London Borough of Islington

Report to 31st March 2020

MJ Hudson Allenbridge

JUNE 2020

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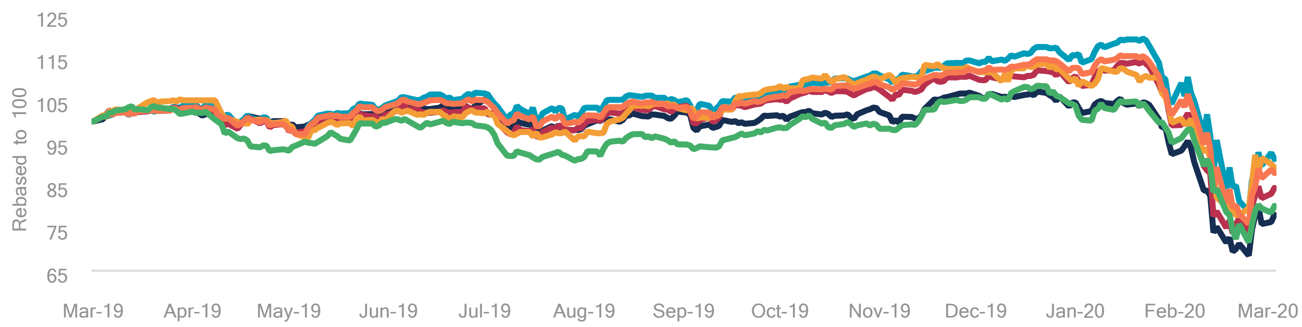
The Covid-19 pandemic

This quarterly report covers the period during which the Covid-19 pandemic began escalating rapidly around the world. The likelihood of a global recession began to emerge during this period, as governments responded to the outbreak of the new coronavirus. Large-scale lockdowns, motivated by the need to reduce the spread of the disease, began to have a dire economic impact. GDP growth expectations for the second quarter were slashed. Both the Federal Reserve and the Bank of England announced two emergency rate cuts each. Whilst the European Central Bank and the Bank of Japan (with little scope to cut rates) did not follow suit, all major central banks either restarted or expanded their quantitative easing programmes in the face of the economic disruption due to the coronavirus outbreak.

As a consequence, the markets were volatile and sharp falls were seen. Overall, equities declined by approximately -20% to -25% in the quarter to March 2020. However, after a severe drop in the middle of March, equities across the globe began to experience a strong rebound which continued after the quarter end. This is shown in Chart 1 below.

CHART 1: GLOBAL EQUITY MARKETS PERFORMANCE



Source: Bloomberg. All in local currency. FTSE All-Share Index (Ticker: ASX Index), S&P 500 Index (Ticker: SPX Index), STOXX Europe 600 (Ticker: SXXP Index), Nikkei 225 Index (Ticker: NKY Index), MSCI World Index (Ticker: MXWO Index), MSCI Emerging Markets (Ticker: MXEF Index)

Industry experts are still debating whether or not to label Covid-19 a 'black swan' event. (These are events that have an extremely low probability but a very high impact). The concern is that by treating it as a black swan event, we will fail to prepare for the next pandemic. What we can say with certainty, however, is that markets have not seen anything like the speed of economic slowdown that was experienced in February and March of 2020, which makes it a unique and unprecedented crisis. The performance numbers should be considered in light of the above. As always, it is the longer-term performance that is the best measure of the pension fund's ability to meet its future liabilities.

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	CHANGE IN STRATEGY/ RISK
LCIV Global Equity Fund (Newton) (active global equities)	Nick Clay, global income equity head, left the firm. Robert Hay (portfolio manager for the fund) changed roles within the firm, Jeff Munroe is now sole portfolio manager on the global equity strategy. Due to the multiple changes of the team, the situation is being monitored closely by LCIV.	Outperformed the benchmark by +3.30% in the quarter. Over three years the fund is ahead of the benchmark return by +1.73% and beating the performance target of +1.5% p.a. for the first time since Q4 2015.	As at end March the sub- fund's value was £584 million. London Borough of Islington owns 36.3% of the sub-fund.	
LCIV Sustainable Equity Fund (global equities)		In Q1 2020 the fund delivered a return of -14.68, ahead of the benchmark return of -15.65%.	As at end March the sub- fund's value was £382.2 million. London Borough of Islington owns 29.4% of the sub-fund.	
BMO/LGM (emerging and frontier equities)	Pamela Macedo, a junior analyst on the research team, resigned in March.	Underperformed the benchmark by -4.00% in the quarter to March 2020. The fund is behind over one year by -8.24%.	Not reported.	

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT	CHANGE IN STRATEGY/ RISK
Standard Life (corporate bonds)	7 joiners, 23 leavers, none of them were from fixed income.	The fund was ahead of the benchmark by +0.59% in the quarter to March 2020. Over three years the fund is +0.52% 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 £2,458.1 million in Q1 2020, a fall of £101.9 million. London Borough of Islington's holding stood at 6.3% of the fund's value.	
Aviva (UK property)	Not reported by Aviva.	Underperformed against the gilt benchmark by -6.29% for the quarter to March 2020 and performed in line with the benchmark over three years, delivering a return of +5.60% p.a., net of fees.	Fund was valued at £2.72 billion as at end Q1 2020. London Borough of Islington owns 4.6% of the fund.	
Columbia Threadneedle (UK property)	Four joiners and two leavers in Q1 2020, but no changes to the team managing the Islington portfolio.	The fund performed in line with benchmark return in Q1 2020, both returning -1.3% over the quarter. Underperformed by - 0.3% p.a. over three years, below target of 1% p.a. outperformance. (source: Columbia Threadneedle)	Pooled fund has assets of £2.03 billion. London Borough of Islington owns 4.08% of the fund.	This fund was suspended for dealing on 20th March 2020 due to the difficulty in valuing assets, this was caused by the market uncertainty surrounding the Covid-19 pandemic.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT	CHANGE IN STRATEGY/RISK
Legal and General (passive equities)	Not reported by LGIM.	Funds are tracking as expected. The emerging markets fund marginally outperformed the index in Q1, while the World Low Carbon fund was exactly in line with the index.	Assets under management of £1.2 trillion at end December 2019. Net flows of +£86.4 billion in 2019.	
Franklin Templeton (global property)	During Q1 2020 there were three new joiners.	The portfolio return over three years was +20.26% p.a., well ahead of the target of 10% p.a.	$580.3 billion of assets under management as at end March 2020.	
Hearthstone (UK residential property)	There was one leaver in Q1, Iman Askari, a business development manager, who left in January.	The fund outperformed the IPD UK All Property Index by +1.75% in Q1. Trailing the IPD benchmark over three years by -2.44% p.a. to end March 2020.	Fund was valued at £61.3m at end Q1 2020. London Borough of Islington owns 47.4% of the fund.	This fund was suspended for dealing in March due to the difficulty in valuing assets, this was caused by the market uncertainty surrounding the Covid-19 pandemic.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT	CHANGE IN STRATEGY /RISK
Schroders (multi-asset diversified growth)	During Q1, no changes to investment team.	Fund returned -11.31% during the quarter and -0.45% p.a. over 3 years, -8.26% behind the target return.	Total AUM stood at £470.5 billion as at end March 2020.	Fund volatility at low end of expectations at present. At end March it was 49.6% of equity market volatility compared with an expected maximum of 66%.
Quinbrook (renewable energy infrastructure)	No changes to the investment team during Q1 2020.	For the year to Q1 2020 the fund returned +9.05%, behind the target return of +12.00%, although performance should be assessed over a longer time period for this fund.		
Pantheon (Private Equity and Infrastructure Funds)		The combined funds returned +25.67% p.a. over three years.		

Source: MJ Hudson Allenbridge

Minor Concern

Major Concern

Individual Manager Reviews

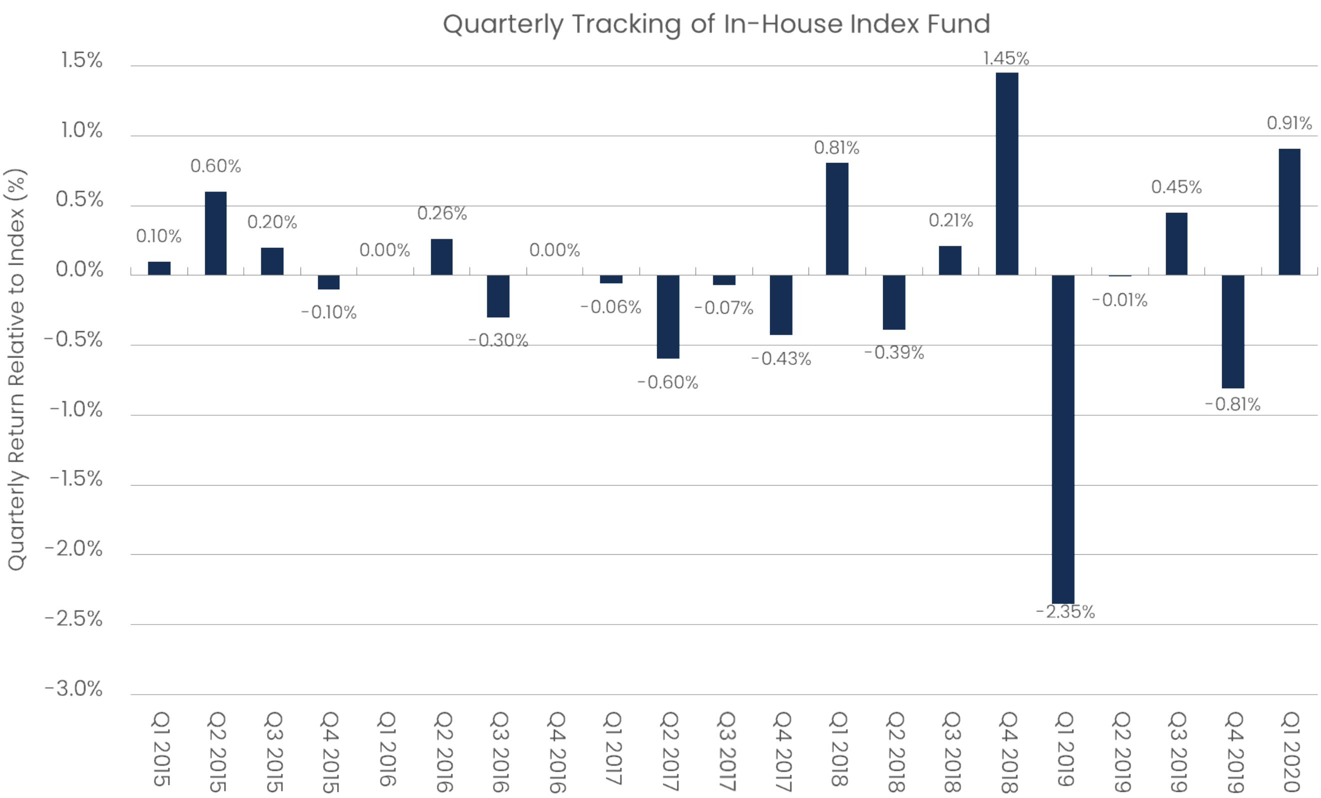
In-house – Passive UK Equities – FTSE UK Low Carbon Optimisation Index

Headline Comments: At the end of Q1 2020 the fund returned -24.22%, this was ahead of the FTSE All-Share index return of -25.13%. Also, over three years the fund has returned -3.88% p.a., ahead of the FTSE All-Share Index by +0.36%.

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 2 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 outperformed its three-year benchmark by +0.36% p.a.

CHART 2:



Source: MJH Allenbridge; BNY Mellon

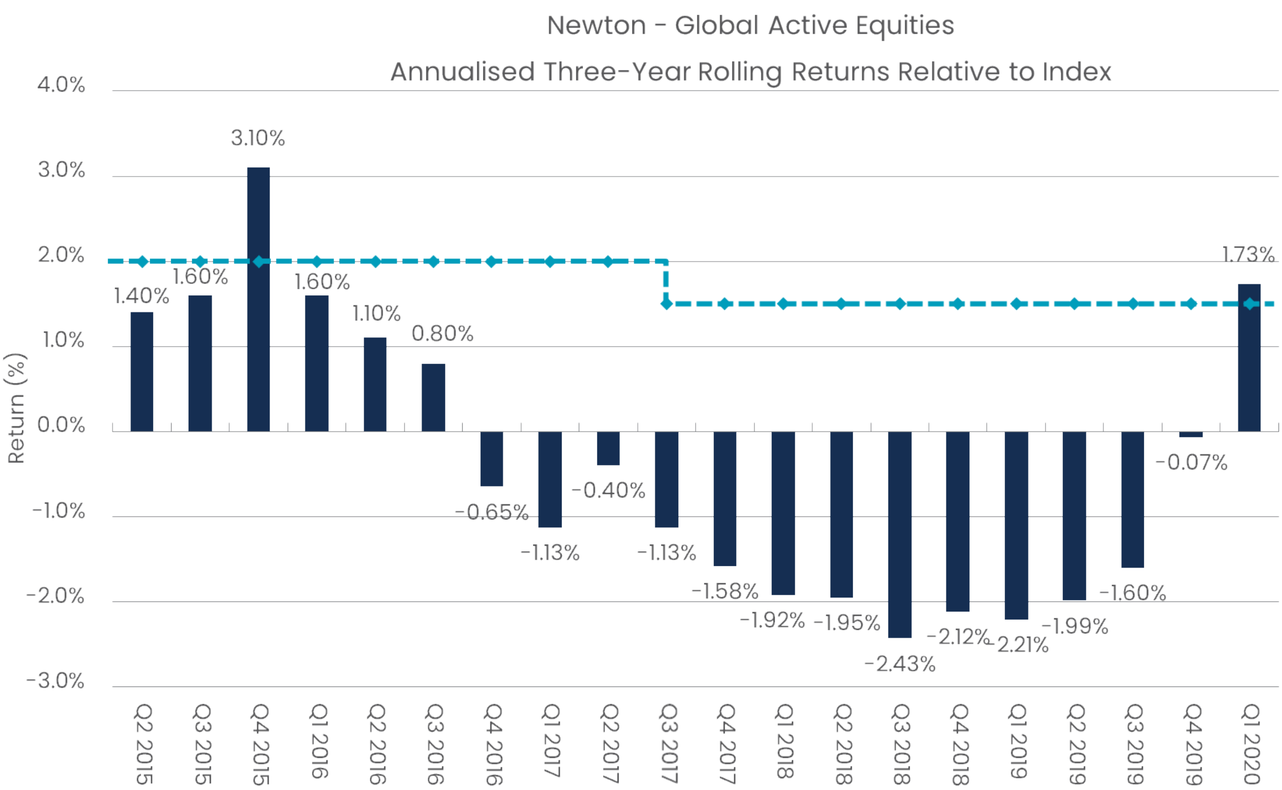
LCIV Global Equity Fund (Newton) – Global Active Equities

Headline Comments: The LCIV Global Equity Fund outperformed its benchmark during Q1 2020 by +3.30%. Over three years the portfolio outperformed the performance target of benchmark +1.5% p.a. This was the first time the manager was ahead of the performance target since Q4 2015.

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 Q1 2020, the fund is ahead of the benchmark by +1.73% p.a. This means it is outperforming the performance objective by +0.23% (the performance objective is shown by the dotted line and dropped in May 2017 when the assets transferred into the London CIV sub-fund) for the first time in over four years.

London CIV attributed the performance in the quarter to March 2020 to the global outbreak of the Covid-19 pandemic. While markets fell around the world, its exposure to North America (which experienced some gains towards the end of March) helped the fund. A low exposure to oil and gas companies also helped: the manager has only one oil company in the portfolio, Royal Dutch Shell, which is less than 2% of the portfolio. Meanwhile, exposure to UK markets proved to be one of the fund's main detractors from performance.

Positive contributions to the total return came from holdings such as Microsoft (+0.43% contribution to the total return) and Amazon.com (+0.35%). Meanwhile, Citigroup Inc was the biggest detractor (-1.25%) followed by Ferguson Plc (-0.78%).

Although previously the London CIV has expressed concern over recent lacklustre performance, the fund return is now outperforming the benchmark by +3.38% over one year.

Portfolio Risk: the active risk on the portfolio stood at 2.78% as at quarter end, lower than as at end December when it stood at 3.28%. The portfolio remains defensive, with the beta on the portfolio at end March standing at 0.89, an increase on the previous quarter when it stood at 0.86 (if the market increases by +10% the portfolio can be expected to rise +8.6%).

At the end of Q1 2020, the London CIV sub-fund's assets under management were £584m, compared with £668m 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 56 as at quarter-end (down from 58 last quarter). The fund added three positions, Ping An Insurance, Lennar, and Kasikornbank, and completed the sale of five positions, Walgreens Boots Alliance, Deutsche Wohnen SE, Conocophillips, Alcon, and Aib Group.

Staff Turnover: In Q1 Newton saw multiple changes to its team. Nick Clay, global equity income head, left the firm. Robert Hay and Ilga Haubelt, previously on the global equity team, moved to a different team at the firm. Jeff Munroe is now the sole portfolio manager on the global equity strategy. Charles French, deputy CIO, will replace Ilga in the short term as head of equity opportunities.

Continuing movements within the team mean that LCIV are still closely monitoring changes in the team at Newton.

LCIV Sustainable Equity Fund

Headline Comments: Over Q1 2020 the fund delivered a return of -14.68%, this was ahead of the benchmark return of -15.65%. Islington's investment makes up 29.40% of the total 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.

Portfolio Characteristics: As at end of March 2020 the fund had 37 holdings across 15 countries. The tracking error of the fund was 3.44% meanwhile volatility stood at 13.71%. Over the quarter the largest contributors to return include Roche Holdings (+0.53%), Amazon.com (+0.41%), and Nvidia (+0.33%). Meanwhile, the largest detractors to return included EOG Resources (-1.58%), Anheuser-Busch Inbev (-1.26%), and Gartner (-0.92%).

BMO/LGM – Emerging Market Equities

Headline Comments: The total portfolio delivered a return of -22.34 % in Q1 2020, compared with the benchmark return of -18.34%, an underperformance of -4.00%. The emerging market component of this portfolio returned -26.65% (source: BMO, and in US dollars) compared with the index return of -23.60%. The frontier markets portfolio was also behind the index return of -26.86%, delivering a return of -31.90% (source: BMO, and in US dollars). Over one year, the total fund is behind of the benchmark return by -8.24% (source BNY Mellon, in sterling).

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 Ping An Healthcare and Technology (+0.4%). Companies which detracted most from performance included Bank Mandiri Perseo (-2.7%), HDFC Bank (-2.2%), and ICICI Bank (-1.8%).

In the frontier market portfolio, there were no positive contributors to performance. Companies which detracted the most from performance were Famous Brands Ltd (-2.9%), Phu Nhuan Jewelry (-2.7%), and United Bank (-2.4%).

Over one year, the frontier market portfolio continues to trail behind the benchmark. The return over 12 months was -36.04% versus the benchmark return of -21.51% (source BMO, in US dollars). The level of underperformance is something to monitor closely over coming months.

The manager acknowledged that they expected their performance in both portfolios to be better through this crisis, than it has been. The portfolios had been performing well until January 2020 but fell behind in February and March. Currency falls have been the main reason. In the Index, China, Taiwan and South Korea form around 40-45% of the benchmark. Unlike the holdings in their portfolio, these markets barely corrected. Other markets fell by much more which hurt their performance relative to the index.

Portfolio Risk: Within the emerging markets portfolio, 14.0% was allocated to developed or frontier markets, and cash was at 5.9% as at quarter-end. Turnover for the previous 12 months was 21.8%. The largest overweight country allocation in the emerging markets portfolio remained India (+13.2% overweight). The most underweight country allocation was China/HK (-14.1%).

Within the frontier markets portfolio, it is worth noting that 66.5% 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 (7.7% as at end March 2020). The most overweight country allocation remained Egypt (+14.5%) and the most underweight was Morocco (-13.1%).

Portfolio Characteristics: The frontier markets portfolio held 40 stocks as at end March compared with the benchmark which had 93. The emerging markets portfolio held 39 stocks as at end March compared with the benchmark which had 1,404.

Organisation: Pamela Macedo, who worked as a junior analyst on the research team, resigned from her role in March 2020.

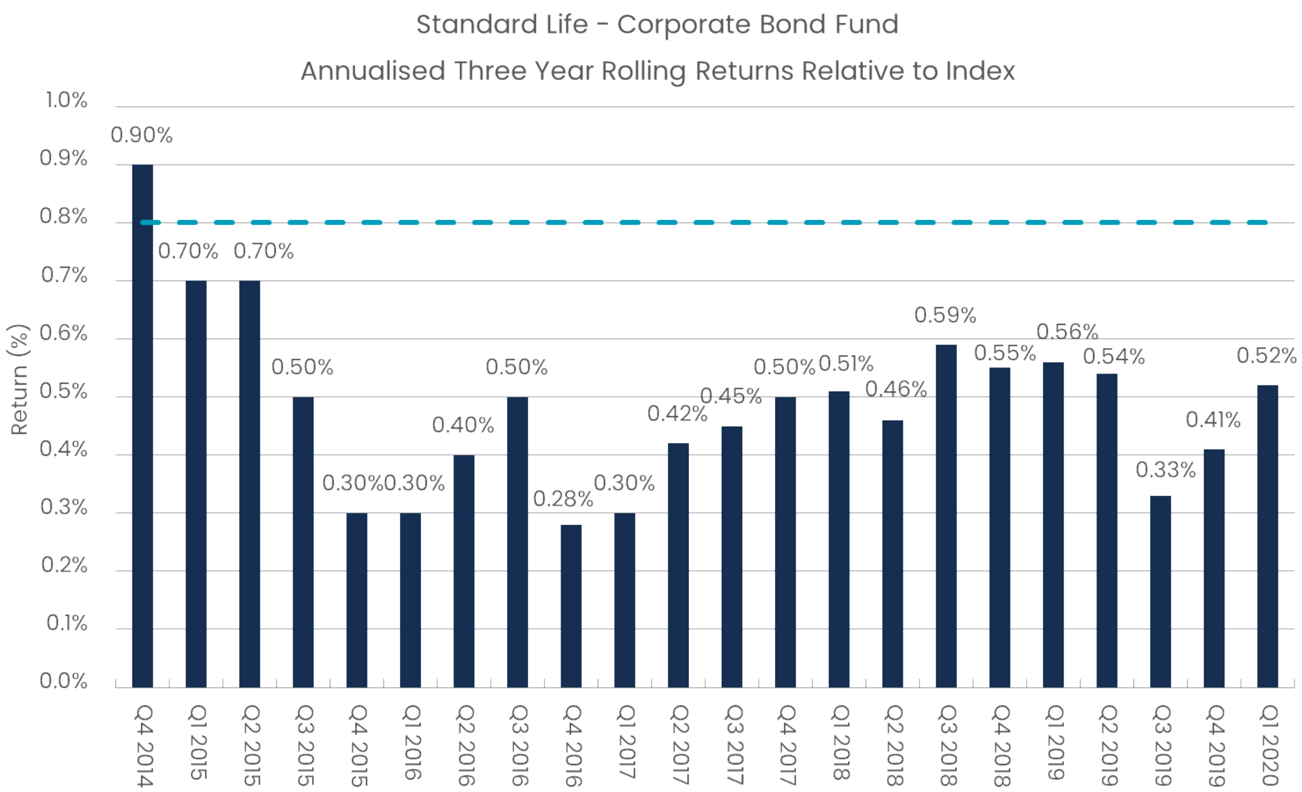
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio was marginally ahead of the benchmark return during the quarter by +0.59%. Over three years, the fund was ahead of the benchmark return (by +0.52%) 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 +2.63% p.a. net of fees, compared to the benchmark return of +2.11% p.a. Over the past three years, stock selection has added +0.44% value, followed by curve plays +0.04%, meanwhile asset allocation has detracted -0.09%.

Portfolio Risk: The largest holding in the portfolio at quarter-end was UK (Govt of) 4.25% 2055 at 2.0% of the portfolio. The largest overweight sector position remained Financials (+6.1%) and the largest underweight position remained sovereigns and sub-sovereigns (-15.9%). The fund holds 2.2% 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 March 2020 stood at £2,458.1m, £101.9m lower than at the end of December 2019. London Borough of Islington's holding of £155.01m stood at 6.3% of the total fund value (compared to 6.5% last quarter).

Staff Turnover: there were 7 joiners, but 23 people left the firm during the quarter. None of these was from the fixed income team, however.

Aviva Investors – Property – Lime Property Fund

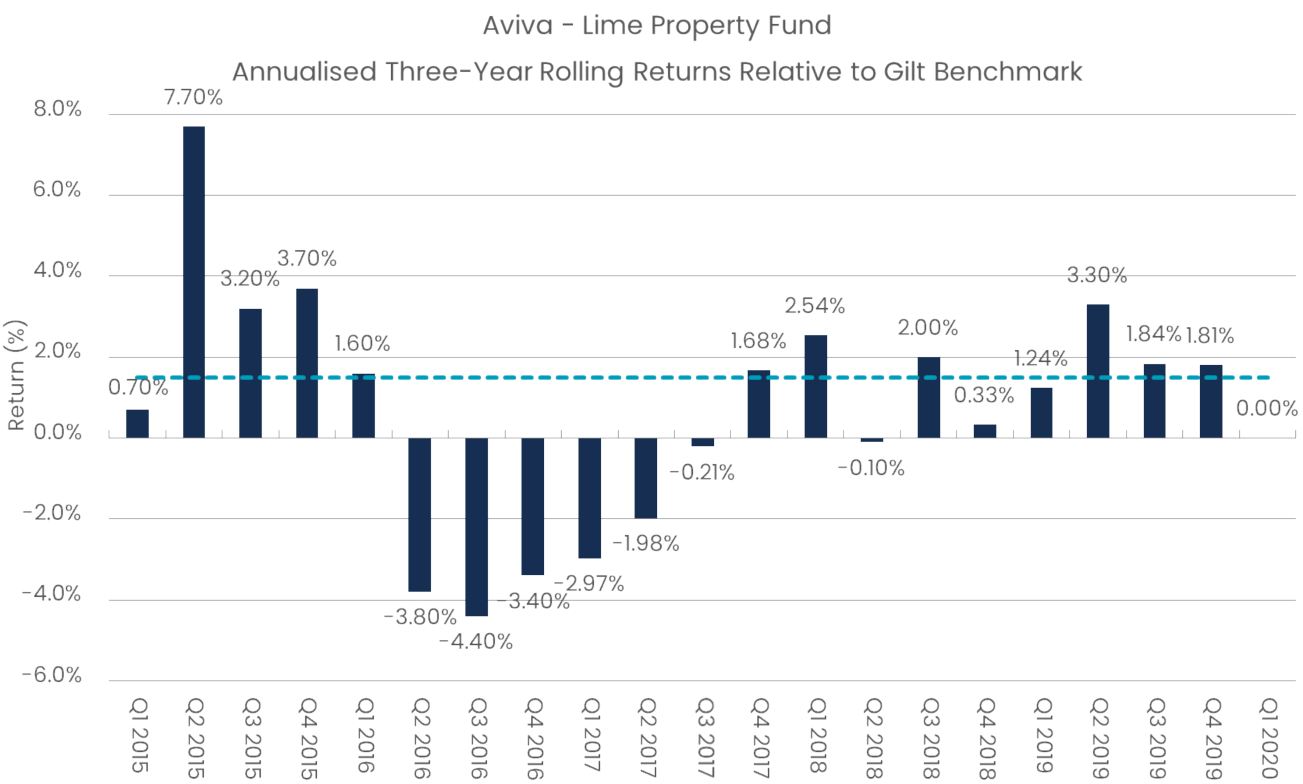
Headline Comments: The Lime Fund delivered another quarter of steady and positive absolute returns, although it failed to beat the fund benchmark return, with a relative underperformance of -6.29% in Q1. Over three years, the fund is in line with the benchmark return.

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 Q1 2020 return was attributed by Aviva to +0.24% capital return and +0.86% income return.

Over three years, the fund has returned +5.60% p.a., in line with the gilt benchmark of +5.60% p.a., although behind its outperformance target of +1.5% p.a., as can be seen in Chart 5.

CHART 5:



Source: MJH Allenbridge; BNY Mellon

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

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Portfolio Risk: This quarter the fund added a new investment of approximately £50m by acquiring a development of new student accommodation in Falmouth, with a total of 528 bedrooms. The investment comes pre-let and provides 40-year RPI linked cashflow.

As well as the above, the fund also completed on a re-gear and lease extension of an academic building let to Leeds Beckett University. This provides 30-year inflation linked cashflow.

The fund has £54 million of uncommitted investible capital. Unlike many property funds, Aviva have taken the decision not to formally suspend their Fund, however, they do not anticipate drawing down investors' capital in the short term.

The average unexpired lease term was 20.3 years as at end March 2020. 11.0% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 25.7%, and the number of assets in the portfolio increased from 84 last quarter to 85 in Q1. The weighted average unsecured credit rating of the Lime Fund remained A-.

Portfolio Characteristics: As at March 2020, the Lime Fund was valued at £2.72bn, an increase of £13.6m from the previous quarter end. London Borough of Islington's investment represents 4.6% of the total fund. The fund had 77% allocated to inflation-linked rental uplifts as at end March 2020.

Staff Turnover/Organisation: Not reported by Aviva.

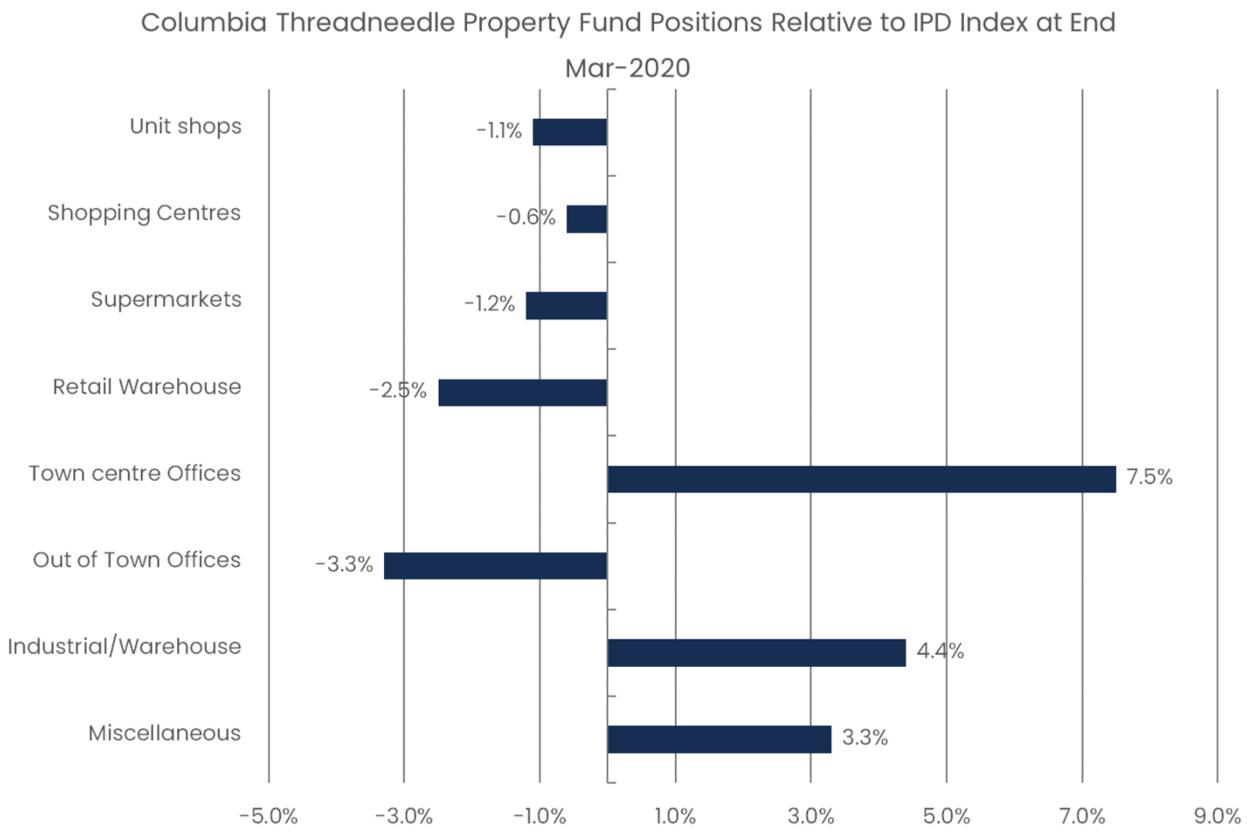
Columbia Threadneedle – Pooled Property Fund

Headline Comments: The fund was in line with the benchmark return in Q1 2020 (source: Columbia Threadneedle). Over three years, the fund has underperformed the benchmark by -0.3% (source: Columbia Threadneedle) and as such is behind the performance target of +1.0% p.a. above benchmark. This fund was suspended on 20th March 2020 due to the difficulty in valuing the assets caused by the market uncertainty surrounding the Covid-19 pandemic.

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 made no acquisitions or sales, and the deal pipeline was held in obeyance until the fund's suspension ends.

The fund's void rate has increased from 7.6% as at end December to 8.5% at end March, versus the benchmark's 8.4%. 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 March was 10.0%.

Performance Attribution: The portfolio was in line with the benchmark in Q1 2020, both delivering a return of -1.30% (source: Columbia Threadneedle). Over three years, the fund is behind its benchmark by -0.3% p.a., with a return of +4.5% p.a., this means the fund is underperforming the target of +1.0% p.a. above the benchmark (source: Columbia Threadneedle).

Portfolio Characteristics: As at end March 2020, the fund was valued at £2.03bn, a decrease of -£22.8m compared with December 2019. London Borough of Islington's investment represented 4.08% of the fund.

Staff Turnover: There were two leavers and four joiners across the firm in Q1 2020. 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 performed in line with 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. For comparison, the return on FTSE World for the quarter was -16.14 and the return on MSC World was -15.53%.

TABLE 2:

	Q1 2020 FUND	Q1 2020 INDEX	TRACKING
FTSE-RAFI Emerging Markets	-24.91%	-24.95%	+0.04%
MSCI World Low Carbon Target	-15.32%	-15.32%	+0.00%

Source: LGIM

Portfolio Risk: The tracking errors are all within expected ranges. The allocation of the portfolio, as at quarter end, was 82.64% to the MSCI World Low Carbon Target index fund, and 17.36% allocated to the FTSE RAFI Emerging Markets index fund.

Staff Turnover/Organisation: Not reported by LGIM.

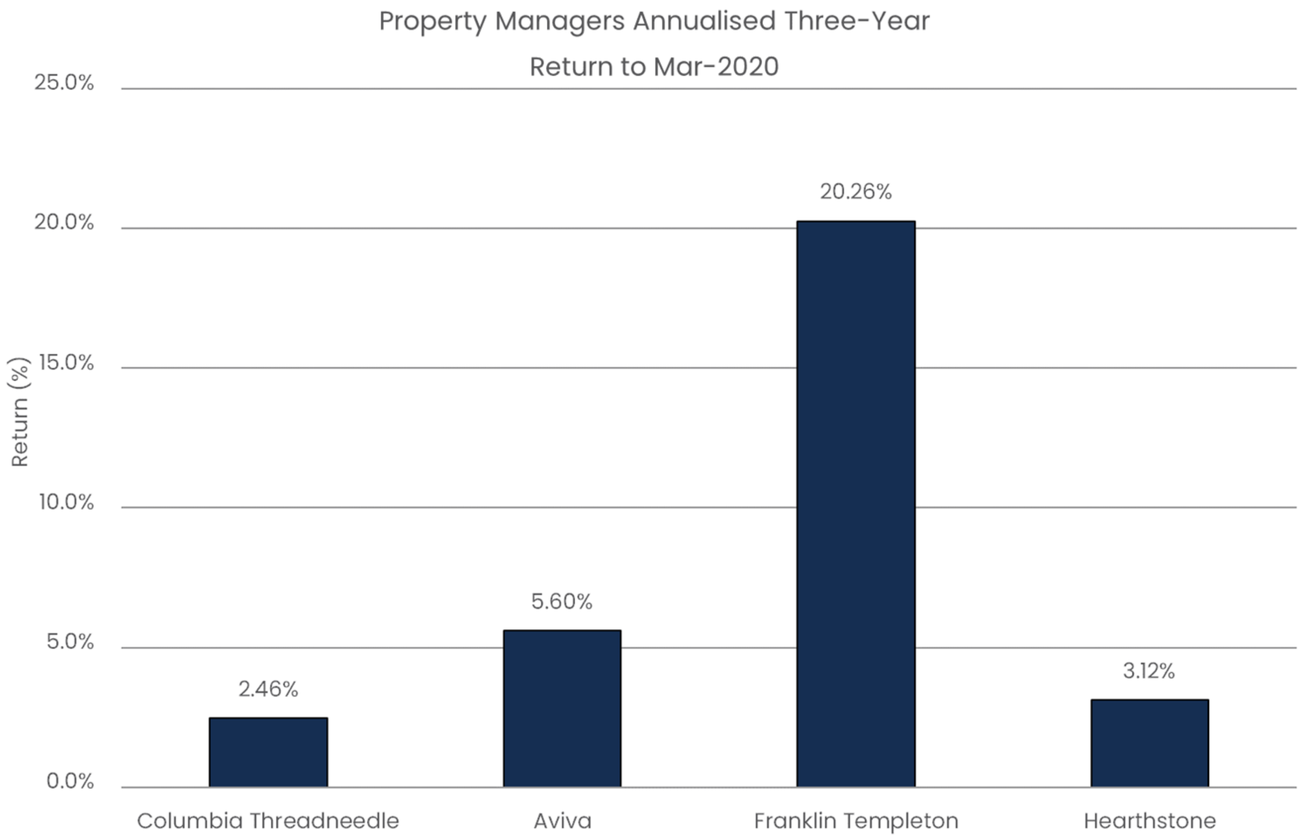
Franklin Templeton – Global Property Fund

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 +10.26%.

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 March 2020, 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 35% as at end Q1 2020.

The largest remaining allocation in Fund I is to the US (42% of funds invested), followed by Spain (36%), UK (7%), and Italy (7%). As the fund distributes, the geographic exposure is likely to become increasingly concentrated.

Of all the underlying funds (realised and unrealised), three are performing well ahead of expectations, five are above expectations, four are on target and two are below expectations (Sveafastigheter III, which is expected to complete in the second half of 2020, and Lotus Co-Investment,which has now been fully liquidated).

Fund II is now fully invested and is beginning to make distributions. As at end March 2020, 62.4% of committed capital had been distributed. Leverage stood at 52%.

The largest allocation in Fund II is to Italy (54% of funds invested), followed by the US (35%) and China (5%).

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

Staff Turnover/Organisation: During Q1 2020 there were three new joiners. Gaston Brandes, an institutional portfolio manager (based in Frankfurt), Jennifer McCabe a legal transaction manager and Louise Evans as Head of Asset Management (both based in London).

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio outperformed the benchmark for the quarter ending March 2020 but continued to underperform over three years. Like Columbia Threadneedle, this fund suspended for dealing in March, because of the uncertainty in valuations.

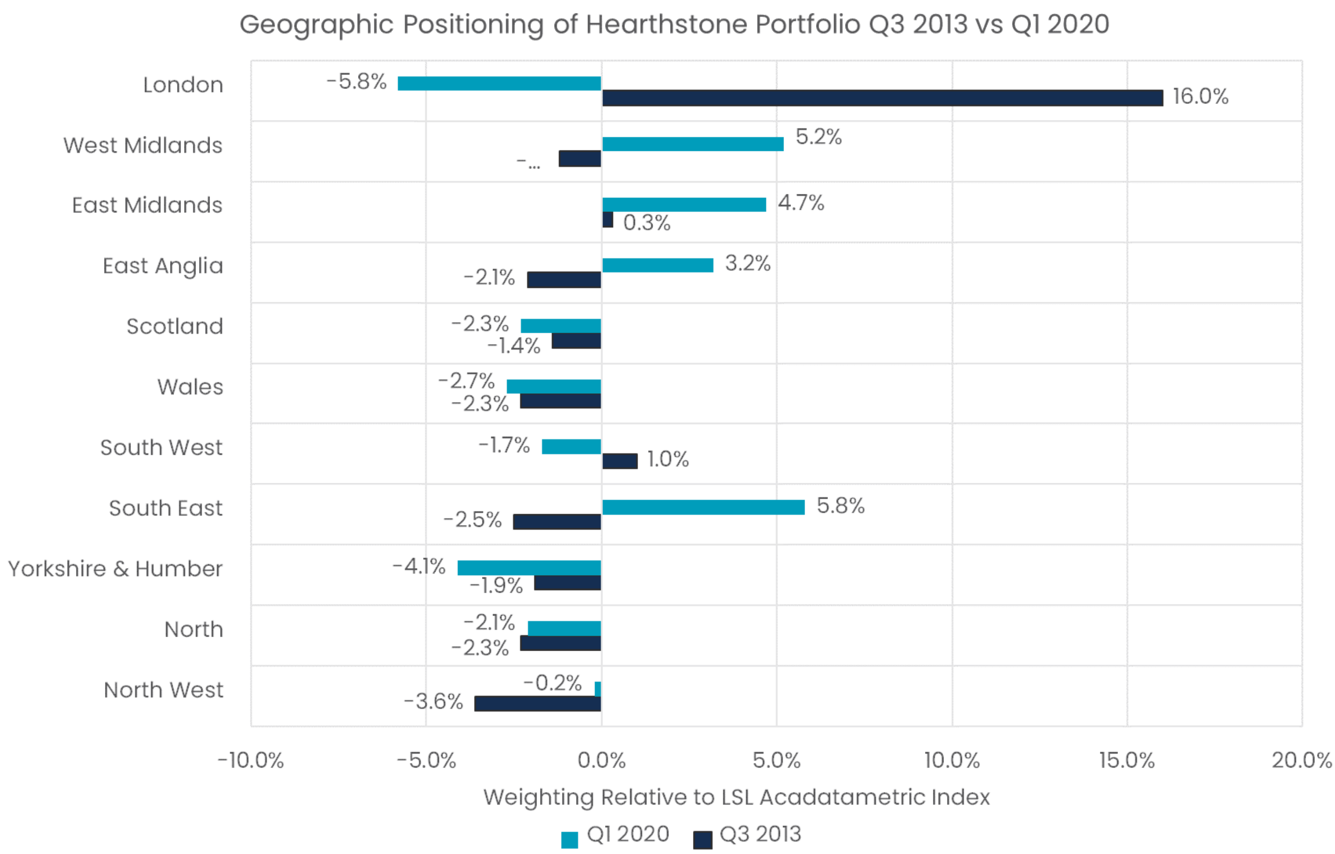
Mandate Summary: The fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

Performance Attribution: The fund underperformed the IPD index over the three years to March 2020 by -2.44% p.a., returning +3.12% p.a. versus the index return of +5.57% p.a. The gross yield on the portfolio as at March 2020 was 4.89%. Adjusting for voids, however, the yield on the portfolio falls to 4.35%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 17.18%.

Chart 8 compares the regional bets in the portfolio in Q1 2020 (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 9% allocation to detached houses, 42% allocated to flats, 26% in terraced accommodation and 23% in semi-detached.

As at end March there were 203 properties in the portfolio and the fund stood at £61.3 million. London Borough of Islington's investment represents 47.4% of the fund. This compares with 72% at the start of this mandate in 2013.

Organisation and Staff Turnover: In Q1 there was one leaver, Iman Askari, a business development manager, who left in January.

Schroders – Diversified Growth Fund (DGF)

Headline Comments: The DGF delivered a negative return in Q1 2020, and in relative terms it underperformed against its benchmark. Over three years, the fund is behind the target return of RPI plus 5% p.a. by -8.26%.

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 -11.31% in Q1 2020. This is -12.74% behind the RPI plus 5% p.a. target return of +1.43% for Q1. Over three years, the DGF delivered a return of -0.45% p.a. compared with the target return of +7.80% p.a., behind the target by –8.26% p.a. This underperformance remains a concern, particularly as the underperformance over three years has not improved since Q2 2018, when it was trailing its target by -3.81%.

In Q1 2020, equity positions contributed -9.7% to the total return, alternatives -1.1%, credit and government debt -0.4%, and cash and currency added detracted -0.4% (figures are gross of fees).

The return on global equities was +0.4% p.a. for the three years to March 2020 compared with the portfolio return of -0.45%. 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 7.0% compared to the three-year volatility of 14.1% in global equities (i.e. 50% of the volatility) so is less risky than expected.

Portfolio Characteristics: The fund had 31% in internally managed funds (up from last quarter's 28% allocation), 38% in internal bespoke solutions (up from 36% last quarter), 3% in externally managed funds (same as last quarter), and 11% in passive funds (down from 31% last quarter) with a residual balance in cash, 17% (up from 3% last quarter), as at end March 2020. In terms of asset class exposure, 36.7% was in equities, 22.6% was in alternatives and 24.3% in credit and government debt, with the balance in cash. It is worth nothing that this allocation towards cash is significantly higher in any previous quarter. The manager comments that the elevated cash position was a defensive action against the market impact of Covid 19 and allows them to take advantage of future opportunities.

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 for the year to March 31st 2020 was positive at +9.05 %, below the target return of +12.0%%.

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 Q1 2020, on an unaudited basis, the fund had invested $465.1m into 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). The total operational generating capacity of operational projects which the Fund is invested in is 996MW (including those with minority stakeholders) as at 31 March 2020.

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

Pantheon – Infrastructure and Private Equity Funds

Headline Comments: Over three years the return on the combined private equity and infrastructure funds was +25.67% per annum.

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 Q1 2020, US$1.0m was drawn down to PGIF III (the infrastructure fund) and $0.8m drawn down to Pantheon USA Fund VII (the private equity fund). Across both strategies total distributions were US$0.7 million for Q1.

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