AllenbridgeEpic
investment advisers

REPORT PREPARED FOR

London Borough of Islington Pension Fund

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1. 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	Departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
AllianzGI (RCM)	Andy Wiggins left the firm just after quarter end. Phil Dawes has replaced him as Head of UK Institutional.	Quarterly return broadly in line with the Index. Outperforming over three years by +2.1% p.a. but still behind the target of +3.0% p.a. Outperformance is attributed to successful stock and currency selection.	£287 billion as at 31st December 2013. (Figures not available for June.)		
Newton	One joiner and two leavers during the quarter.	Underperformed the Index by -0.9% in the quarter. Outperforming over three years by +1.0% per annum, but trailing the target of +2% p.a. Outperformance is attributable to successful stock selection.	£50.9 billion as at 30th June 2014, £0.8 billion lower than at 30th December 2013.	Tracking error of 1.9% has fallen below the normal range of 2% and 6%. This is in part due to a decline in market volatility and in part due to more cautious positioning.	
Standard Life	11 joiners, including a high yield bond analyst and two joiners in private equity, and 16 leavers during the quarter.	Over three years the Fund has outperformed by +0.8% p.a. and is now meeting the performance target of +0.8% p.a.	Underlying fund has risen in value by £28.6m this quarter, for the first time since Q4 2012.	Holding 6.0% in high yield non-benchmark bonds.	

Manager	Departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
Aviva	New CRM team following Luke Powell's departure.	Outperformed the benchmark by +0.2% p.a. over three years.	Fund has passed its 10^{th} anniversary and is now valued at £1.2 billion.		
Thread-needle	Three new joiners and twelve leavers in Q2 2014. One of the leavers was from the property team: Andrew Hirons has retired.	A strong quarter - outperformed the benchmark by +0.9%. Ahead of the Index over three years by +2.3% p.a. and meeting the performance target.	£92.8 billion in assets worldwide as at 31^{st} March 2014, £3m higher than as at end March. Pooled fund has assets of £1.3 billion.		
Legal and General	Sarah Aitken has taken over Hugh Cutler's role as Head of Europe and Middle East, Hugh Cutler left the firm to join Och-Ziff, a hedge fund.	Regional funds are all tracking the indices.	£463 billion of assets under management for over 3,000 clients worldwide as at end March 2013.		
Franklin Templeton	Not reported.	A strong quarter with a return of +20.7%. Beating the absolute return performance target of 10% p.a. by +6.2% over 12 months but trailing it by -4.7% over three years.		Manager is considering three co-investment opportunities which will bring the fund to fully invested status.	

Manager	Departure of key individuals	Performance	Assets under management	Change in strategy/risk	Manager specific concerns
Hearth-stone	Lucy Hawkins, the Assistant Fund Manager, is on maternity leave. Alex Jaques (contractor) is providing cover.	Ahead during the quarter by +0.5%, but trailing the index by -3.5% for the twelve months to June 2014.	Fund was valued at £30.0m at end Q2 2014. Islington's holding represents 71% of the Fund.		

Key to shading in Table 1:

Minor concern

Monitoring required

2. Individual Manager Reviews

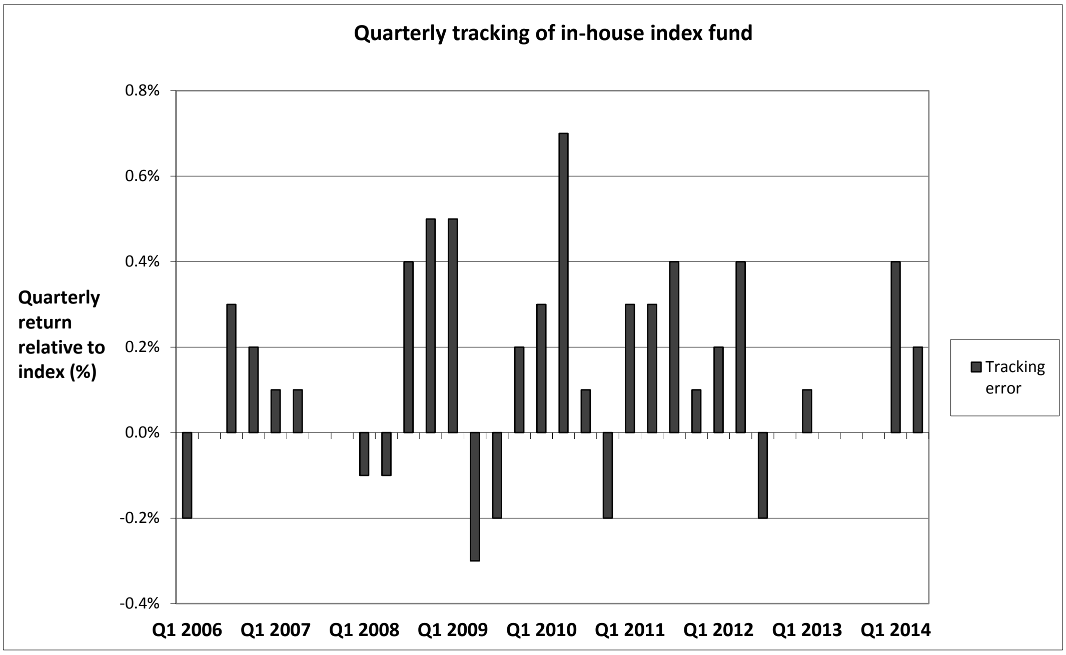
2.1. In-house – Passive UK Equities – FTSE All Share Index Fund

Headline comments: The portfolio continues to meet its objectives. The fund delivered a return slightly ahead of the index benchmark (+2.3% versus +2.2%). Over three years the fund has outperformed the index by +0.5% p.a.

Mandate summary: A UK equity index fund designed to match the total return on the UK FTSE All Share Index. The in-house manager uses Barra software to create a sampled portfolio whose risk/return characteristics match those of the index.

Performance attribution: Chart 1 shows the tracking error of the in-house index fund against the FTSE All Share Index since Q1 2006. **There are no performance issues.** Over three years, the small quarterly positive relative returns (shown in Chart 1) have accumulated, and as a result the portfolio has outperformed its benchmark by +0.5% per annum.

Chart 1



Source: AllenbridgeEpic based on WM figures

2.2. AllianzGI (RCM) – Global Active Equities

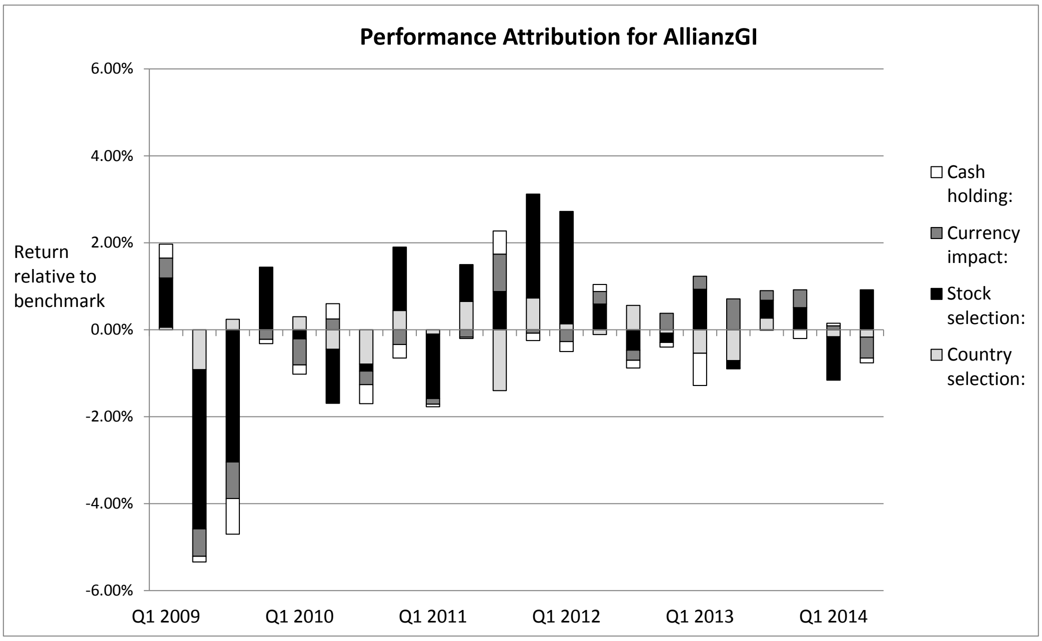
Headline comments: In terms of relative performance, the fund in line with the index during the quarter. Over three years the fund is outperforming, mainly due to successful stock selection. Andy Wiggins, the Head of Institutional, has left the firm and is being replaced by Phil Dawes.

Mandate summary: An active global equity portfolio. AllianzGI operates a bottom-up global stock selection approach. They employ a team of research analysts to identify undervalued stocks in each geographical region (Europe, US, Asia Pacific). A global portfolio team is responsible for constructing the final portfolio. The objective of the fund is to outperform the FTSE All World Index by 3.0% per annum over rolling 3 year periods gross of fees.

Performance attribution: Chart 2 shows a breakdown of AllianzGI's quarterly performance since Q1 2009 relative to the benchmark.

Over the past three years, AllianzGI is ahead of its benchmark by +2.1% per annum, although **they are still trailing their performance target of 3% per annum**. Stock selection has made the biggest positive contribution over the past three years (+2.4% per annum). This is shown in the black bars in Chart 2 for each quarter. Currency selection has also made a positive contribution over three years (+0.7% p.a.), but this has been offset by poor country bets (-0.5% p.a.) and by the cash holding (-0.3% p.a.)

Chart 2



Source: AllenbridgeEpic based on AllianzGI figures

Portfolio risk: In terms of sector bets, relative to the benchmark, the largest underweight sector position relative to the index is now Utilities (-3.5%), following a rebalancing in the Consumer Goods sector. The fund remains most overweight Industrials (+8.7%).

In terms of regional bets, the fund remains most overweight to Europe (+10.5% overweight). **Note that this is also the most significant overweight region in Newton's portfolio.** The largest underweight region remains the UK (-5.3% underweight). The cash position stood at 2.8%.

Portfolio characteristics: The total number of holdings in the portfolio stood at 59 securities at the end of Q2 2014, within AllianzGI's normal range of 50-60 names. The beta on the portfolio was 1.03 at the end of June.

Staff turnover: Just after the June quarter end, Andrew Wiggins, Head of UK Institutional, left the firm. AllianzGI has recently announced that Phil Dawes will be taking over this role. Phil was previously Head of Consultant Relations for Europe and also helped to launch AllianzGI's UK infrastructure fund.

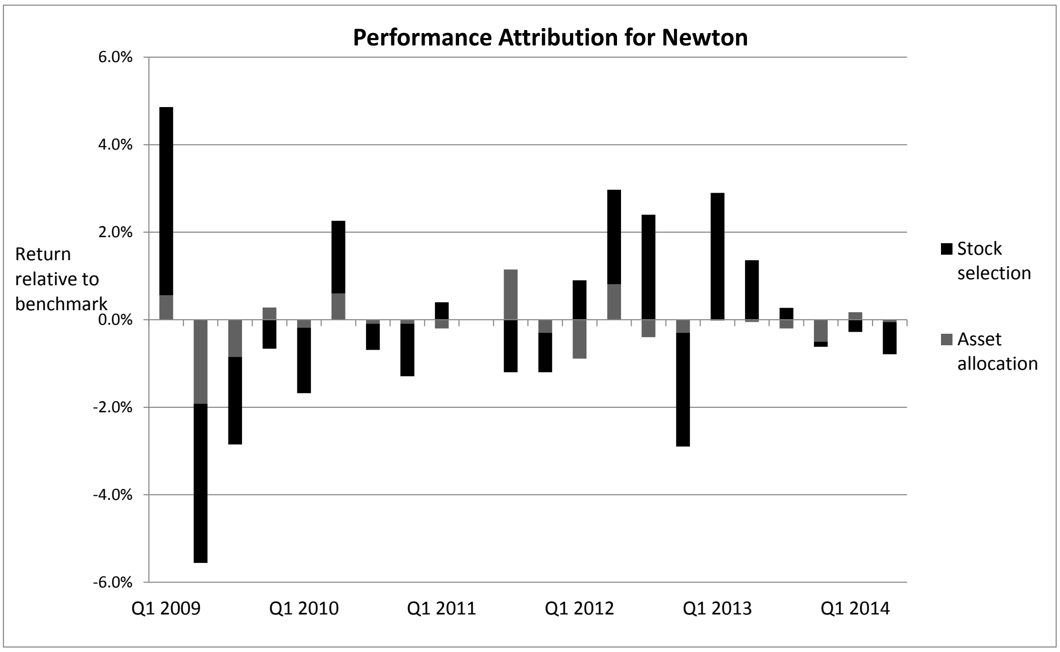
2.3. Newton – Global Active Equities

Headline comments: Newton had a poor quarter which made the 12 month relative track record slightly worse with an underperformance of some -1.7%, but they outperformed over three years by +1.0%. Newton attributes the three year outperformance to positive stock selection decisions (+1.3% p.a.) offset slightly by negative asset allocation decisions (-0.2% p.a.). The fund's target performance is +2.0% per annum ahead of the benchmark.

Mandate summary: An active global equity portfolio. Newton operates a thematic approach based on 12 key themes that 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 is to outperform the FTSE All World Index by 2.0% per annum over rolling 3 year periods, net of fees.

Performance attribution: Chart 3 shows the attribution of relative performance between stock selection and asset allocation. The poor 12 month relative performance can be seen in the right hand four bars which show a disappointing profile.

Chart 3



Source: AllenbridgeEpic based on Newton's performance attribution figures

Over the three years to June 2014, Newton was ahead of the benchmark, with a return of +9.6% p.a. compared to the index return of +8.5% p.a., an outperformance of +1.0% p.a. Stock selection accounted for +1.3% outperformance whilst asset allocation was slightly negative. Note that the performance target is +2% p.a. outperformance over three years. **The fund is trailing its performance objective.**

In terms of stock and sector selection, during the quarter the most successful sector bet was in Financials (+0.4% to relative performance) where Newton remained -12% underweight. The least successful sector was Healthcare (-0.6% relative performance) which was impacted by the failed Pfizer bid for AstraZeneca.

Portfolio Risk: The largest overweight regional allocation was in European Equities (+8.9% overweight). It remains the most significant regional allocation made by Newton since the inception of the portfolio, and successful stock selection in this region added +0.9% to relative performance during the quarter. The most underweight allocation was to Other Equities (-6.5%), with Newton having doubled this relative underweight position during the quarter.

In terms of sector bets, Newton remained most overweight in Healthcare (+5.9%) and most underweight in Financials (-12.2%).

The level of active risk in the portfolio (i.e. the relative risk of the active bets being taken by Newton, or the tracking error) has fallen to 1.9%. **This is below the normal range of 2% and 6%.** (As a guide, the tracking error on the UK index fund is around 0.35%. AllianzGI, on the other hand, expects their active risk to be around 6% per annum). The concern with Newton's active risk is that such a low level will limit the manager's ability to meet the performance objective of +2% per annum outperformance a year over a three year period. The worst outcome would be to end up with a "closet" index fund (but with active fees).

The manager has explained that the fall in active risk is, in part, due to a decline in market volatility but it is also due to more cautious positioning. It is the latter aspect that is more concerning, although Newton has provided reassurance that they do not expect it to impact their chances of achieving their performance objective.

Portfolio characteristics: At the end of Q2 2014, the portfolio held 80 securities (82 as at the end of Q1 2013). This at the lower end of Newton's expected range of between 80 and 120 stocks. Turnover over the past 12 months was 28%, slightly below Newton's normal expected range of turnover to 30%-70%.

Staff turnover: during the quarter one investment professional left the firm, Thomas Beevers, a strategist and economist. The head of business development, John Burke, also left the company. There was one joiner, Julian Lyne, who has been appointed head of global consultants and UK institutional business development.

Organisation: as at end June 2014, assets under management had fallen to £50.9 billion, £0.8 billion lower than at 30th December 2013.

2.4. Standard Life – Fixed Income

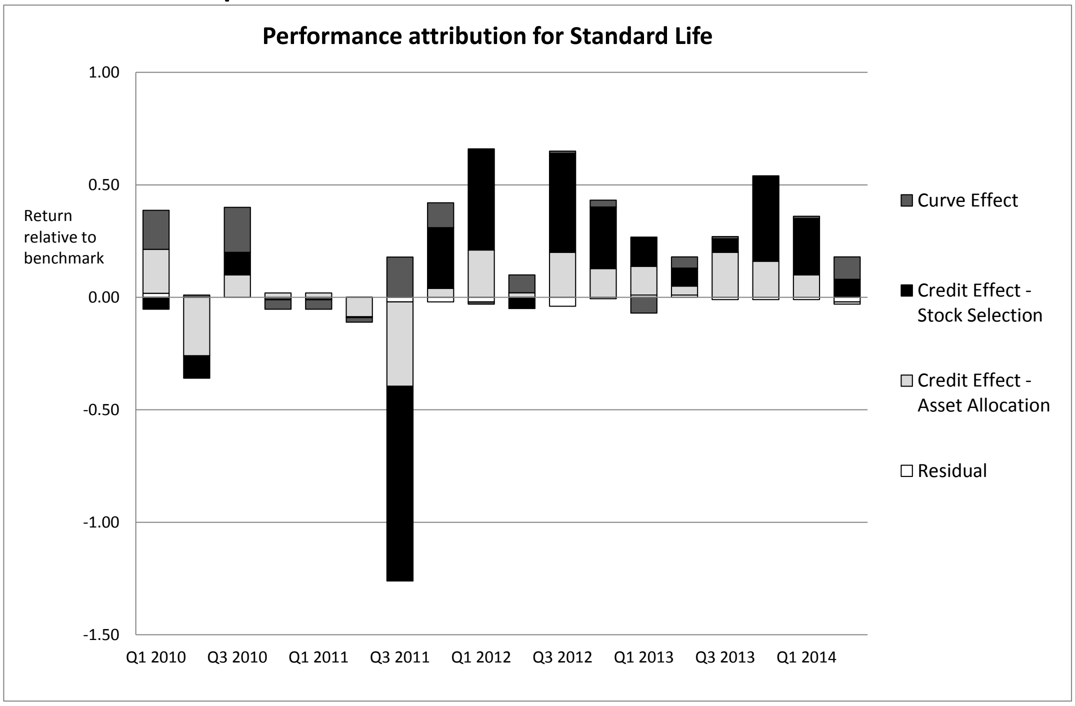
Headline comments: The portfolio was ahead of the benchmark during the quarter by +0.1%. Over three years, Standard Life's outperformance reached +0.8% per annum, so they are now meeting their performance target of +0.8% per annum. Over one year the fund is +1.2% ahead.

Mandate summary: An actively managed bond portfolio, invested in Standard Life's Corporate Bond Fund. The objective of the fund is to outperform the Merrill Lynch UK Non Gilt All Stocks Index by 0.8% per annum over rolling 3 year periods.

Performance attribution:

Chart 4 shows the performance attribution of the Corporate Bond Fund versus its benchmark. This is a pleasing profile for an active bond manager, with small but consistent levels of outperformance each quarter.

Chart 4 – to be updated



Source: AllenbridgeEpic based on Standard Life figures

Over three years, the portfolio has returned +8.4% p.a. compared to the benchmark return of +7.6% p.a., an outperformance of +0.8% p.a. **The fund is meeting its performance objective of outperforming the benchmark by +0.8% per annum**.

The three year numbers are still being impacted by the poor return in Q3 2011 when the portfolio underperformed its benchmark by -1.1%. That figure drops out next quarter, which should result in an improvement in the three year numbers. Based on the past twelve months, the portfolio is ahead by +1.2%.

Over the past three years, most of the outperformance has come from successful stock selection (+0.5%), with asset allocation contributing +0.3%. The off benchmark position in high yield has been particularly successful, contributing +0.5% per annum for the three years to Q2 2014, with small but positive contributions in every quarter.

Portfolio Risk: The largest holding in the portfolio at quarter end remains EIB 6% 2028 (2.2% of the portfolio). The largest overweight sector position remained Financials (+6.7%). The long-standing underweight position in sovereigns and sub-sovereigns remains (-15.7%). This position is at its highest level since inception.

The fund continues to hold 6.0% of the portfolio in non-investment grade bonds (these do not form part of the benchmark).

Portfolio characteristics: The value of Standard Life’s total pooled fund at end June 2014 was £3,825.2 million, £28.6 million higher than at the end of Q1 2014. This is the first quarter, where the fund’s value has risen, since Q3 2012, although the majority of the rise was due to the underlying return in the fund rather than net inflows. London Borough of Islington’s holding of £201.3 million is now 5.3% of the total fund value.

Staff turnover: There were 11 joiners during the quarter. These included a high yield bond analyst and two joiners to SL Capital, the private equity arm. There were 16 leavers during the quarter. 12 of these were Investment Directors, mainly on the equity side of the business. John McClain, Vice President of Fixed Income, also left the firm.

2.5. Aviva Investors – Property – Lime Property Fund

Headline comments: The Fund outperformed the gilt benchmark by +0.9% during the quarter but underperformed the IPD Property Index return by -2.5%, as the property market continued to rally (the index has risen over 17% in the past 12 months). Over three years the Fund is just ahead of its benchmark by +0.2% but behind the IPD Index by -1.5% per annum.

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% per annum, over three year rolling periods.

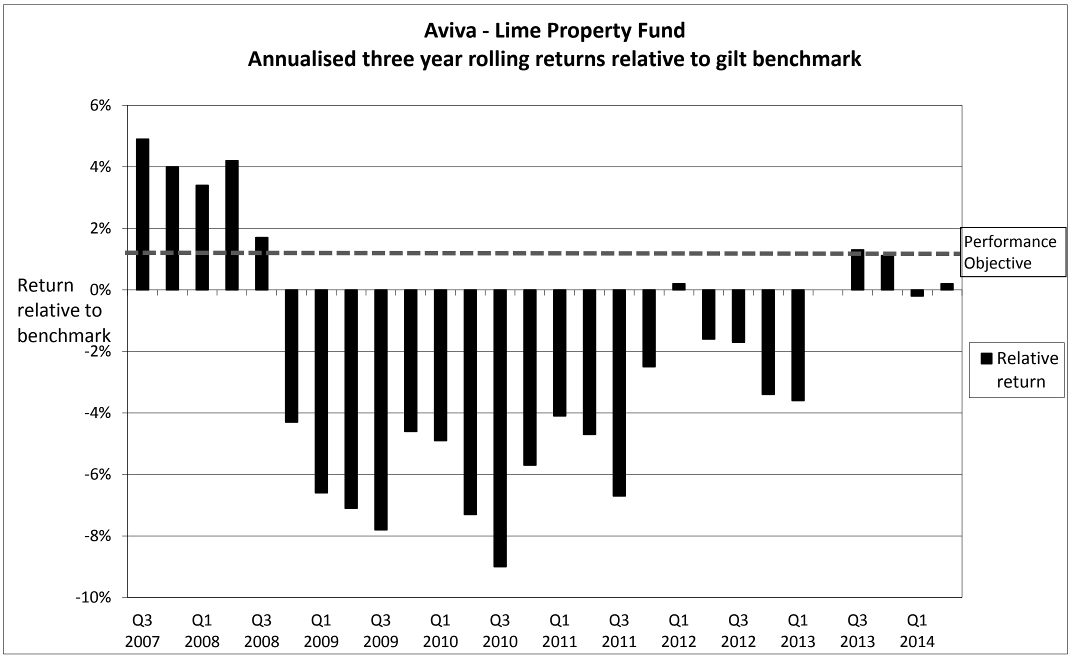
Performance attribution: The fund was just ahead of the gilt benchmark this quarter by +0.9% and over the past twelve months it has outperformed by nearly 5%. The portfolio trailed the IPD Index in Q2 2014 by -2.5% but in a strong property bull market this is to be expected with a low risk property portfolio such as the Lime Fund.

Over three years, the fund returned +7.0% p.a. compared to the gilt benchmark of +6.8% p.a. Relative to the IPD Property Index, the fund underperformed by -2.5% p.a. The **portfolio is ahead of its gilts benchmark but behind its long term performance objective of +1.5% per annum outperformance over three years**.

Of the +7.0% fund return over three years, 5.5% came from income, with the balance from capital gain. One of the key features of the Lime Fund is its positive exposure (currently over 80%) to fixed uplifts and RPI linked reviews.

Chart 5 shows the relative performance of the Fund compared to its gilt benchmark on a three year rolling basis.

Chart 5



Source: AllenbridgeEpic based on WM figures

Portfolio risk: The acquisition pipeline continued to grow during the quarter. The average unexpired lease term is 20.8 years, with 15% of the portfolio's lease exposure in properties in over-35-year leases. 46% of the properties have public tenants with the largest sector exposure remaining supermarkets (23.8%). The cash allocation stood at 5% as at quarter end.

Portfolio characteristics: As at end June the Lime Fund was valued at £1.197 billion, an increase of £29.0 million from the previous quarter end. London Borough of Islington's holding represents 3.7% of the total Fund's value.

Staff turnover: following Luke Powell's departure last quarter (the CRM for London Borough of Islington), and Geoffrey Shaw's departure some months before that (the Assistant Fund Manager), the new team for the Lime Fund now comprises: Renos Booth, Fund Manager; Andrew Davey, Assistant Fund Manager; Leanne Marx, Client Relationship Manager; Karen Willsmore, Assistant Client Relationship Manager.

2.6. Threadneedle - Pooled Property Fund

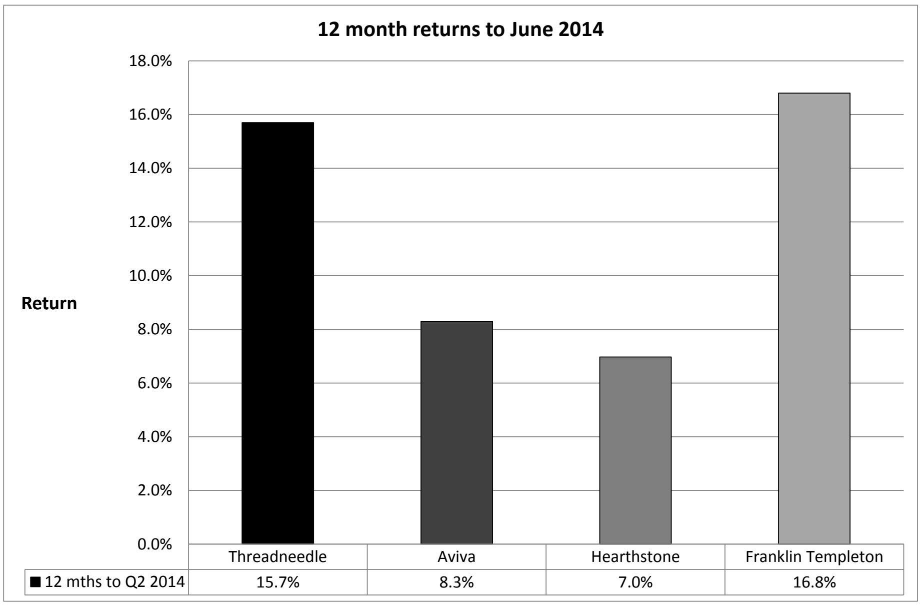
Headline comments: The Fund's performance was +0.9% ahead of its benchmark (the IPD All Balanced – Weighted Average (PPFI) Index) during the quarter. Over three years, the Fund has outperformed its benchmark by +2.3%. The Fund is ahead of its performance target of 1% p.a. above benchmark over three years.

Mandate summary: An actively managed UK commercial property portfolio, the Threadneedle Pooled Property Fund invests in a diversified, multi-sector portfolio of UK property assets. Its performance objective is to outperform the AREF/IPD All Balanced – Weighted Average (PPFI) Index by at least 1% p.a., net of fees, on a rolling three year basis. The benchmark changed at the end of Q4 2013. Prior to this, the benchmark was the CAPS pooled property median fund.

Performance attribution: The fund's outperformed the benchmark during the quarter by +0.9%. In terms of the three year performance, **the Fund is well ahead of its performance target of outperforming by +1% per annum.** The portfolio returned +7.4% p.a. over three years compared with the benchmark return of +5.0% p.a.

Threadneedle remains one of London Borough of Islington's strongest performing managers (across all mandates) over the past 12 months. This is shown in Chart 6 which compares the returns for the four property managers.

Chart 6

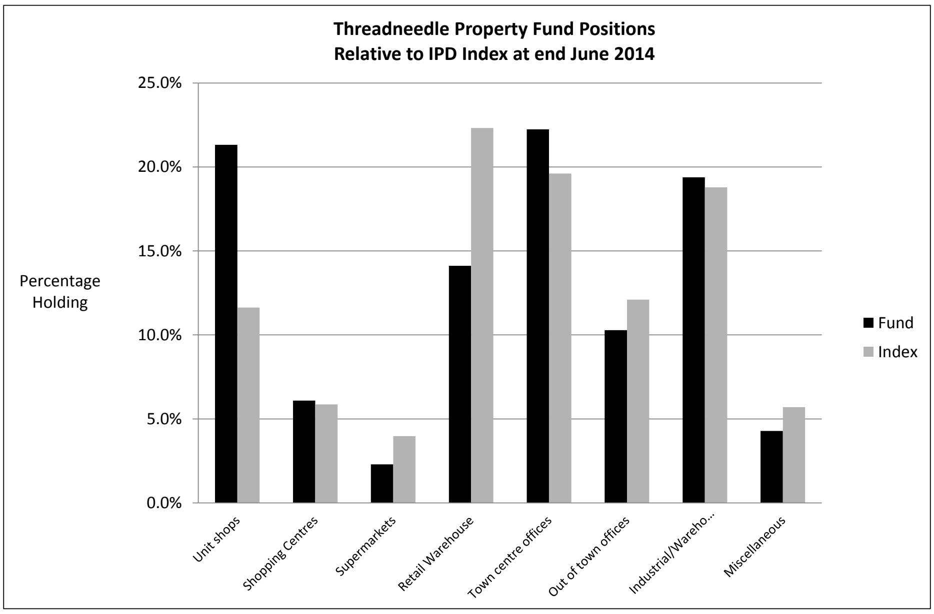


Source: AllenbridgeEpic based on WM data

Portfolio Risk: The fund continued its programme of acquisitions with the purchase of six new properties in the second quarter of 2014, totalling £54.3 million.

Chart 7 shows the current breakdown of the portfolio relative to its benchmark.

Chart 7



Source: AllenbridgeEpic based on Threadneedle data.

Portfolio characteristics: As at 30th June 2014, the Threadneedle Property Fund was valued at £1.30 billion, an increase of £63.8 million compared with June 2013. Over the past twelve months the fund has grown by £235 million. London Borough of Islington's investment represents 4.5%.

As at end June, the fund had 250 properties and 1,333 tenancies. The top ten tenants form 21.8% of the total rent roll. The cash balance continues to be kept at a prudent level. As at end June it was just over 5%, well below the target maximum of 10%.

Staff turnover: there were 12 leavers and three joiners during Q2 2014, across the organisation. Of these, one of the leavers was from the property team. Andrew Hirons has retired, but this was expected and Threadneedle arranged for a three month handover period to Nicholas Bacon who has taken over Andrew's role as an asset manager in the property team.

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

Headline comments: All the index funds were within the expected tracking range when compared with their respective benchmarks and there are no issues. The fundamental FTSE-RAFI Emerging Markets index fund outperformed its market capitalisation-weighted counterpart in Q2 2014 by +1.1%. For the 12 months to Q2 2014 however, the outperformance is more marginal (+1.28% vs +1.26%).

Mandate summary: Four regional overseas equity index funds, in Europe, Japan, Asia Pacific ex Japan, and emerging markets, designed to match the total return on the FTSE All World Regional Indices. One additional index fund is designed to match the total return on the FTSE-RAFI Emerging Markets Equity Index. The FTSE All World Indices are based on capitalisation weights whereas the FTSE-RAFI Index is based on fundamental factors.

Performance attribution: **The regional portfolios are all tracking their benchmarks**, as shown in Table 2.

Table 2

Q1 2014	Fund	Index	Tracking
Europe	-0.1%	-0.2%	0.1%
Japan	+4.2%	+4.2%	0.0%
Asia Pacific ex Japan	+2.0%	+2.0%	0.0%
FTSE emerging markets	+4.9%	+4.9%	0.0%
RAFI emerging markets	+6.0%	+5.9%	0.1%

Source: LGIM

Portfolio Risk: The percentage allocation to each regional fund is based on pre-agreed band widths, which also take into account the global equity managers' allocations. The largest deviation from the benchmark allocation is North America which is 0.7% overweight.

Staff turnover: Following Hugh Cutler's departure (Head of Europe & Middle East, Institutional Business), Legal & General announced at the beginning of June that Sarah Aitken had been appointed as Hugh's replacement, from September 2014. She was previously the Head of Distribution at Insight Investment Management.

2.8. Franklin Templeton – Global Property Fund

Headline comments: This is a long term investment and as such a longer term assessment of performance is recommended. For the year to March 2014, the Fund return was +16.8% compared to its absolute return benchmark of 10% per annum. The first three year performance numbers are now available and the fund has delivered a return of +4.8% per annum compared with the absolute return benchmark of 10% per annum.

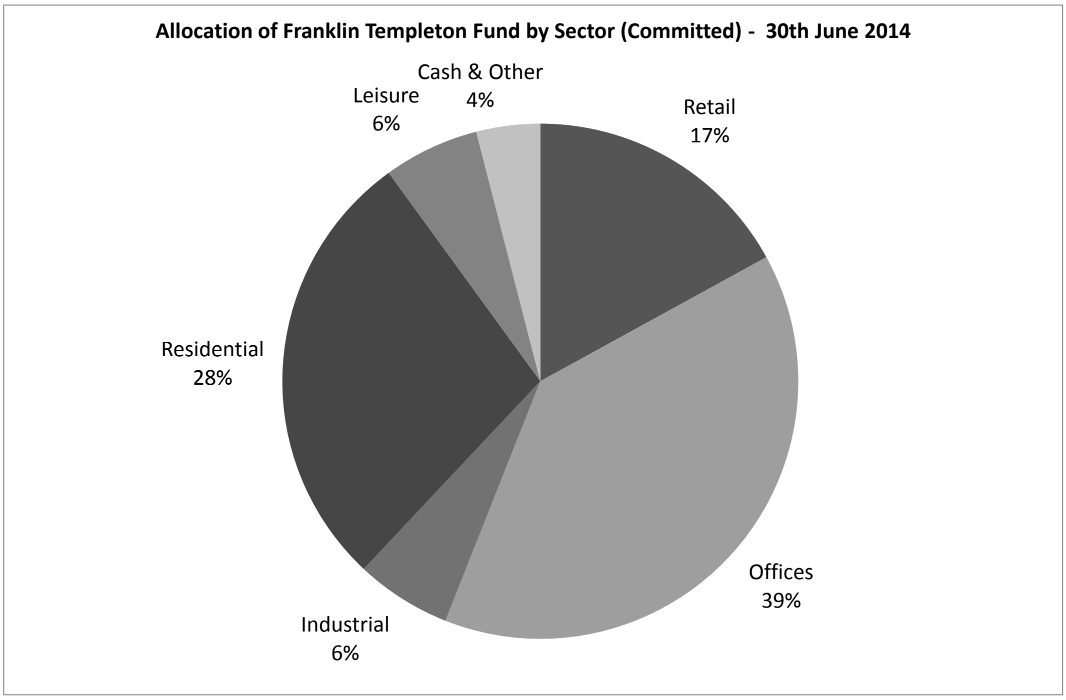
Mandate summary: A global private real estate fund of funds investing in ten sub funds. The performance objective is an absolute return benchmark over the long term of 10% per annum.

Performance attribution: The fund has commitments to 11 funds. Of these, two are in the early phase of development and it is too early to assess their progress. Of the remaining nine, three are on target, five are above target and one is substantially above target (GreenOak Japan). This is an improvement on last quarter's reported progress. Funds that are on target are expected to deliver an IRR (Investment Rate of Return) of between 10% and 15%. Funds that are above target are expected to deliver an IRR of between 15% and 25%. Funds that are substantially above target are expected to deliver an IRR of over 25%.

Distributions on five of the underlying funds continued, with 5% of the fund's commitments being distributed in Q2 2014, including a substantial distribution from Greenoak which had a positive effect on this quarter's return (as calculated by WM). The exits within the GreenOak fund, continuing over coming months, will have generated an IRR (internal rate of return) of 74%. Another of the underlying funds, Savanna, is also expected to make a "meaningful distribution" in coming months.

Portfolio characteristics: Chart 8 shows the sector allocation of the Fund. Nearly 40% of the Fund's commitments are in the office sector. Geographically, the fund is split: 40% to the US, 38% to Asia and 22% to Europe.

Chart 8



Source: AllenbridgeEpic based on Franklin Templeton figures

Portfolio Risk: The fund is in the advanced stages of due diligence on a co-investment opportunity in Asia and is reviewing two additional co-investment opportunities. These investments will mean that the fund is fully invested.

2.9. Hearthstone – UK Residential Property Fund

Headline comments: The portfolio returned +2.6% compared to the benchmark return of +2.1% for the quarter ending June 2014. Over 12 months the return was +7.0% compared to the benchmark return of +10.9%. Lucy Hawkins, the Assistant Fund Manager, is now on maternity leave.

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.

Performance attribution: The Fund returned +7.0% compared to the return on the index of 10.9% over the past 12 months. This places Hearthstone fourth out of the four property managers in terms of returns over the past year (see Chart 6). The yield on the portfolio was 5.7% at the end of June, after adjusting for voids.

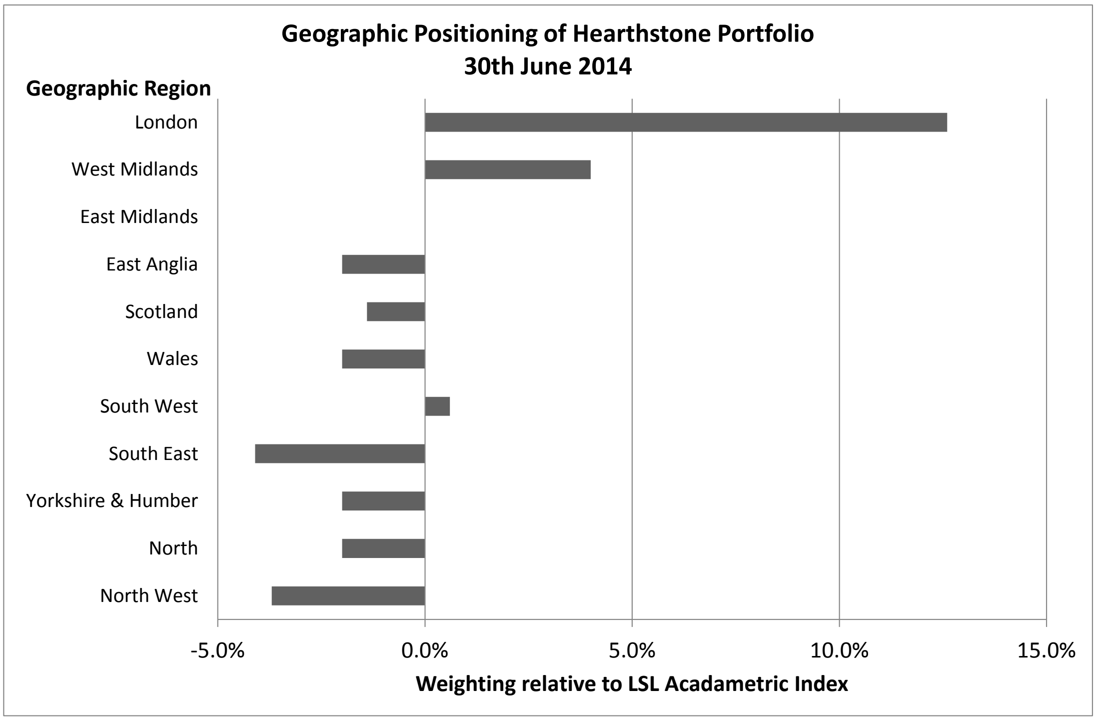
The residential property market has seen its twelfth month in succession where the average house price has risen to new record levels, although this is mainly due to price rises in Greater London and the South East. Excluding these regions, the increase is nearly halved.

Portfolio risk: The portfolio still holds a significant overweight position in London, relative to the benchmark. This is a consequence of an investment opportunity in Wembley. There were no acquisitions or disposals during Q2 2014, but the manager is looking to increase the underweight allocations in the South East, North West and the North. Hearthstone's normal strategy is to maintain broadly neutral regional bets in the portfolio.

As at end Q1 2014, the fund was valued at £30.0 million. London Borough of Islington remains the main investor, owning 71% of the total fund. Cash and liquid instruments in the portfolio stood at 11.5% at the end of Q2 2014, compared to a target level of 15%.

Portfolio characteristics: Chart 9 shows the regional bets in the portfolio. The biggest overweight region is London (+12.6%). The most underweight region relative to the index was the South East (-4.1%).

Chart 9



Source: AllenbridgeEpic based on Hearthstone figures

The Fund has a 21% allocation to detached houses, 52% allocated to flats, 22% in terraced accommodation and 5% in semi-detached.

Organisation and staff turnover: Lucy Hawkins, the Assistant Fund Manager, is on maternity leave. Alex Jaques (contractor) is providing cover.

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4th September 2014