MJ HUDSON Allenbridge

London Borough of Islington

Report to 31st December 2019

MJ Hudson Allenbridge

MARCH 2020

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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 MANAGE-MENT	CHANGE IN STRATEGY/RISK	MANAGER SPECIFIC CONCERNS
London CIV – Newton (active global equities)	Iain Stewart (who was the founder and originally the lead manager for the fund) retired at the end of December 2019.	Underperformed the benchmark by -0.34% in the quarter. Over three years the fund is behind the benchmark return by -0.07% and failing to achieve the performance target of +1.5% p.a.	As at end December the sub- fund's value was £667.7 million. London Borough of Islington owns 36.3% of the sub-fund.		
BMO/LGM (emerging and frontier equities)	No updates were reported in Q4 2019.	Underperformed the benchmark by -5.19% in the quarter to December 2019. The fund is behind over one year by -7.75%.	Not reported.		

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGE-MENT	CHANGE IN STRATEGY/RISK	MANAGER SPECIFIC CONCERNS
Standard Life (corporate bonds)	10 joiners, 43 leavers (including 11 across credit, treasury, emerging market debt, and private credit).	The fund was ahead of the benchmark by +0.16% in the quarter to December 2019. Over three years the fund is 0.41% p.a. ahead of the benchmark return net of fees, but behind the performance target of +0.8% ahead p.a.	Fund value rose to £2,560.0 million in Q4 2019, a rise of £110.7 million. London Borough of Islington's holding stood at 6.5% of the fund's value.		
Aviva (UK property)	4 new joiners and 12 leavers across the firm. On the Lime Fund team there were no changes.	Outperformed the gilt benchmark by 6.45% for the quarter to December 2019 and outperformed by +1.81% p.a. over three years, net of fees.	Fund was valued at £2.70 billion as at end Q4 2019. London Borough of Islington owns 4.6% of the fund.		

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGE-MENT	CHANGE IN STRATEGY/RISK	MANAGER SPECIFIC CONCERNS
Columbia Threadneedle (UK property)	Two joiners and two leavers in Q4 2019, but no changes to the team managing the Islington portfolio.	Underperformed the benchmark return by -6.25% in Q4 2019, due to a change in the pricing methodology for the fund They marginally underperformed the benchmark by -0.09% p.a. over three years, below the target of 1% p.a. outperformance.	Pooled fund has assets of £2.05 billion. London Borough of Islington owns 4.09% of the fund.		
Legal and General (passive equities)	Within the corporate governance team, there were two new joiners in Q4, an ESG manager and a sustainability and responsible investment manager.	Funds are tracking as expected. Both marginally underperformed the index in Q4.	Assets under management of £1.2 trillion at end December 2019. Net flows of +£60.3 billion in first six months of 2019.		
Franklin Templeton (global property)	There were four leavers during Q4 2019. Three from the closure of the Singapore office.	Portfolio return over three years was +17.37% p.a., well ahead of the target of 10% p.a.	$698.3 billion of assets under management as at end December 2019.		The acquisition of Legg Mason runs the risk of diverting senior management time.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGE-MENT	CHANGE IN STRATEGY/ RISK	MANAGER SPECIFIC CONCERNS
Hearthstone (UK residential property)	No leavers or joiners in Q4.	Marginally outperformed the IPD UK All Property Index by +0.03% in Q4. Trailing the IPD benchmark over three years by -3.94% p.a. to end December 2019.	Fund was valued at £61.4m at end Q4 2019. London Borough of Islington owns 47.1% of the fund.		
Schroders (multi-asset diversified growth)	During Q4, no changes to investment team.	Fund returned +2.43% during the quarter and +4.45% p.a. over 3 years, -3.55% behind the target return.	Total AUM stood at £500.2 billion as at end December 2019.	The volatility of the fund is at the low end of expectations at present. At end December it was 43% of equity market volatility compared with an expected maximum of 66%.	
Quinbrook (renewable energy infrastructure)	Two new joiners to the investment team: a vice president, and an analyst.	Over Q4 2019 the fund returned -4.73%, behind the benchmark return of +2.87% although performance should be assessed over a longer time period for this fund			

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGE-MENT	CHANGE IN STRATEGY/ RISK	MANAGER SPECIFIC CONCERNS
Pantheon (Private Equity and Infrastructure Funds)		The combined funds returned -7.46% in Q4, compared to the benchmark return of +1.41%. Over three years, the combined return was +22.42%, ahead of the benchmark return of +10.38%.			

Source: MJ Hudson Allenbridge

Minor Concern

Major Concern

Individual Manager Reviews

In-house – Passive UK Equities – FTSE UK Low Carbon Optimisation Index

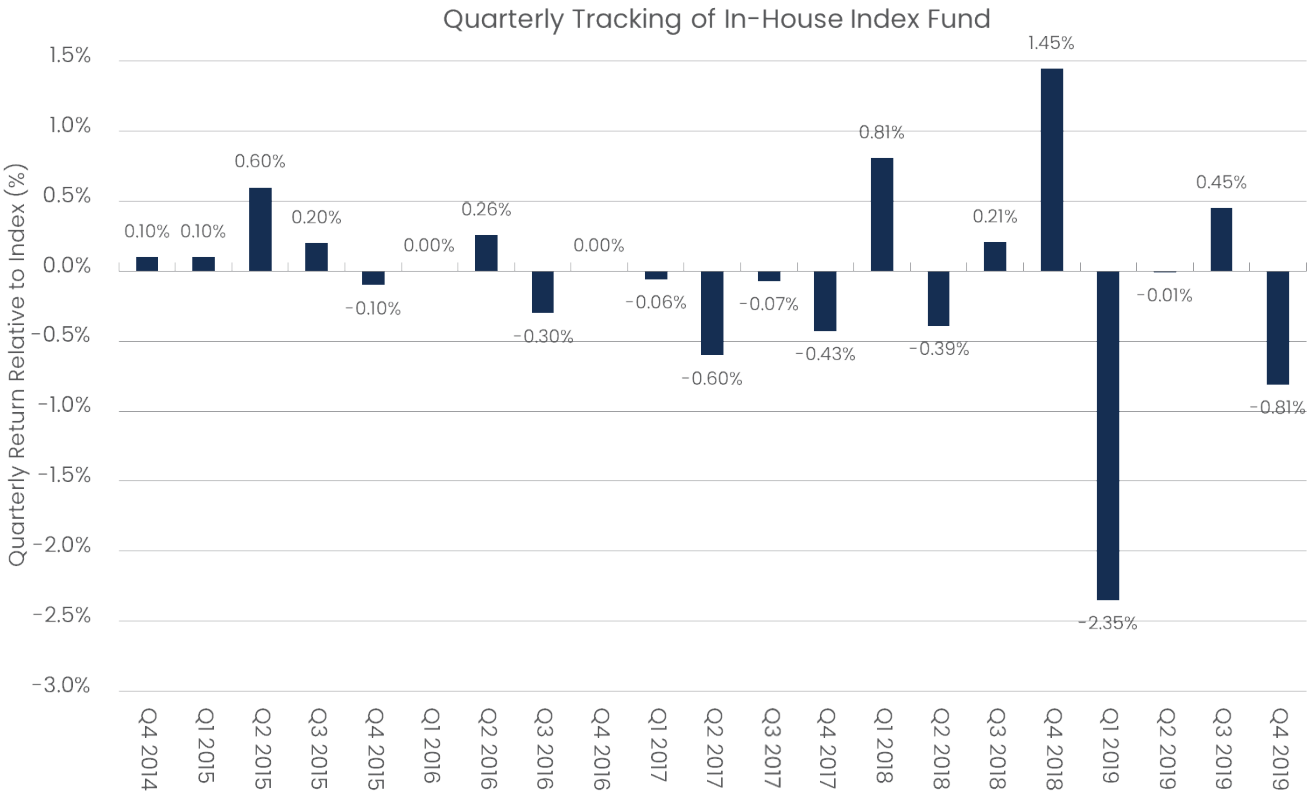
Headline Comments: At the end of Q4 2019 the fund returned +3.35%, this was behind the FTSE All-Share index return of +4.16%. Also, over three years the fund has returned +6.81% p.a., marginally behind the FTSE All-Share Index by -0.05%.

Mandate Summary: A UK equity index fund designed to match the total return on the UK FTSE All-Share Index. In Q3 2017, the fund switched to tracking the FTSE UK Low Carbon Optimisation Index. This Index aims to deliver returns close to the FTSE All-Share Index, over time. The in-house manager uses Barra software to create a sampled portfolio whose risk/return characteristics match those of the low carbon index.

Performance Attribution: Chart 1 shows the quarterly tracking error of the in-house index fund against the FTSE All-Share Index over the last five years. There are no performance issues although the new mandate is resulting in wider deviations quarter-on-quarter since the

transition to the low carbon fund. Over three years, the portfolio marginally underperformed its three-year benchmark by -0.05% p.a.

CHART 1:



Source: MJH Allenbridge; BNY Mellon

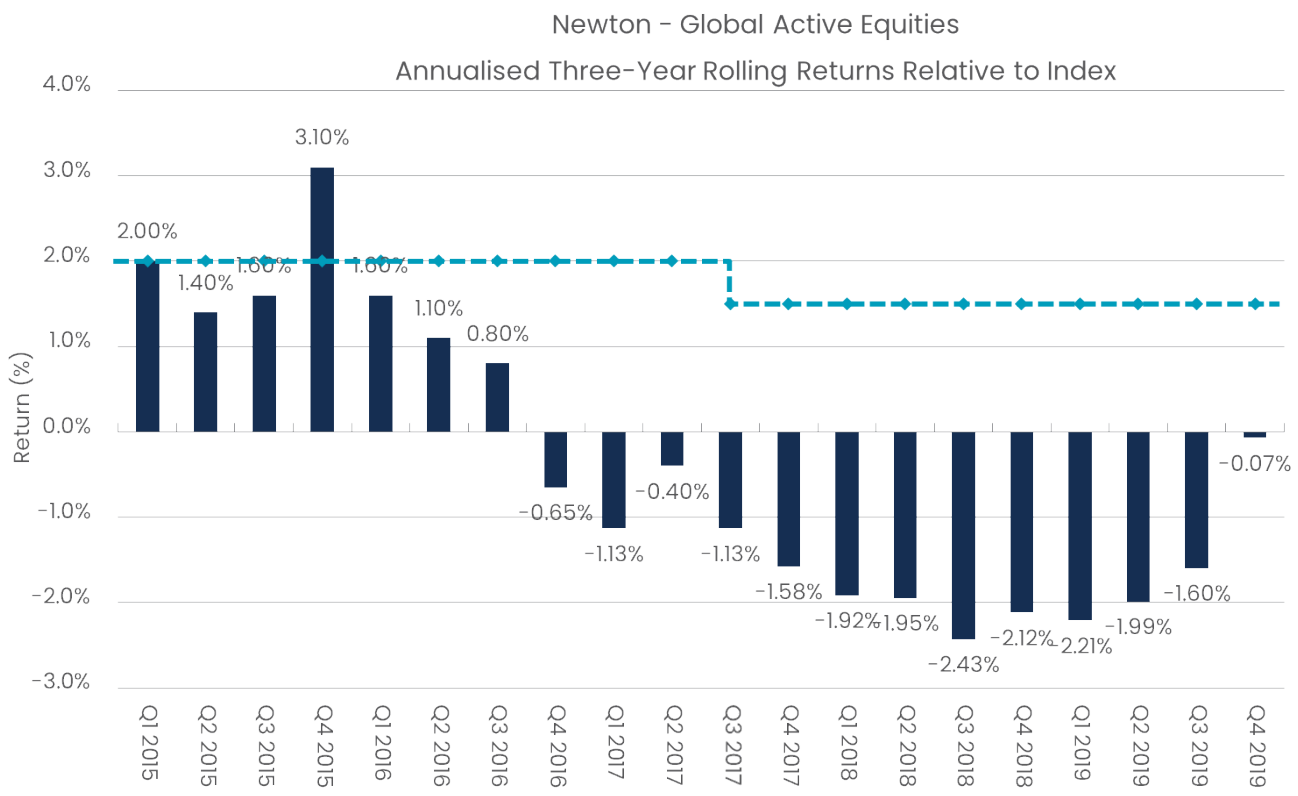
London CIV – Newton – Global Active Equities

Headline Comments: The London CIV – Newton sub-fund marginally underperformed its benchmark during Q4 2019 by -0.34%. Over three years the portfolio continues to marginally underperform the performance target of benchmark +1.5% 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.

Performance Attribution: Chart 3 shows the three-year rolling returns of the portfolio relative to the benchmark (the navy bars) and compares this with the performance target, shown by the blue dotted line.

CHART 3:



Source: MJH Allenbridge; BNY Mellon

For the three-year period to the end of Q4 2019, the fund has trailed the benchmark by -0.07% p.a. This means it is trailing the performance objective by -1.57% (the performance objective is shown by the dotted line and dropped in May 2017 when the assets transferred into the London CIV sub-fund).

London CIV attributed the performance in the quarter to December 2019 to progress in trade negotiations, de-escalation of geopolitical uncertainty, and Federal Reserve interest rate cuts supporting global equities. Positions in industrials and materials performed strongly, whilst consumer staples, utilities, and healthcare detracted somewhat.

Positive contributions to the total return came from holdings such as Apple (+0.41%) and Ferguson Plc (+0.34%). Meanwhile, Cisco Systems was the biggest detractor (-0.47%) from the fund's quarterly return of +1.11%, followed by Swedbank Ab (-0.18%).

The London CIV has expressed concern over recent lacklustre performance, particularly over the past 12 months, with the fund return trailing the benchmark by -1.68%.

Portfolio Risk: the active risk on the portfolio stood at 3.28% as at quarter end, marginally higher than as at end September when it stood at 3.27%. The portfolio remains defensive, with the beta on the portfolio at end December standing at 0.86, a decrease on the previous quarter when it stood at 0.90 (if the market increases by +10% the portfolio can be expected to rise +8.6%).

At the end of Q4 2019, the London CIV sub-fund's assets under management were £668m, compared with £660m last quarter. London Borough of Islington now owns 36.3% of the sub-fund.

Portfolio Characteristics: The number of stocks in the portfolio stood at 58 as at quarter-end (up from 56 last quarter). The fund added three positions, Mastercard Inc, Lonzo Group, and Rolls-Royce Holdings, and completed the sale of one position, ABB.

Staff Turnover: Newton announced in Q2 that Iain Stewart would be retiring at the end of December 2019. Iain was the founder of the strategy and was lead manager for some time. His retirement had, however, been planned for and his roles and responsibilities have gradually been handed onto other colleagues over recent years. Ilga Haubelt joined in November to oversee global equity opportunities. She was previously head of global equities at Deka Investment. Andrew Barry joined as head of sustainable investing, joining from Hermes.

The London CIV has expressed concerns over the high level of staff turnover in the team over the past 12 months, and they do not consider that Ilga Haubelt has a clearly defined role at this stage. They will be meeting with her during the quarter to end March 2020 to discuss further.

BMO/LGM – Emerging Market Equities

Headline Comments: The total portfolio delivered a return of -1.08% in Q4 2019, compared with the benchmark return of +4.11%, an underperformance of -5.19%. The emerging market component of this portfolio returned +6.69% (source: BMO, and in US dollars) compared with the index return of +11.84%. The frontier markets portfolio was also behind its index return of +4.46%, delivering a positive return of +4.00% (source: BMO, and in US dollars). Over one year, the total fund is behind of the benchmark return by -7.75%.

Mandate Summary: the manager invests in a selection of emerging market and frontier market equities, with a quality and value, absolute return approach. The aim is to outperform a combined benchmark of 85% MSCI Emerging Markets Index and 15% MSCI Frontier Markets Index by at least 3% p.a. over a three-to-five-year cycle.

Performance Attribution: during the quarter, the largest positive contributors to performance for the emerging markets portfolio came from ICICI Bank Ltd (+0.8%), Mr Price Group Ltd (+0.6%) and Sands China Ltd (+0.6%). Companies which detracted most from performance included British American Tobacco (-0.3%), ITC Ltd (-0.3%) and Aguas Andina SA (-0.2%).

In the frontier market portfolio, positive contributors included United Bank Ltd (+0.9%), Bank of Georgia Group Plc (+0.7%) and Sonatel (+0.7%). Companies which detracted from performance included Tanzania Breweries Ltd (-0.4%), Aramex PJSC (-0.4%) and ASA International Group (-0.3%).

It is worth noting that, over one year, the frontier market portfolio return was -4.47% versus the benchmark return of +13.17% (source BMO, in US dollars). This is of some concern, however, BMO LGM have commented that the performance of the portfolio is not "a fair reflection of the health of the companies we are invested in". The level of underperformance is something to monitor closely over coming months.

Portfolio Risk: Within the emerging markets portfolio, 18.5% was allocated to developed or frontier markets, and cash was at 3.5% as at quarter-end. Turnover for the previous 12 months was 19.8%. The largest overweight country allocation in the emerging markets portfolio remained India (+8.3% overweight). The most underweight country allocation remained South Korea (-11.7%) where the fund has no allocation.

Within the frontier markets portfolio, it is worth noting that 67.3% of the portfolio was invested in countries that are not in the benchmark index, including Egypt, Pakistan, Costa Rica and Peru. This explains the high tracking error of returns versus the benchmark (7.4% as at end December 2019). The most overweight country allocation remained Egypt (+13.0%) and the most underweight was Vietnam (-14.1%).

Portfolio Characteristics: The frontier markets portfolio held 41 stocks as at end December compared with the benchmark which had 92. The emerging markets portfolio held 43 stocks as at end December compared with the benchmark which had 1,404.

Organisation: LGM did not indicate any changes to the investment team in Q4 2019.

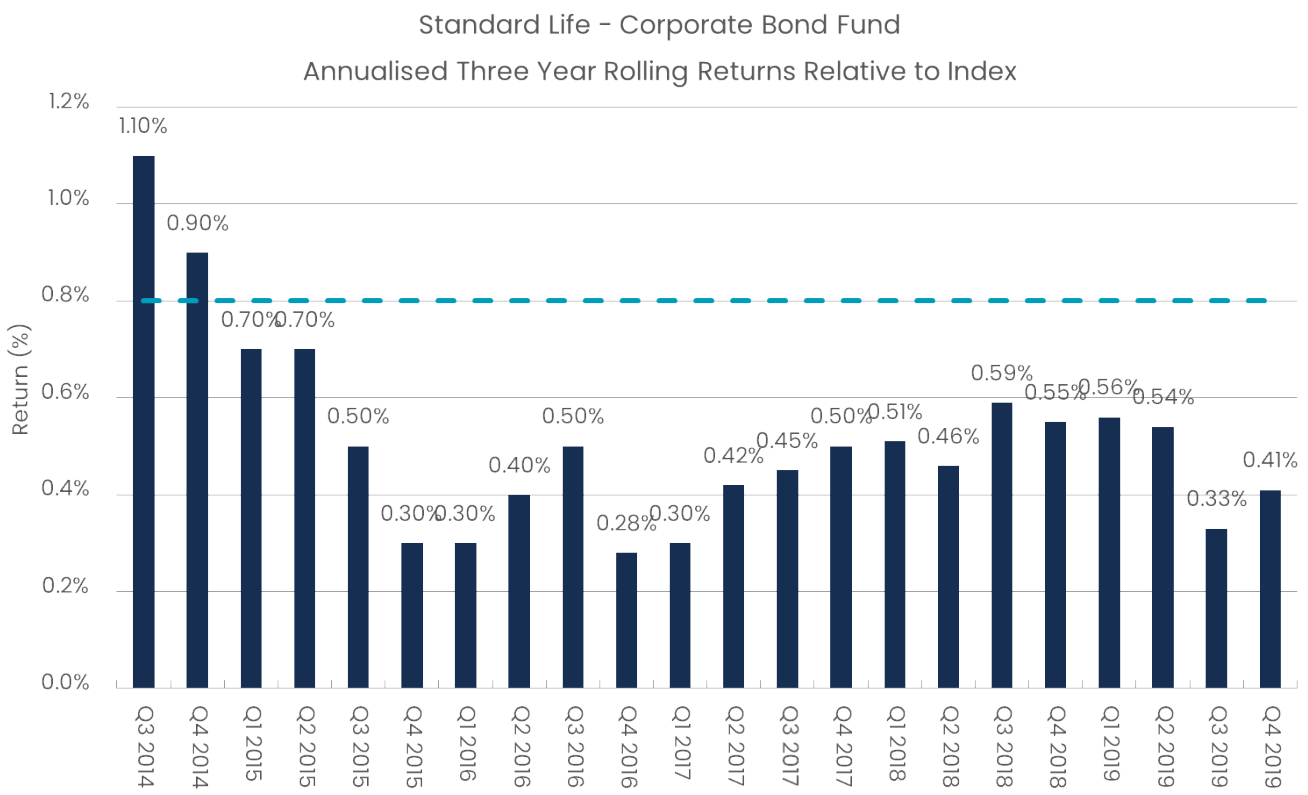
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio was marginally ahead of the benchmark return during the quarter by +0.16%. Over three years, the fund was ahead of the benchmark return (by +0.41%) but behind the performance target of benchmark +0.8% 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 4 shows the three-year performance of the Corporate Bond Fund compared to the Index, over the past five years. This shows the fund continues to be ahead of the benchmark over three years whilst trailing the performance objective (shown by the dotted line in Chart 4).

CHART 4:



Source: MJH Allenbridge; BNY Mellon

Over three years, the portfolio has returned +4.31% p.a. net of fees, compared to the benchmark return of +3.90% p.a. Over the past three years, stock selection has added +0.33% value, followed by asset allocation (+0.15%) and curve plays (+0.07%).

Portfolio Risk: The largest holding in the portfolio at quarter-end was UK (Govt of) 4.25% 2055 at 2.1% of the portfolio. The largest overweight sector position remained Financials (+5.2%) and the largest underweight position remained sovereigns and sub-sovereigns (-14.2%). Contribution from the curve effect was negative this quarter.

The fund holds 3.1% of the portfolio in non-investment grade (off-benchmark/BB and below) bonds.

Portfolio Characteristics: The value of Standard Life's total pooled fund at end December 2019 stood at £2,560.0m, £110.7m higher than at the end of September 2019. London Borough of Islington's holding of £166.53m stood at 6.5% of the total fund value (compared to 6.8% last quarter).

Staff Turnover: there were 10 joiners, but 43 people left the firm during the quarter. Of the 43 leavers, 11 were from the credit, treasury, emerging market debt, and private credit teams.

Aviva Investors – Property – Lime Property Fund

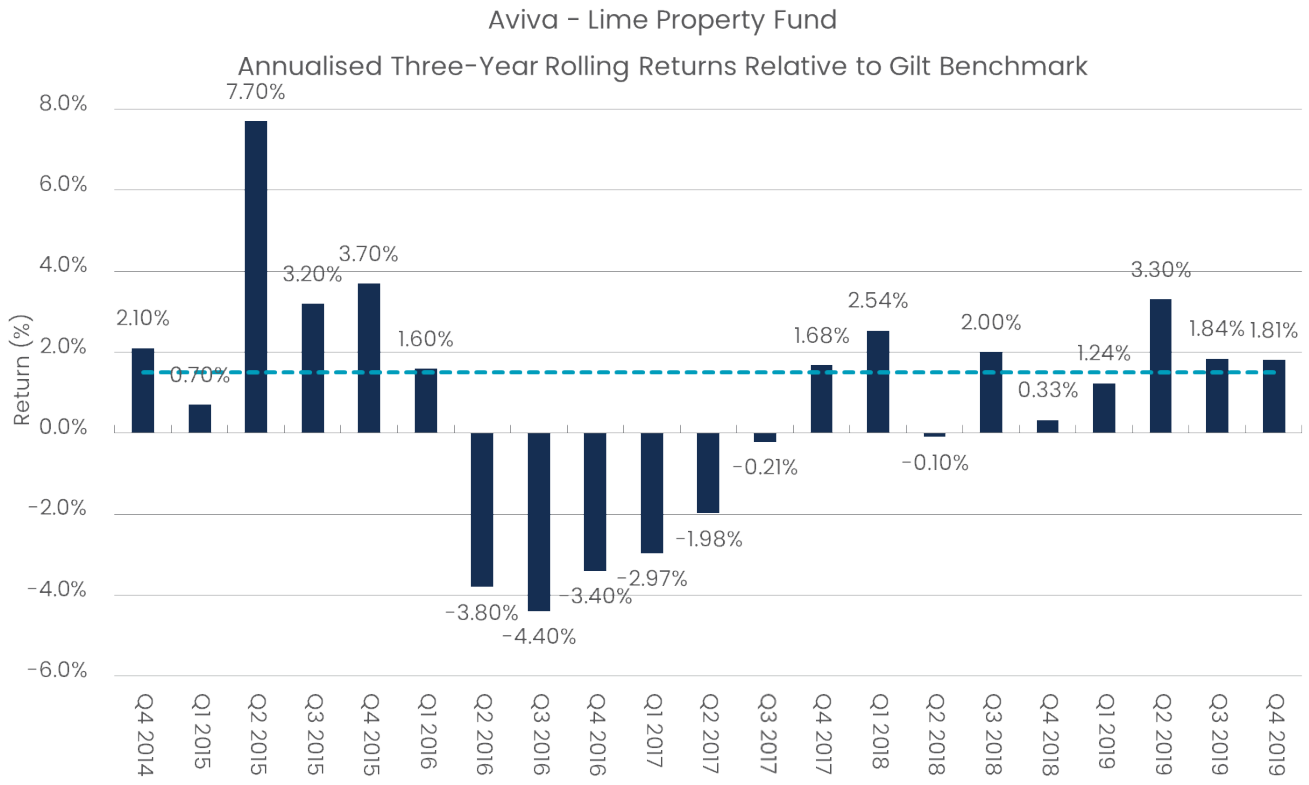
Headline Comments: The Lime Fund delivered another quarter of steady and positive returns, far ahead of the gilt benchmark return, as that market performed negatively in Q4. Over three years, the fund is ahead of the benchmark return.

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 Q4 2019 return was attributed by Aviva to +1.01% capital return and +0.94% income return.

Over three years, the fund has returned +5.63% p.a., ahead of the gilt benchmark of +3.82% p.a., by +1.81% p.a., ahead of its outperformance target of +1.5% p.a., as can be seen in Chart 5 overleaf.

CHART 5:



Source: MJH Allenbridge; BNY Mellon

Over three years, 57% of the return came from income and 43% from capital gain.

Portfolio Risk: This quarter the fund added a new £106m investment by acquiring a new 400 bed hotel in the London Docklands. The investment provides 35-year CPI linked cashflow.

The fund completed the sale of four investments that were seen as no longer adding value to the portfolio. The total price was between £50m and £66m. These sales improved unexpired lease length, percentage of income linked to inflation, and the forecast return (IRR) of investments of the fund.

The fund has £94 million of uncommitted investible capital, and a £102 million pipeline of investments.

The average unexpired lease term was 20.0 years as at end December 2019. 15.3% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 25.8%, and the number of assets in the portfolio fell to 84. The weighted average unsecured credit rating of the Lime Fund remained A-.

Portfolio Characteristics: As at end December 2019, the Lime Fund was valued at £2.70bn, an increase of £99.4m from the previous quarter end. London Borough of Islington's investment represents 4.6% of the total fund. The fund had 74.3% allocated to inflation-linked rental uplifts as at end December 2019.

Staff Turnover/Organisation: Overall there were 12 leavers and 4 joiners across the whole Real Assets franchise. Regarding the Lime Fund in particular, there were no changes to the team.

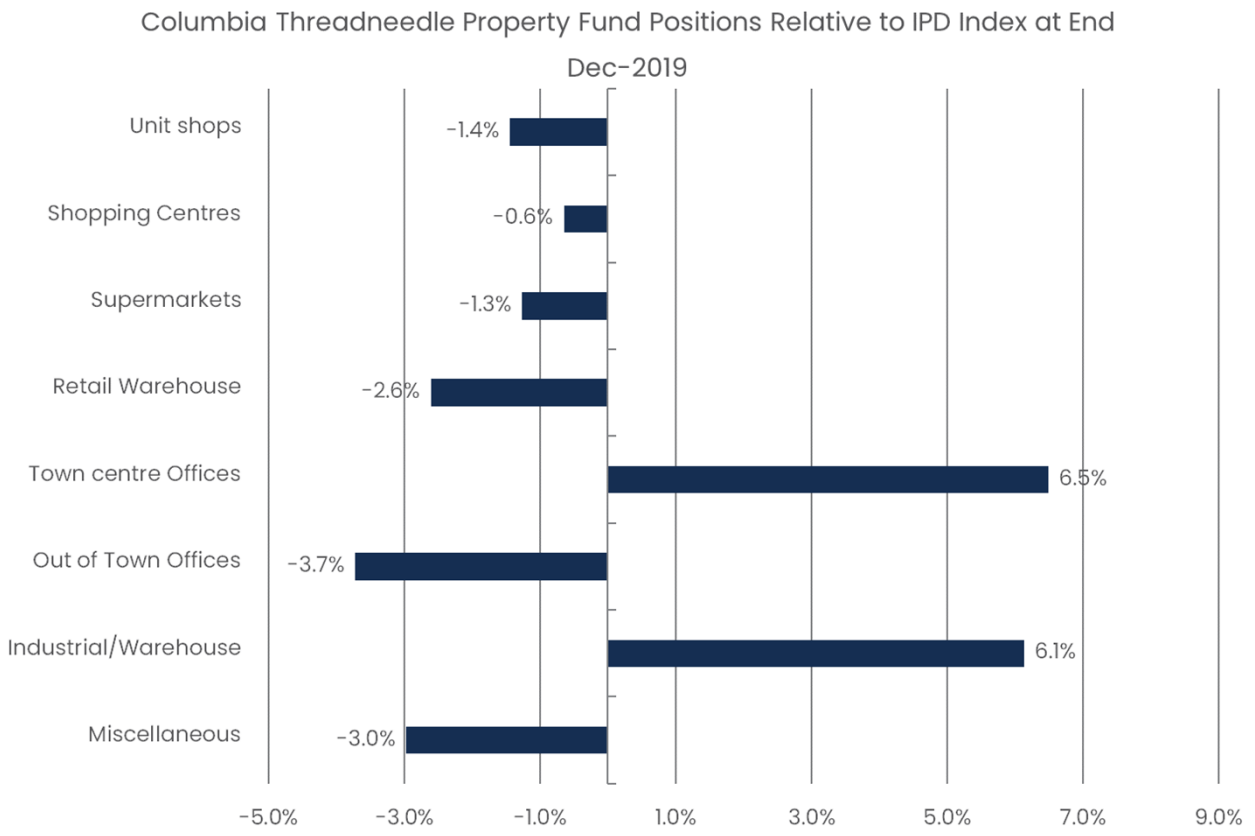
Columbia Threadneedle – Pooled Property Fund

Headline Comments: The fund was behind the benchmark return in Q4 2019 due to the way Columbia Threadneedle is pricing its fund. Over three years, the fund has slightly underperformed the benchmark, by -0.09% and as such is behind the performance target of +1.0% p.a. above benchmark.

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. Its performance objective is 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.

Portfolio Risk: Chart 6 shows the relative positioning of the fund compared with the benchmark.

CHART 6:



Source: MJH Allenbridge; Columbia Threadneedle

During the quarter, the fund sold four assets, including a secondary retail parade in Woking for £3.8m. As well as this, during Q4, the fund acquired an industrial estate in Tilbury, with a 5.5-year lease, for £7.6m.

The fund's void rate has fallen from 7.7% as at end September to 7.6% at end December, versus the benchmark's 7.6%. This has been monitored because a higher-than-benchmark void rate could pull the performance down on a relative basis. The cash balance at end December was 9.0%.

Performance Attribution: The portfolio underperformed the benchmark by -6.56% in Q4 2019, delivering a return of -6.25%. However, this was a result of Columbia Threadneedle moving from a bid-ask pricing methodology to a swing price, where only one price is quoted but where that price moves to reflect demand for purchases/sales. Stripping out the impact of this pricing change, the fund return was in line with the benchmark (source: Columbia Threadneedle).

Over three years, the fund is slightly behind its benchmark by -0.09% p.a., with a return of +5.93% p.a., this means the fund is underperforming the target of +1.0% p.a. above the benchmark.

Portfolio Characteristics: As at end December 2019, the fund was valued at £2.05bn, an increase of £11.8m compared with September 2019. London Borough of Islington's investment represented 4.09% of the fund.

Staff Turnover: There were two joiners and two leavers across the firm in Q4 2019. No one directly involved with the London Borough of Islington portfolio was among these.

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

Headline Comments: The two passive index funds were within the expected tracking range when compared with their respective benchmarks. Both FTSE-RAFI Emerging Markets and MSCI World Low Carbon Target index funds marginally underperformed their benchmarks.

Mandate Summary: Following a change in mandate in June 2017, the London Borough of Islington now invests in two of LGIM's index funds: one is designed to match the total return on the FTSE-RAFI Emerging Markets Equity 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. The FTSE-RAFI Index is based on fundamental factors.

Performance Attribution: The two index funds both tracked their benchmarks as expected, as shown in Table 2.

TABLE 2:

	Q4 2019 FUND	Q4 2019 INDEX	TRACKING
FTSE-RAFI Emerging Markets	+3.89%	3.93%	-0.05%
MSCI World Low Carbon Target	+1.17%	+1.18%	-0.01%

Source: LGIM

Portfolio Risk: The tracking errors are all within expected ranges. The allocation of the portfolio, as at quarter end, was 80.85% to the MSCI World Low Carbon Target index fund, and 19.15% allocated to the FTSE RAFI Emerging Markets index fund.

Staff Turnover/Organisation: In Q4, the LGIM corporate governance team had two joiners (an ESG manager, and a sustainability and responsible investment manager).

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 two funds in which London Borough of Islington

invests. The portfolio in aggregate outperformed the absolute return benchmark of 10% p.a. over three years by +7.37%.

Mandate Summary: Two 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: Over the three years to December 2019, Franklin Templeton continues to be the best performing fund across all four property managers. Chart 7 compares their annualised three-year performance, net of fees.

CHART 7:

Source: MJH Allenbridge; Columbia Threadneedle

Portfolio Risk: Fund I is currently in its distribution phase. Distribution activity has been strong, and the fund has paid across 153.9% of the initial commitment. Only four funds remain in the portfolio, at this stage. Leverage stood at 47% as at end Q4 2019.

The largest remaining allocation in Fund I is to the US (48% of funds invested), followed by Spain (34%) and Japan (7%). As the fund distributes, the geographic exposure is likely to become increasingly concentrated.

Three of the underlying funds are performing well ahead of expectations, five are above expectations, four are on target and two are below expectations (Sveafastigheter III and Lotus Co-Investment, the latter now having been fully liquidated).

Fund II is now fully invested and is beginning to make distributions. As at end December 2019, 62.4% of committed capital had been distributed. Leverage stood at 55%.

The largest allocation in Fund II is to Italy (64% of funds invested), followed by the US (27%) and China (4%).

Three of the underlying funds are performing well ahead of expectations, two are above expectations, and five are on target.

Staff Turnover/Organisation: There were four leavers in Q4. Franklin Templeton have now closed their Singapore investment office which will lead to the departures of Woon Pin Chong (Managing Director), Wenning Jung (Senior Vice President), and Karen Gu (Associate). In addition, Julie Donegan (Senior Vice President) is leaving.

The manager also announced that it has agreed to acquire Legg Mason, Inc. Of the benefits highlighted by Franklin Templeton, the most relevant for Islington is the addition of the real estate manager Clarion Partners. However, such an acquisition is likely to take up time from senior management, and the integration of Legg Mason (including Clarion Partners) into Franklin Templeton may raise business-related issues for the manager.

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio marginally outperformed the benchmark for the quarter ending December 2019but underperformed over three years.

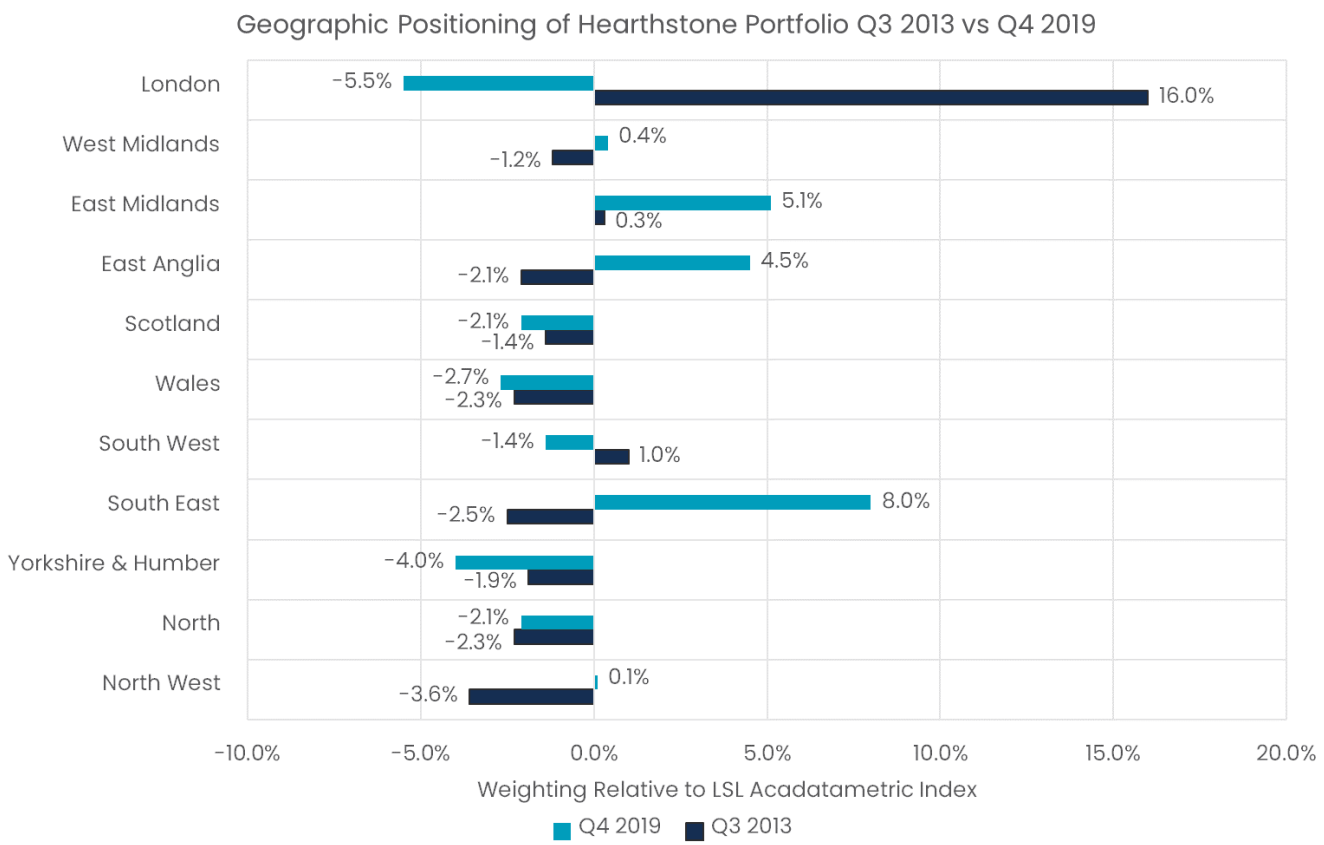
Mandate Summary: The fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

Performance Attribution: The fund underperformed the IPD index over the three years to December 2019 by -3.69% p.a., returning +3.18% p.a. versus the index return of +6.87% p.a. The gross yield on the portfolio as at December 2019 was 4.85%. Adjusting for voids, however, the yield on the portfolio falls to 4.64%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 20.16%.

Chart 8 compares the regional bets in the portfolio in Q4 2019 (turquoise bars) with the regional bets at the start of the mandate, in Q3 2013 (navy bars).

CHART 8:



Source: MJH Allenbridge; Hearthstone

Portfolio Characteristics: By value, the fund has a 10% allocation to detached houses, 44% allocated to flats, 25% in terraced accommodation and 21% in semi-detached.

As at end December there were 195 properties in the portfolio and the fund stood at £61.4m. London Borough of Islington's investment represents 47.1% of the fund. This compares with 72% at the start of this mandate in 2013.

ESG: Hearthstone arranged for 3D Investing to undertake ESG due diligence on the fund in Q4 2019. The report highlighted the fund's focus on residential housing, and that the energy and environmental standards of the portfolio were far above the national average. Overall, 3D Investing rated the fund as "best in class".

Organisation and Staff Turnover: In Q4 there were two leavers, neither of whom were on the investment team.

Schroders – Diversified Growth Fund (DGF)

Headline Comments: The DGF delivered a positive return in Q4 2019, and it was ahead of its benchmark. Over three years, the fund is behind the target return of RPI plus 5% 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. Schroders aim to outperform RPI plus 5% p.a. over a full market cycle, with two-thirds the volatility of equities.

Performance Attribution: The DGF delivered a return of +2.43% in Q4 2019. This is +0.91% ahead of the RPI plus 5% p.a. target return of +1.52% for Q4. Over three years, the DGF delivered a return of +4.45% p.a. compared with the target return of +8.00% p.a., behind the target by –3.55% p.a. This underperformance remains a concern, particularly as the underperformance over three years has only slightly improved since Q2 2018, when it was at -3.81%.

In Q4 2019, equity positions contributed 3.4% to the total return, alternatives added +0.4%, credit and government debt were flat, and cash and currency added detracted -1.2% (figures are gross of fees).

The return on global equities was +10.3% p.a. for the three years to December 2019 compared with the portfolio return of +4.45% (a 43% capture of the equity return, somewhat lower than expected). Over a full three-to-five-year market cycle the portfolio is expected to deliver equity-like returns.

Portfolio Risk: The portfolio is expected to exhibit 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 4.6% compared to the three-year volatility of 10.6% in global equities (i.e. 43% of the volatility) so is less risky than expected.

Portfolio Characteristics: The fund had 28% in internally managed funds (down from last quarter's 34% allocation), 36% in internal bespoke solutions (down from 39% last quarter), 3% in externally managed funds (same as last quarter), and 31% in passive funds (up from 20% last quarter) with a residual balance in cash, as at end December 2019. In terms of asset class exposure, 47.6% was in equities, 23.1% was in alternatives and 26.3% in credit and government debt, with the balance in cash.

Alternative assets include absolute return funds, property, insurance-linked securities, commodities and private equity.

Organisation: During the quarter, there were no changes to the investment team.

Quinbrook – Low Carbon Power Fund

Headline Comments: An investment made by London Borough of Islington of $67 million made at the end of December 2018. Performance from September 30th to December 31st 2019 negative at -4.73%, below the benchmark return of 2.87%.

Mandate Summary: The fund invests in renewable energy and low carbon assets across the UK, US and Australia as well as selected OECD countries. The fund is 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.

Portfolio Characteristics: As at Q4 2019, on an unaudited basis, the fund had invested $453.2m into 45 projects ranging from onshore wind farms, solar power plants, battery storage and natural gas peaking facilities (power plants that generally run only when there is a high demand for electricity, in order to balance the grid).

Organisation: During the quarter, the investment team had two joiners: a vice president, and an analyst, both with previous experience in the renewable energy sector.

Pantheon – Infrastructure and Private Equity Funds

Headline Comments: Over three years the return on the combined private equity and infrastructure funds was +22.42%, ahead of the benchmark by +10.38%.

Mandate Summary: London Borough of Islington have made total commitments of US$148.6m across five Pantheon strategies including two US primary funds, two global secondary funds and one global infrastructure fund. This infrastructure fund, Patheon Global Infrastructure Fund III "PGIF III", was the most recent commitment from Islington in 2018 totalling US$100m.

Portfolio Characteristics: Over the period Q4 2019, US$2.2m was drawn down to PGIF III (the infrastructure fund) with distributions of US$1.3 million. Across all strategies, distributions were strong, with a total of US$2.1m paid over the period. Strong distributions are likely to continue over the following quarters as the historic private equity funds continue to realise value.

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