over five years, behind the benchmark. The infrastructure fund returned +11.33% p.a. over three years to end September relative to the target of 10% p.a.	$68bn of assets under management as at June 2024 (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 -3.26%, delivering a return of +1.77%.	$50bn of committed capital for parent Nuveen as at 31 March 2024 (latest figures available)
Crescent (Credit Solutions Fund)	Not reported.	The fund returned +3.07% for the year to September 2024, underperforming the target return of +10%.	$40 billion of assets under management as at March 2024. (latest figures available)
Permira	Not reported.	The fund returned +10.40% over 1 year, ahead of the target return of +6.0%	€80 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 FTSE-RAFI Emerging Markets Reduced Carbon Pathway fund, the MSCI World Low Carbon Target index fund, and the ESG Paris Aligned World Equity Fund were all within the expected ranges, when compared with their respective benchmarks, in Q3 2024.

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 World index funds tracked their respective benchmarks as expected, as shown in Table 2. The wider MSCI World Index returned +4.84%, compared with +0.78% for the MSCI World Low Carbon Index and -0.30% for the Solactive Paris Aligned World Index.

TABLE 2:

	Q3 2024 Fund	Q3 2024 Index	Tracking
FTSE – RAFI Emerging Markets	+4.94%	+4.84%	-0.10%
MSCI World Low Carbon Target	+0.76%	+0.78%	-0.02%
ESG Paris Aligned World Equity Fund	-0.22%	-0.30%	+0.09%

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 49.60% to the MSCI World Low Carbon Target index fund, 41.54% to the ESG Paris Aligned World Equity Fund, and 8.86% 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 +2.26% in Q3 2024, and in relative terms it outperformed the RPI + 5% target by +0.70% (as reported in the BNY performance report) but underperformed the cash + 4.5% target by -0.24% (this being the manager's preferred target since March 2022). Over three years, the fund is behind the RPI + 5% target return by -11.73% p.a. and behind the manager's own target by -7.94% 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 +2.36% in Q3 2024 while global equities (MSCI All Country World Index hedged to sterling) made a return of +4.8%. Over three years, the DGF delivered a return of +1.26% p.a.

In Q3 2024, equity positions contributed +1.3% to the total return, alternatives contributed +0.9%, cash and Credit and Government Debt contributed +1.8%, while Cash and Currency detracted -1.4% (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 6.7% compared to the three-year volatility of 14.9% in global equities (i.e., 45.0% of the volatility) which is in line with target.

Portfolio Characteristics: The fund had 83.9% in internally managed funds (down 3.2% from last quarter), 0% in active bespoke solutions (same as last quarter), 0.7% in externally managed funds (down 0.1% from last quarter), and 12.5% in passive funds (up 5% from last quarter) with a residual balance in cash, 2.9% (down 1.7% from last quarter), as at end September 2024. In terms of asset class exposure, 51.2% was in equities, 19.9% was in alternatives, 26.0% 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.

The baseline forecast from the Manager predicts a soft landing for the global economy, highlighting solid growth and steady disinflation, which supports a positive outlook for equities while adopting a neutral stance on government bonds. At the time of writing, the looming US election and hostilities in the Middle East were creating further market volatility.

As at end Q3 2024, Schroders reported that the carbon intensity of the fund (scopes 1, 2 and 3) was 80.1% of the comparator (a mix of equities, bonds, and alternative indices), although the manager notes that coverage is only at 74% of the portfolio (compared with 94% for the comparator).

Organisation: There were no team changes during the quarter.

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

Headline Comments: The portfolio made a return of +5.49% in Q3 2024, compared with the benchmark return of +2.61%, an outperformance of +2.88%. Over one year the fund is behind the benchmark by -2.22%, and over three years it is trailing by -2.56% per annum.

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 Russia contributed positively to performance (+4.45%), though overexposure to Ireland detracted from performance (-0.42%).

During the quarter, the largest positive contributors to the quarterly relative return came from Moscow Exchange Micex-Rts (+4.52%), Samsung Electronics Co (+1.07%), and Yum China Holdings (+0.84%). Companies which detracted most from performance included Wizz Air Holdings (-1.94%), Tencent Music Entertainment (-1.57%), and Alibaba Group Holding (-0.89%). *(Return contributions in US dollar terms).*

It is worth noting that the Managers only Russian Holding, Moscow Exchange Micex-Rts, was sold during the quarter, and hence while positively contributing to performance, is not present in the quarter end allocation.

Portfolio Risk: Within the emerging markets portfolio there is a 11.6% allocation to non-benchmark countries (excluding the holding in Cash & Equivalents). The largest overweight country allocation in the emerging markets portfolio was China/HK (+9.5% overweight). The most underweight country allocation was India (-8.6%). The manager also held 19.9% of the portfolio in developed countries, compared with the benchmark which had just 1.2% in Hong Kong, 1.1% in Ireland, and 0.3% in United States.

Portfolio Characteristics: The largest absolute stock positions were Taiwan Semiconductor Manufacturing Co Ltd at 6.7% and Tencent Music Entertainment Group at 5.2% of the portfolio, while the largest absolute country position was China/HK and accounted for 36.00% of the portfolio.

Staff Turnover/Organisation: Not reported by Polen.

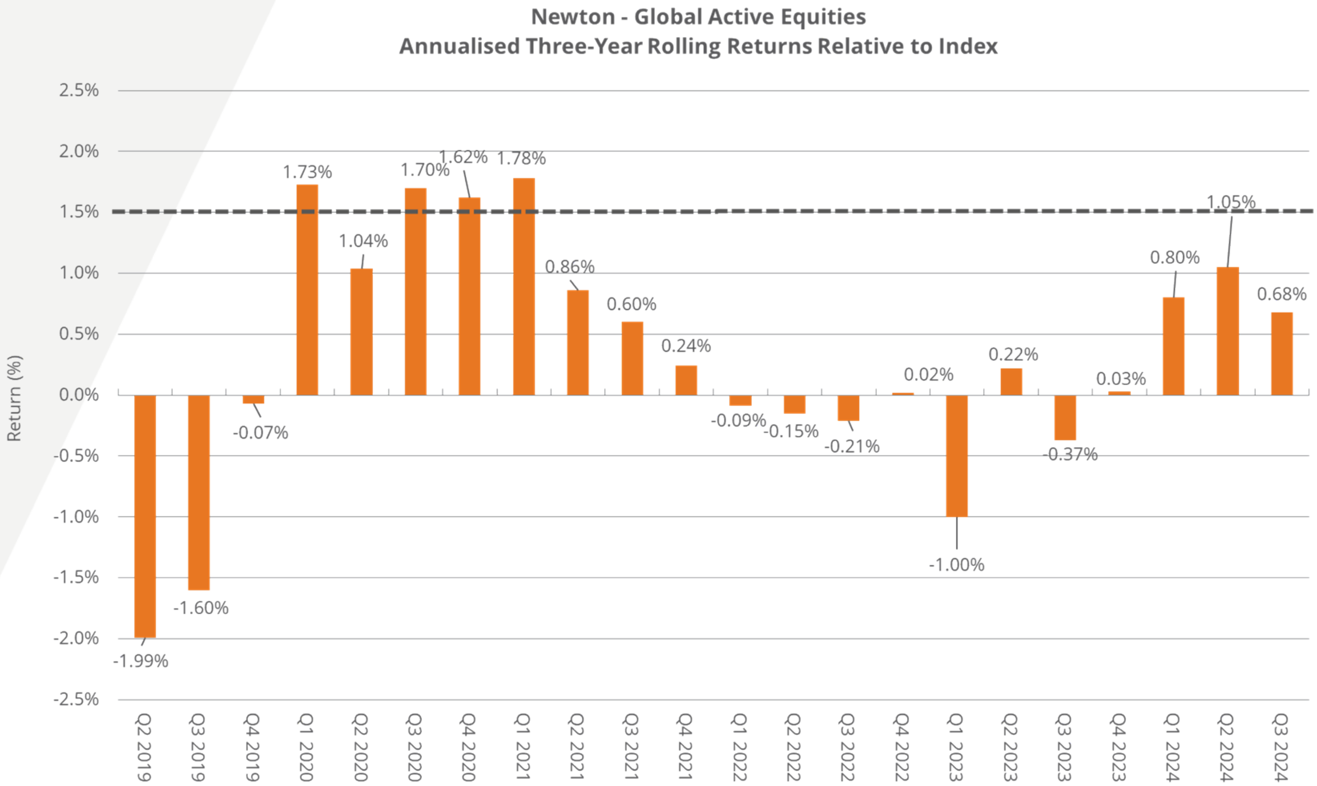
LCIV Global Equity Fund (Newton) – Global Active Equities

Headline Comments: The LCIV Global Equity Fund underperformed its benchmark during Q3 2024 by -0.27%. Over three years the portfolio outperformed the benchmark by +0.68% p.a. Over five years the manager is ahead of the benchmark return by +0.74% 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 fund was outperforming the benchmark over three years by +0.68% p.a. to end Q3 2024, and as such is underperforming the performance objective by -0.82% p.a. (the performance objective is shown by the dotted line).

Positive contributions to the total return came from holdings such as GE Vernova LLC (+0.59%), AIA Group (+0.31%), and Progressive Corp (+0.25%). Negative contributions came from positioning in Microsoft (-0.67%), Novo Nordisk (-0.52%), and Alphabet Inc (-0.49%).

In its peer group analysis, the London CIV reported that Newton is now delivering returns above the median over 3 years and 5-years, as well as over the longer time horizons (seven and ten years). Over the past three years the risk has been low relative to peers and the benchmark.

Portfolio Risk: The active risk on the portfolio stood at 3.02% as at quarter end, slightly higher than as at end June when it stood at 2.97%. The portfolio remains defensive, with the beta on the portfolio at end June standing at 0.93 (if the market falls by -10% the portfolio can be expected to fall -9.3%).

At the end of Q3 2024, the London CIV sub-fund's assets under management were £620.7m, compared with £619.9m last quarter. London Borough of Islington now owns 49.36% of the sub-fund.

Portfolio Characteristics: The number of stocks in the portfolio stood at 55 as at quarter-end (down 4 from last quarter). The fund added three positions and made five sales.

The portfolio continues to be heavily weighted to Technology (an allocation of 20.7%), but the portfolio is underweight (-3.8%) compared to the benchmark and continues to reduce exposure quarter on quarter. The Manager has actively adjusted the portfolio to maintain balanced exposure to company performance drivers. While optimistic about high-profile companies, there are concerns about overly-ambitious expectations, prompting the trimming of favoured positions.

This ties in with Newton's new 'brand proposition' in which their intention is to focus more on the future than relying on what has worked well in the past. This is a response to the increased complexity in the world today.

Industrials is the second largest allocation (17.5%) and is overweight against the benchmark (+6.9%).

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 Q3 2024, LCIV reported that the Newton sub fund had a weighted average carbon intensity of 57% that of the benchmark index (the MSCI World Index). The highest contributor was CRH (21.35% contribution to the weighted average carbon intensity) followed by Linde plc (13.58% contribution).

The Manager has a generally cautious view about companies in the oil and gas sector and, therefore, been underweight in the sector for at least the last 10 years.

During Q3 2023, London CIV had announced that the Global Equity Fund has been downgraded to "Enhanced Monitoring" following the departure of the lead portfolio Manager. This was confirmed in February 2024, but with a positive outlook. LCIV is currently undertaking an in-depth review of the sub fund and will update investors in Q4 2024.

Staff Turnover: No staff changes reported by London CIV.

LCIV Sustainable Equity Fund (RBC) – global equities

Headline Comments: Over Q3 2024 the fund made a return of -0.26%. This underperformed the benchmark return by -0.50%. The one-year return was +19.44%, positive in absolute terms but behind the benchmark by -1.06%. The three-year underperformance was -7.17% p.a. against the benchmark. Islington's investment makes up 13.67% 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: The fund underperformed the benchmark in Q3 2024 and made a loss in absolute terms. The portfolio had overweight allocations to the Consumer Staples, Materials, Consumer Discretionary, and Health Care sectors. Over the quarter the largest contributors to return included HCA Healthcare (+0.71), AIA group (+0.56%), and UnitedHealth Group (+0.50%). The largest detractors include positioning in Novo Nordisk (-0.81%), Microsoft (-0.79%), and Amazon (-0.60%).

The London CIV compares managers against their peer group and reported that RBC is performing well over the long term (7 to 10 years). However, medium term (3 years to 5 years) has been poor, with the account ranking in the bottom two quartiles. There has been an improvement, however and for the year to date and 1-year performance, the return is in the first/second quartile. Absolute risk and maximum drawdown are higher than the median.

Portfolio Characteristics: As at end of September 2024 the fund had 38 holdings (1 down from last quarter) across 12 countries. The active risk of the fund was 3.76%, slightly higher than Newton the other active global equity manager.

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

The London CIV reported that the RBC sub fund had a weighted average carbon intensity of 92% of the benchmark index (the MSCI World Index) as at end September 2024. This is a decrease of 2% since last quarter, but it is still much higher than 6-months ago, which is a concern given that this is a sustainable mandate. Two holdings contribute to c.40% of the portfolio's carbon intensity: CRH Plc (28.6%) and Intercontinental Hotels (11.2%)

The London CIV performed an in-depth review of this fund in February 2024 and have moved the overall rating for this manager from "normal" to "enhanced monitoring". They downgraded their ratings for resourcing (in light of high junior staff turnover), financial processes, investment processes (loss of confidence in the ability of the team to execute the process effectively) and risk management. LCIV will undertake another deep dive review in November 2024.

Staff turnover: With a 10 year career at RBC Global Asset Management, in the Global Equity team, Marcus Lun is departing to take a career break. Ya (Anne) Xue joined the team nearly three years ago and will be taking over responsibility for leading the team's investment research into the Global Energy and Basic Materials sectors.

M&G – Alpha Opportunities Fund

Headline Comments: During Q3 2024 the M&G Alpha Opportunities Fund made a return of +2.11%, outperforming the benchmark return of +2.07%. Over one year it is outperforming the benchmark (cash plus 3.5%) by +1.65% but is underperforming the benchmark over 3 years by -1.06% p.a.

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 +2.11% compared to the benchmark return (one month SONIA plus 3.5% being used in Northern Trust's performance analysis) of +2.07%. Exposure to industrial corporate bonds was the top contributor (+0.60%), with financial corporate bonds also performing well (+0.29%). Securitised Corporate Bonds marginally detracted from performance over the quarter (-0.03%), but the largest detractor was residual differences due to currency rates and securities pricing (-0.05%). Over one year, the fund is outperforming the target return by +1.65% p.a.

Portfolio Characteristics: The largest allocations in the portfolio were to Net cash and derivatives (28%), Financials (22%), and Industrials (18%). 28% of the portfolio was rated BB* or below. During the quarter, the Manager continued to focus on taking profits and directing proceeds toward financial bonds, which continue to remain a source of value compared to other sectors. The Manager is less enthusiastic about national champion European banks, which are trading wide to Industrials.

In terms of outlook, the Manager feels that the credit markets are continuing to perform strongly, with spreads nearing historically tight levels. Inflation will continue to remain a key theme as major central banks are now expected to cut rates on a more regular basis, which are expected to drive bond yields down. The potential for unforeseen financial or geopolitical events still remain and the Manager is cautious of bond market volatility and even a sharp turn in monetary policy.

As at end September, the weighted average carbon intensity (WACI) of the portfolio was 29% of the WACI of a benchmark index, with 66% of the portfolio being measured where data was available (compared with 87% coverage for the benchmark).

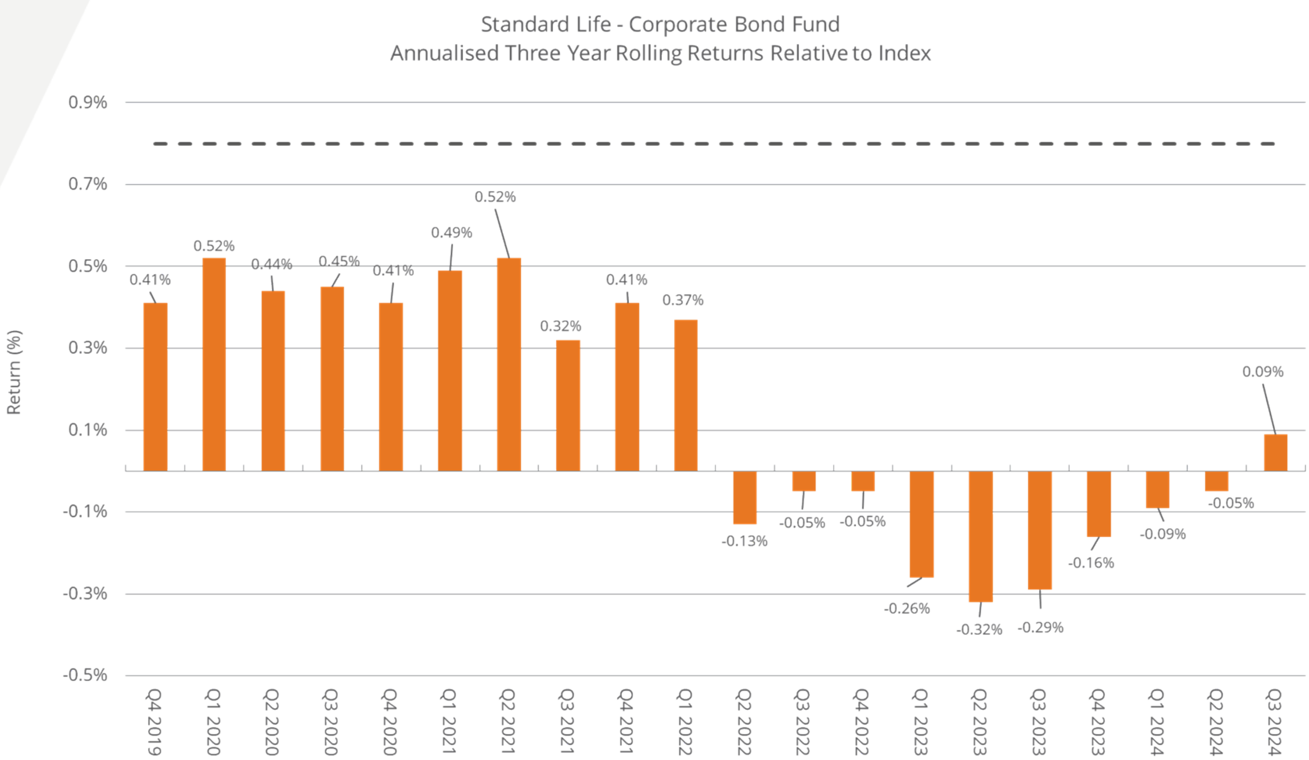
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio underperformed the benchmark return during the quarter by -0.11% and made an absolute return of +2.17%. Over three years, the fund was ahead of the benchmark return (by +0.09% p.a.) for the first time in ten quarters, but is still 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 ahead of the benchmark over three years but is 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 -2.78% p.a. net of fees, compared to the benchmark return of -2.87% p.a.

Portfolio Risk: The largest holding in the portfolio at quarter-end was in UK Gilts, at 6.3% of the portfolio.

Portfolio Characteristics: The value of Standard Life's total pooled fund at end September 2024 stood at £2,026 million. London Borough of Islington's holding of £74.7m stood at 3.7% of the total fund value. This allocation is being gradually drawn down to fund the infrastructure investments.

Staff Turnover: There were 11 joiners and 15 leavers during the quarter. There were four leavers from the fixed income group, including an Investment Director, two Investment Managers, and an Investment Analyst.

Aviva Investors – Property – Lime Property Fund

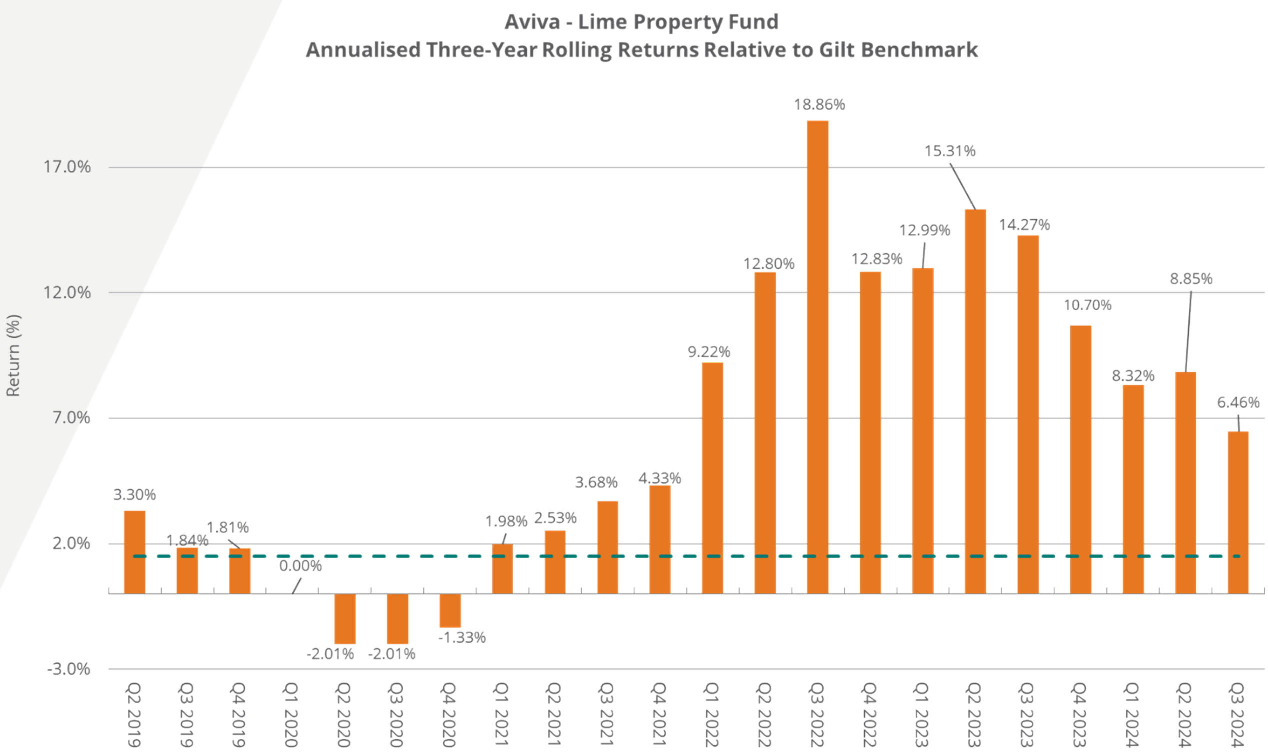
Headline Comments: The Lime Fund made a return of +0.28%. It underperformed the benchmark return by -2.36% in Q3. Over three years, the fund is ahead of the benchmark return by +6.46% p.a., albeit delivering a negative absolute return of -3.08%. Over one-year the fund has underperformed by -7.59%. It is ahead of the benchmark since inception in October 2004, by +1.47% 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 Q2 2024 return was attributed by Aviva to -0.81% capital return and +1.03% income return.

Over three years, the fund has returned -3.08% p.a., ahead of the gilt benchmark of -9.54% p.a., and ahead of its outperformance target of +1.5% p.a., as can be seen in Chart 3.

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.

This quarter, the Manager completed on a sale of £6.9 million on a Premier Inn hotel, and a sale of £7.6 million on a car showroom. The Fund's annual redemption window closed on 30th June, 2024, with the number of units investors wishing to redeem exceeding expectations. The Manager is on track to pay out the remaining £70 million of 2023 redemptions in November and will update investors during Q4 2024 on the payment of the 2024 redemptions, which it plans to complete during 2025.

The average unexpired lease term was 20.15 years as at end September 2024. 8.57% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 22.97% (proportion of current rent), and the number of assets in the portfolio is 72. The weighted average tenant credit quality rating of the Lime Fund remained at BBB+ this quarter.

Portfolio Characteristics: As at September 2024, the Lime Fund had £2.54 billion of assets under management, a decrease of -£20 million from the previous quarter end. London Borough of Islington's investment represents 7.1% of the total fund.

Staff Turnover/Organisation: There were no joiners or leavers during Q3 2024.

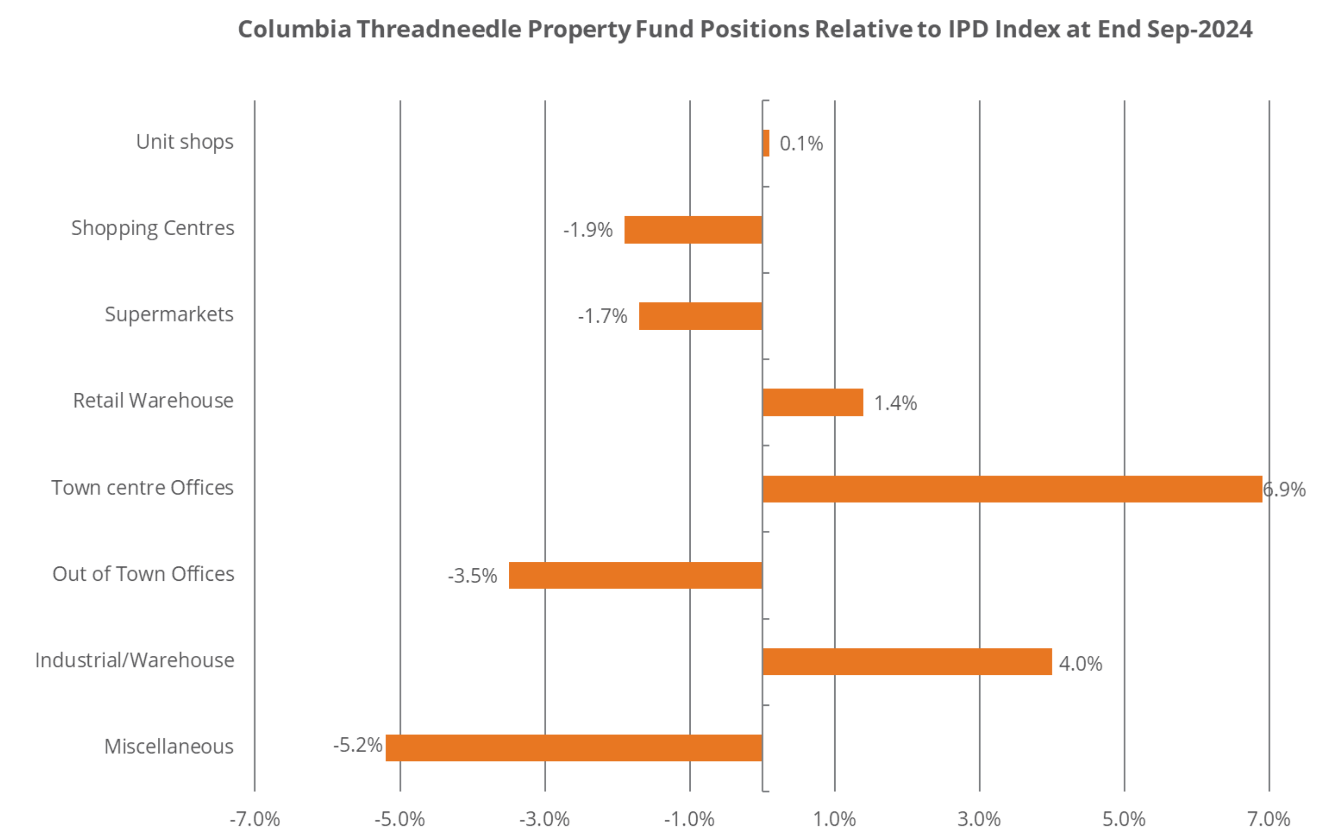
Columbia Threadneedle – Pooled Property Fund

Headline Comments: The fund delivered a positive absolute return but underperformed the benchmark in Q3 2024, with a quarterly return of +1.27% compared to the benchmark return of +1.34%. Over three years, the fund outperformed the benchmark by +0.72% p.a.

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 five sales. The cash balance at end September was 2.2%, compared with an average cash allocation of 5.8% 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.

The Manager believes that the market has reached a turning point, with inflation trending down and property prices stabilising for the most part. The Manager expects the portfolio to achieve positive long-term total returns through active property asset management, with high conviction in sectors like industrials and retail warehousing, which benefit from strong demand and sustainable rental income.

Performance Attribution: The fund underperformed the benchmark in Q3 2024, with a quarterly return of +1.27% compared to +1.34% (source: BNY Performance report). This was split between income return (+1.0%) and capital return (+0.2%) (source: Columbia Threadneedle). The fund's holdings in retail assets and offices outperformed the benchmark during the quarter. Over 1-year the fund outperformed the benchmark by +0.66%. The fund is now outperforming the benchmark over three years by +0.72% p.a.

Portfolio Characteristics: As at end September 2024, the fund was valued at £1.38bn, £90m lower than the fund's value in June 2024. London Borough of Islington's investment represented 8.98% of the fund.

Staff Turnover: During the quarter there were 8 new joiners and 20 leavers. One leaver and one joiner relate to the property team, but none related specifically to the TPEN fund in which London Borough of Islington invests.

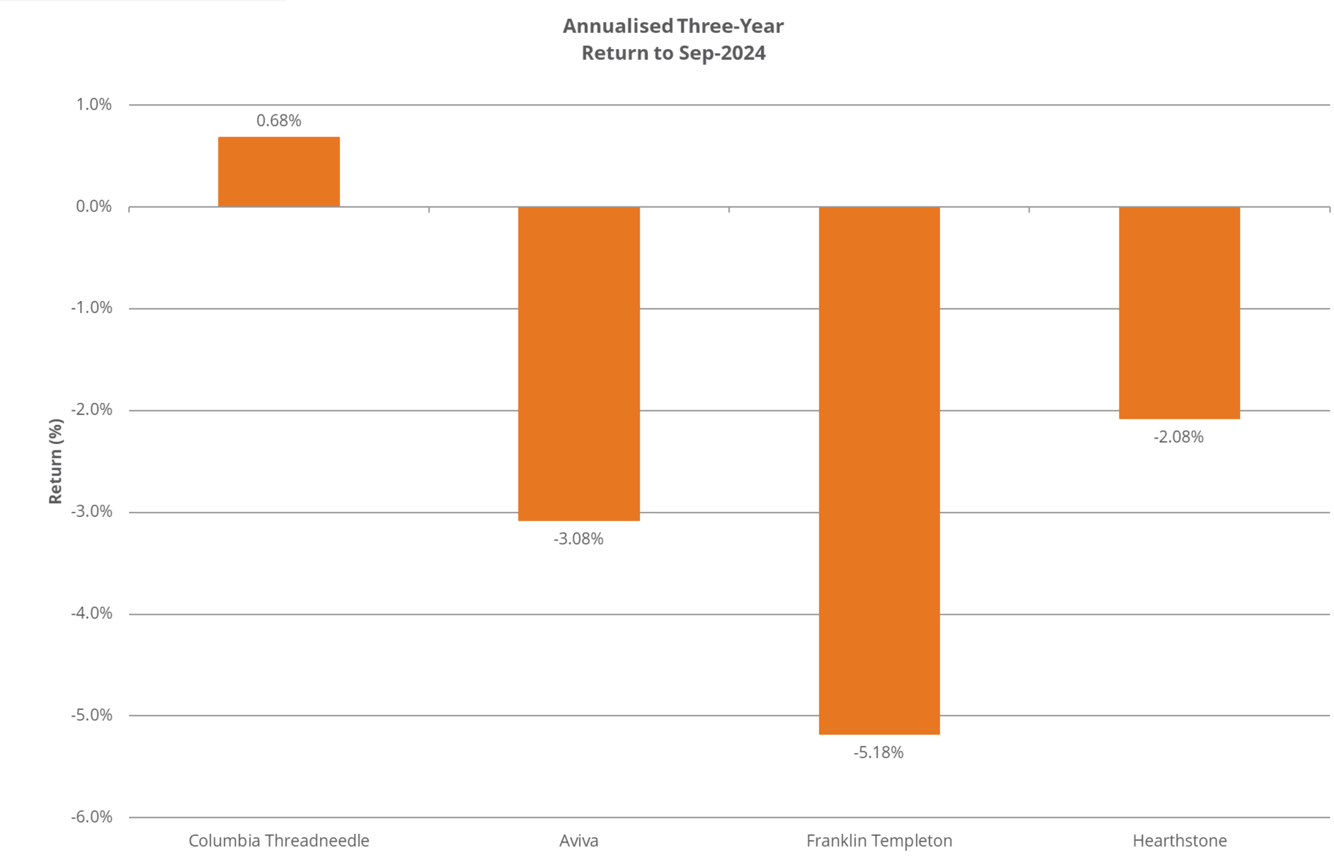
Franklin Templeton – Global Property Fund

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 -15.18% 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: With the poor relative performance, over the three years to September 2024, Franklin Templeton ranks the lowest 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 final portfolio was comprised of a total of 14 investments. 12 of these ae fully realized and liquidated. 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 original target return, to date.

The last two investments remaining in Fund I are in the US (79% of funds invested), and Europe (21%). FCPII, in the US, has one property remaining, with the other 41 investments having been realised and distributions exceed 180% of equity investments. GO Spain also has one property remaining, which has sold all of their real estate assets but is awaiting a decision on a tax appeal before it can be fully realised.

Fund III is invested mainly in the residential and retail sectors. The portfolio consists of twelve investments, two of the original twelve having already being closed, and two further investments having been realised in Q3. These two investments consist of a luxury condominium complex in Florida and an industrial development deal of two to-be-completed industrial buildings in Texas. There was no change to the total distributions made over the period. The portfolio is allocated 46% to Europe and 54% to the US.

The report for Fund II was not available at the time of going to print.

Staff Turnover/Organisation: No changes to the investment team during Q3 2024.

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio underperformed the benchmark over three years by -2.39% p.a. A phased redemption of this fund was negotiated with the manager during Q2 2023.

As at end September, the fund had completed on 32 property sales for a total of £9.2m since its termination began in December, had agreed sales on 79 for a total of £21.8m, and had a further 52 on the market for a total asking price of £14.5m. The Manager anticipates that the rate of completed sales should increase over the fourth quarter. Three capital distributions have been paid since the termination process began:

- £5.7 m on 12th December 2023 of which Islington received £2.3m
- £3m on the 31st May 2024 of which Islington received £1.2m
- £3m on the 30th September 2024 of which Islington received £1.2m

The Manager confirmed that further capital distributions will be made on the same payment dates as income distributions (end of February, May, October, and November) provided the fund holds at least 5% cash. The next capital distribution is currently expected at the end of November and is forecast to be approximately £3m in total of which Islington will receive its share of c. £1.1m.

Income distributions are expected to be nil from now on due to the low number of occupied properties and the associated void costs whilst properties are empty until sold.

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: According to the BNY performance report, the fund returned -2.08% for the three years to September 2024. The manager's internal calculation puts the return at +2.07%. They say that BNY's performance figures are still missing the fund's capital distributions hence their 12-month and 3-year performance figures are understated. This is despite them contacting BNY about the issue.

Portfolio Risk: The cash and liquid instruments on the fund stood at 3.56%, which is 3.07% higher than at the end of June 2024.

Portfolio Characteristics: By number, the fund has an 5% allocation to detached houses, 38% allocated to flats, 30% in terraced accommodation and 27% in semi-detached.

As at end June there were 188 properties in the portfolio and the fund stood at £59.7 million. London Borough of Islington's investment represents 39.5% of the fund. This compares with 72% at the start of this mandate in 2013.

Organisation and Staff Turnover: no updates this quarter.

Quinbrook – Low Carbon Power Fund and Net Zero Power Fund

Headline Comments: Performance for the three years to September 2024 for the fund was +9.32% p.a. and therefore was behind the target of 12% p.a. by -2.68% 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: at the time of going to print, the manager report had not been received.

Organisation: During the Quarter, Quinbrook had one leaver and one joiner. The leaver, Anne Foster, held the position of Global Head of Sustainability and Impact Investment. After quarter end, the Manager announced that she will be succeeded by Hilkka Komulainen, a highly experienced sustainability professional. The Chief Operating Officer resigned and is completing his tenure in October. A Managing Director in the US team is leaving following an assessment of resourcing needs in that team.

Pantheon – Infrastructure and Private Equity Funds

Headline Comments: Over three years the return on the private equity fund was -4.83% per annum. This compares with a three-year return on listed global equities of +10.88% per annum. The three-year return on the infrastructure fund was +11.40% versus the absolute return target of 10%.

Mandate Summary: As at 30th September 2024, London Borough of Islington have made total commitments of £187.7 million across six Pantheon strategies including two US primary funds, two global secondary funds and two global infrastructure funds.

Portfolio Characteristics: The net internal rate of return (IRR) at 30th September across all strategies was 9.9%, with a net multiple of 1.33x. Over the quarter, there was two distributions, one for PUSA VII Ltd totalling £0.18 million, and one for Pantheon – Islington Pension Fund totalling £4.18 million, and one deemed capital call for PGIF IV with a net impact of £1.12 million.

Overall, the programme's rolled for cash valuation at Q3 2024 was £113.4 million. It is worth noting that when reviewing this in GBP, there was a negative in-period FX movement of c.6% however this does not reflect any uplift in underlying asset values as it based on a rolled for cash valuation.

Permira – Credit Solutions Senior Fund

Headline Comments: The Permira Credit Solutions V ("PCS5") is part of the pension fund's private debt allocation. To end June 2024 (latest data available) the Fund had a total of 24 investments remaining in the portfolio and has realised two investments. No defaults have been reported. The one-year return to end September 2024 stood at 10.40% versus the target absolute return of 6% net of fees.

Churchill – Middle Market Senior Loan Fund

Headline Comments: The fund has achieved a one-year return of +1.77% as to 30 September 2024, underperforming the absolute target return of +5.00% by -3.26%, although like other private markets investments, performance should normally be assessed over a longer (3-year) time-period. The Churchill Middle Market Senior Loan Fund IV is part of the private debt allocation. For Q3, the fund has made 9 new investments totalling £50.17 million ($63.7 m). The portfolio has a weighted average net total leverage of 4.5x.

Crescent – Credit Solutions Fund

Headline Comments: The Crescent Credit Solutions Fund VIII is part of the private debt allocation. The fund achieved a 1-year return of +3.07% as to 30 September 2024, underperforming the target return of +10.0% by -6.93%, although like other private markets investments, performance should normally be assessed over a longer (3-year) time-period. Two new fund investments were closed during the quarter. These contributed towards the invested capital reaching $6.1 billion across 54 portfolio companies as at quarter end. The Manager stated these companies are performing well and the manager expects them to generate strong returns in an attractive rate environment that the Managers expect to continue. No defaults were reported.

Karen Shackleton
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15th November 2024