London Borough of Islington

Report to 31st December 2020

MJ Hudson

FEBRUARY 2021

Table of Contents

Contacts

Karen Shackleton
Senior Adviser
+44 20 7079 1000
karen.shackleton@mjhudson.com

Fund Manager Overview

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

TABLE 1:

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
LCIV Global Equity Fund (Newton) (active global equities)	Euan Munro will be joining them as their new CEO. Euan has most recently worked at Avia Investors in the same capacity.	Underperformed the benchmark by -1.16% in the quarter. Over three years the fund is ahead of the benchmark return by +1.57% p.a., and above the performance target of +1.50% p.a.	As at end December the sub- fund's value was £696.3 million. London Borough of Islington owns 40.18% of the sub-fund.
LCIV Sustainable Equity Fund (RBC) (active global equities)	None reported by the London CIV.	In Q4 2020 the fund delivered a return of +11.94%, ahead of the benchmark return of +7.78%. Over one year, the fund is +12.26% ahead of the benchmark.	As at end December the sub- fund's value was £625.0 million. London Borough of Islington owns 26.40% of the sub-fund.
BMO/LGM (active emerging and frontier equities)	Frederik Axsater joined BMO Global Asset Management as CEO of LGM Investment Management on 16th July 2020. George Lawrence joined the investment team as an Analyst in October.	Underperformed the benchmark by -1.62% in the quarter to December 2020. The fund is behind over three years by -3.94%.	Not reported.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Standard Life (corporate bonds)	There were 6 joiners, but 33 people left the firm during the quarter. None of the joiners were from fixed income, but six of the leavers were from the wider fixed income group.	The fund was marginally ahead of the benchmark by +0.19% in the quarter to December 2020. 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.	Not available at the time of going to print.
Aviva (UK property)	During Q4, there were four joiners and three leaver from the Real Asset business, but not changes to the Lime Property team or the Executive team.	Outperformed against the gilt benchmark by +1.01% for the quarter to December 2020 but underperformed the benchmark over three years by -1.33%, delivering a return of +4.88% p.a., net of fees.	Fund was valued at £3.04 billion as at end Q4 2020. London Borough of Islington owns 4.2% of the fund.
Columbia Threadneedle (UK property)	There were three leavers during the quarter, two of whom have already been replaced by pre-existing Columbia Threadneedle employees.	The fund underperformed the benchmark return in Q4 2020 by -0.9%. It underperformed the benchmark by -0.5% p.a. over three years, below the target of 1% p.a. outperformance. (source: Columbia Threadneedle)	Pooled fund has assets of £1.95 billion. London Borough of Islington owns 4.21% of the fund.

MJ HUDSON

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Legal and General (passive equities)	Not reported by LGIM.	Funds are tracking as expected.	Assets under management of £1.2 trillion at end June 2020. Net flows of +£6.4 billion to 30 September 2020.
Franklin Templeton (global property)	One leaver during the quarter, Riccardo Abello. However, his departure will not affect the funds in which London Borough of Islington invests.	The portfolio return over three years was +15.72% p.a., well ahead of the target of 10% p.a.	$1,498 billion of assets under management as at end December 2020.
Hearthstone (UK residential property)	There was one addition to the team in Q4 2020, Darren Cotter, who joined as Director of Institutional Business Development.	The fund underperformed the IPD UK All Property Index by -1.23% in Q4. Additionally, it is trailing the IPD benchmark over three years by -0.62% p.a. to end December 2020.	Fund was valued at £59.8m at end Q4 2020. London Borough of Islington owns 48.1% of the fund.

MJ HUDSON

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Schroders (multi-asset diversified growth)	During Q4 there were no changes to investment team.	Fund returned +7.48% during the quarter and +4.34% p.a. over 3 years, -2.70% p.a. behind the target return.	Total AUM stood at £536.3 billion as at end September 2020, an increase of £10.5 billion compared to June 2020.
Quinbrook (renewable energy infrastructure)	No changes to the team in Q4 2020. However, early Q1 2020 saw James Allan joined as a Director and Team Leader.	For the year to Q4 2020 the fund returned +10.88%, slightly behind the annual 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 +15.76% p.a. over three years.	

Source: MJ Hudson

Minor Concern

Major Concern

Individual Manager Reviews

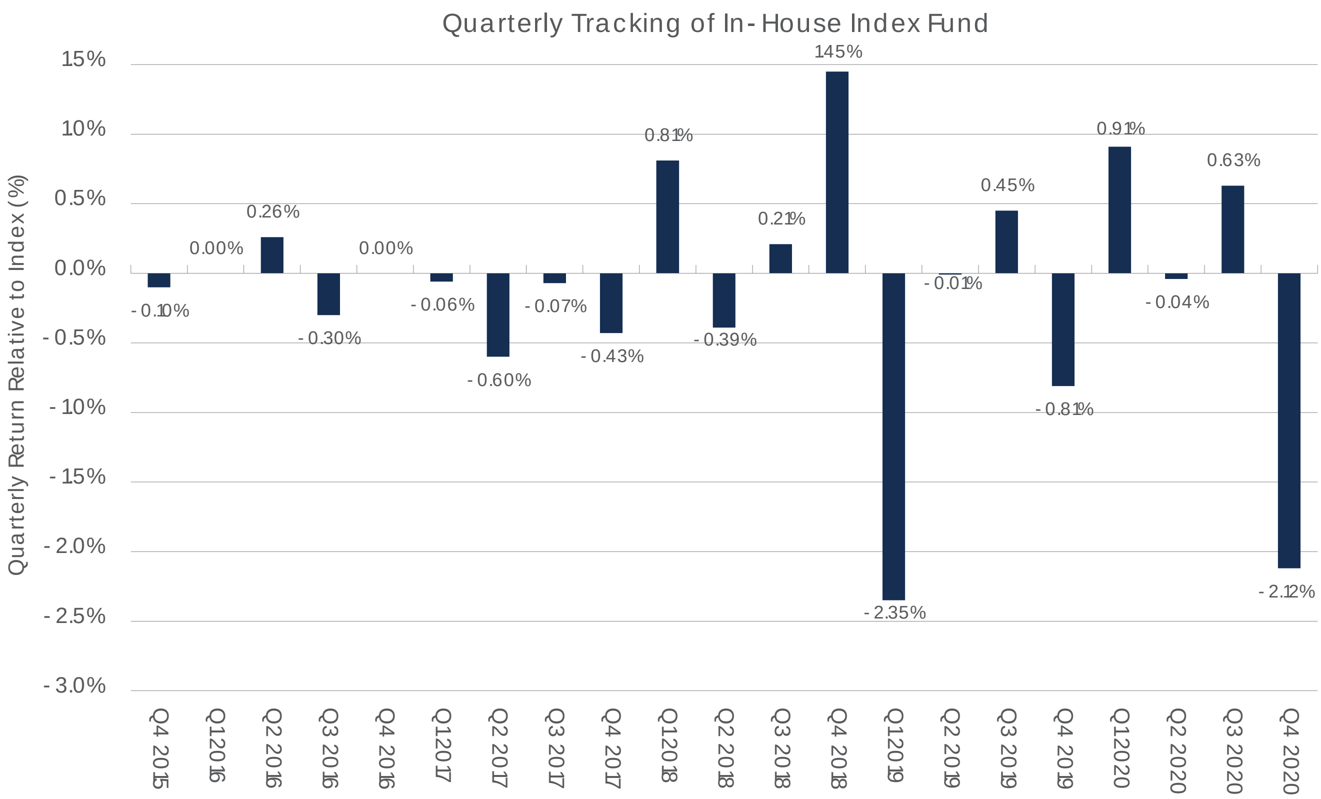
In-house – Passive UK Equities – FTSE UK Low Carbon Optimisation Index

Headline Comments: At the end of Q4 2020 the fund returned +10.50% for the quarter, compared to the FTSE All-Share index return of +12.62%. Over three years the fund has returned -0.61 p.a., ahead of the FTSE All-Share Index by +0.30%.

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. While the low carbon index underperformed the FTSE All Share index in Q4 by -3.85%, it has outperformed the All Share by +10.95% over one year. Over three years, the portfolio outperformed its three-year benchmark by +0.30% p.a.

CHART 2:



Source: MJH; BNY Mellon

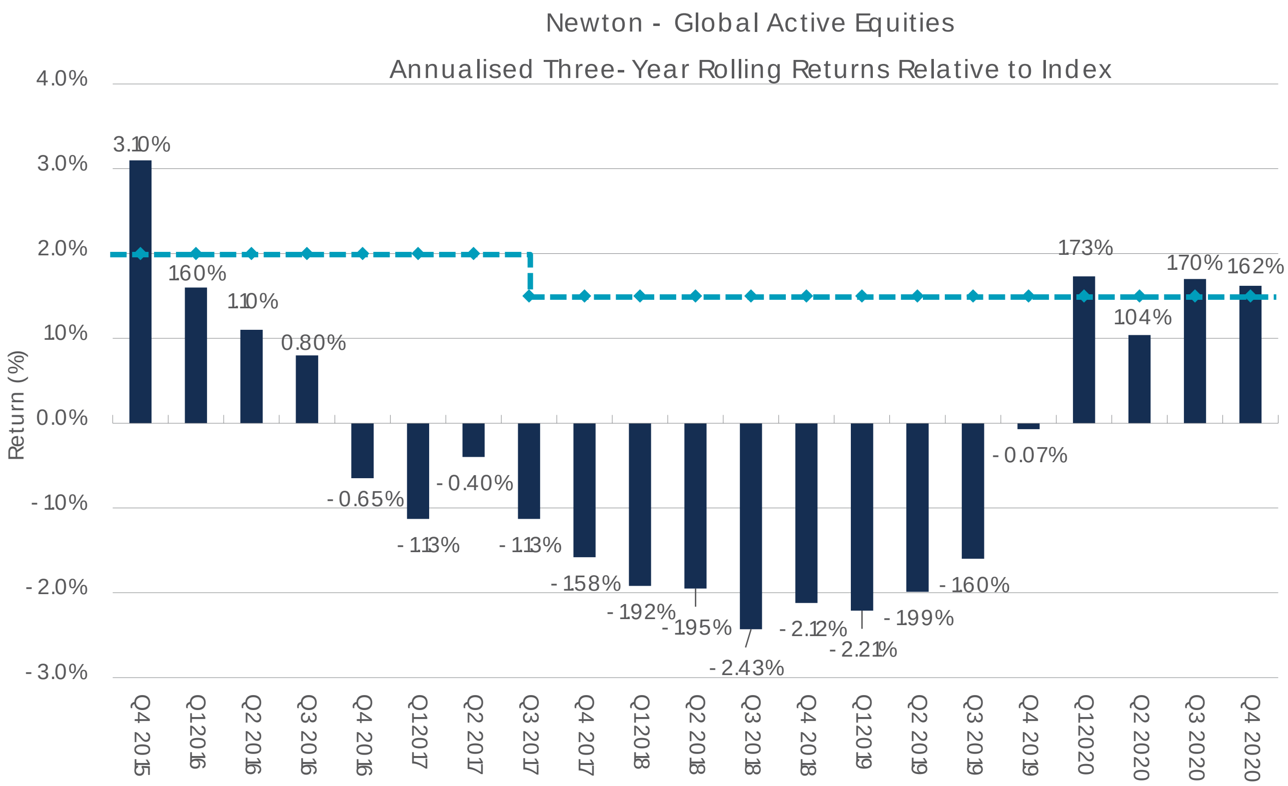
LCIV Global Equity Fund (Newton) – Global Active Equities

Headline Comments: The LCIV Global Equity Fund underperformed its benchmark during Q4 2020 by -1.16%. Over three years the portfolio outperformed the benchmark by +1.57% and is ahead of 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; BNY Mellon

For the three-year period to the end of Q4 2020, the fund was ahead of the benchmark by +1.57% p.a. This means it outperformed the performance objective by +0.07% (the

MJ HUDSON

performance objective is shown by the dotted line and dropped in May 2017 when the assets transferred into the London CIV sub-fund).

Overall, the portfolio's sector allocation has aided performance while individual stock selection has detracted from performance. In particular largest detractor in the last quarter was Alibaba, the Chinese e-commerce giant, which saw a significant drop in its share price due to an anti-trust investigation and the obstruction to the IPO for its financial arm, Ant Group, by the Chinese regulators. The manager believes it continues to be attractively priced, however.

Positive contributions to the total return came from holdings such as Citi Group (+0.84% contribution to the total return), Samsung Sdi (+0.75%) and Applied materials (+0.73%).

Although previously the London CIV has expressed concern over lacklustre performance, the fund return is now outperforming the benchmark by +2.15% over one year.

Portfolio Risk: The active risk on the portfolio stood at 3.08% as at quarter end, lower than as at end September when it stood at 3.26%. The portfolio remains defensive, with the beta on the portfolio at end December standing at 0.93, in line with the previous quarter (if the market increases by +10% the portfolio can be expected to rise +9.3%).

At the end of Q4 2020, the London CIV sub-fund's assets under management were £696.3m, compared with £665.4m last quarter. London Borough of Islington now owns 40.18% of the sub-fund.

Portfolio Characteristics: The number of stocks in the portfolio stood at 55 as at quarter-end (four less than last quarter). The fund added three positions, Unilever Plc, Norfolk Southern, Barclays. It completed sales on Unilever NV, Cisco Systems, Lennar, Gilead Sciences, Suntory Beverage & Food, CMS Energy and Dnb.

Staff Turnover: Euan Munro will be joining them as their new CEO. Euan has most recently worked at Aviva Investors in the same capacity, before stepping down on 4th January 2021.

LCIV Sustainable Equity Fund

Headline Comments: Over Q4 2020 the fund delivered a return of +11.94%, this was ahead of the benchmark return of +7.78%. The one-year return was +24.59%, ahead of the benchmark by +12.26%. The fund does not yet have a three-year track record. Islington's investment makes up 26.40% 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.

Performance Attribution: The portfolio has overweight allocations to the financial and consumer discretionary sectors, healthcare, industrials, materials and utilities. The portfolio performance was mainly driven by exposure to financials, industrials and utilities, while the healthcare sector detracted over the quarter. The manager continues to add value through active stock selection.

Portfolio Characteristics: As at end of December 2020 the fund had 37 holdings across 14 countries. The tracking error of the fund was 3.70% meanwhile volatility stood at 16.93%. Over the quarter the largest contributors to return include Orsted A/S (+1.30%), SVB Financial Group (+1.24%), and Nidec (+0.94%). There largest detractors include Bluebird Bio (-0.28%), Nvidia (-0.19%) and Roche Holdings (-0.15%).

BMO/LGM – Emerging Market Equities

Headline Comments: The total portfolio delivered a return of +11.66 % in Q4 2020, compared with the benchmark return of +13.28%, an underperformance of -1.62%. The emerging market component of this portfolio returned +18.26% (source: BMO, and in US dollars) compared with the index return of +19.70%. The frontier markets portfolio was ahead of the index return, delivering a return of +16.44% vs +14.0%, (source: BMO, and in US dollars). Over one year, the total fund is behind of the benchmark return by -7.77% (source BNY Mellon, in sterling). Over three years, the fund has returned +2.25%, compared to the index return of +6.19% (an underperformance of -3.94%). Please note that the frontier markets fund is due to close in the near future.

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: while performance was strong on an absolute basis, the manager did lag the index over the quarter. The biggest contributor to relative performance came from not owning Alibaba, a benchmark heavyweight that lost 20.8% after the cancellation of the IPO of its financial services subsidiary (Ant Group) and subsequent announcement of antitrust investigations by the Chinese government caused considerable downward pressure on the share price.

During the quarter, the largest positive contributors to the quarterly absolute return for the emerging markets portfolio came from Taiwan Semiconductor Manufacturing (+1.8%), Anta Sports Products Ltd (+1.6%), and HDFC Bank Ltd Common Stock (1.5%). Companies which detracted most from performance included Reliance Ltd (-0.3%), Newgold Issuer Ltd (-0.2%), and Unilever (-0.1%).

In the frontier market portfolio, the top positive contributors to the quarterly absolute return were Bank of Georgia Group (+2.2%), Phu Nhuan Jewelry (+2.2%), and Humansoft Holdings Co KSC (+1.9%). Companies which detracted the most from performance were Commercial International Bank GDR (-1.0%), Newgold Issuer Ltd (-0.5%, held in both portfolios), and Alicorp SAA (-0.5%).

Over one year, both the emerging market and the frontier market portfolios continues to trail behind the benchmark. For the frontier market portfolio, the return over 12 months was -8.29% versus the benchmark return of +4.55% (source BMO, in US dollars). The emerging market portfolio is trailing by -4.89%. Whilst the frontier market fund is closing in the coming weeks, the level of underperformance on the emerging market portfolio is something to continue monitoring closely.

Portfolio Risk: Within the emerging markets portfolio, 16.7% was allocated to developed or frontier markets (with the frontier markets allocation at around 5%), and cash was at 3.2% as at quarter-end. The largest overweight country allocation in the emerging markets portfolio remained India (+17.0% overweight). The most underweight country allocation was China/HK (-13.5%).

Within the frontier markets portfolio, it is worth noting that 62.5% 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 December 2020). The most overweight country allocation remained Egypt (+11.2%) and the most underweight was Vietnam (-12.9%).

Portfolio Characteristics: The frontier markets portfolio held 33 stocks as at end December compared with the benchmark which had 79. The emerging markets portfolio held 34 stocks as at end December compared with the benchmark which had 1,380.

Organisation: Frederik Axsater joined BMO Global Asset Management as CEO of LGM Investment Management on 16th July 2020. George Lawrence joined the investment team as an Analyst in October.

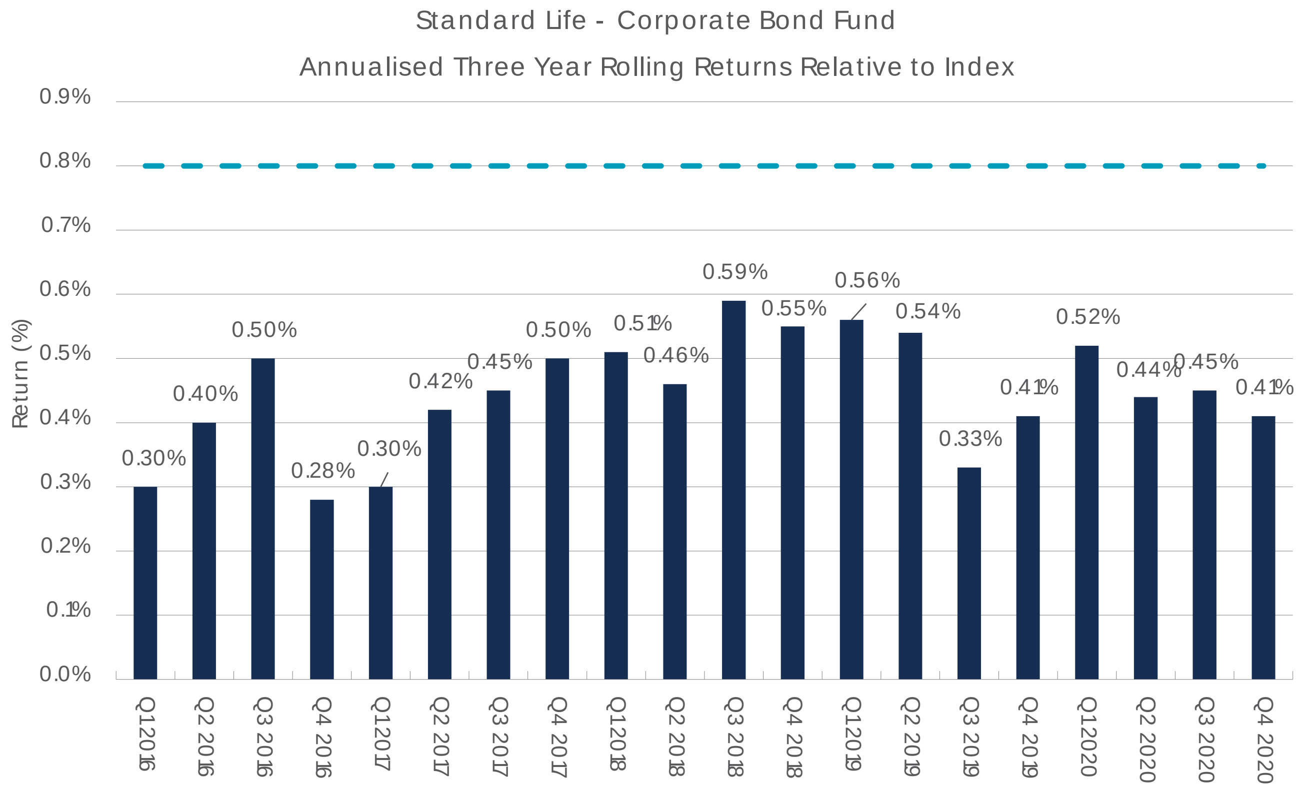
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio was marginally ahead of the benchmark return during the quarter by +0.19%. Over three years, the fund was ahead of the benchmark return (by +0.41%) but behind the performance target of benchmark +0.80% p.a.

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

Performance Attribution: Chart 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 but has been trailing the performance objective for some time (shown by the dotted line in Chart 4).

CHART 4:



Source: MJH; BNY Mellon

Over three years, the portfolio has returned +5.48% p.a. net of fees, compared to the benchmark return of +5.07% p.a. Over the past three years, asset allocation has added +0.01% value, meanwhile stock selection has added +0.20% and curve plays +0.01%.

Portfolio Risk: The largest holding in the portfolio at quarter-end was EIB 5.625% 2032 at 1.5% of the portfolio. The largest overweight sector position remained Financials (+7.1%) and the largest underweight position remained sovereigns and sub-sovereigns (-14.9%). The fund holds 4.1% of the portfolio in non-investment grade (off-benchmark/BB and below) bonds.

Portfolio Characteristics: not available at the time of going to print.

Staff Turnover: there were 6 joiners, but 33 people left the firm during the quarter. No joiners were related to fixed income but 6 of the leavers were part of the wider fixed income team.

Aviva Investors – Property – Lime Property Fund

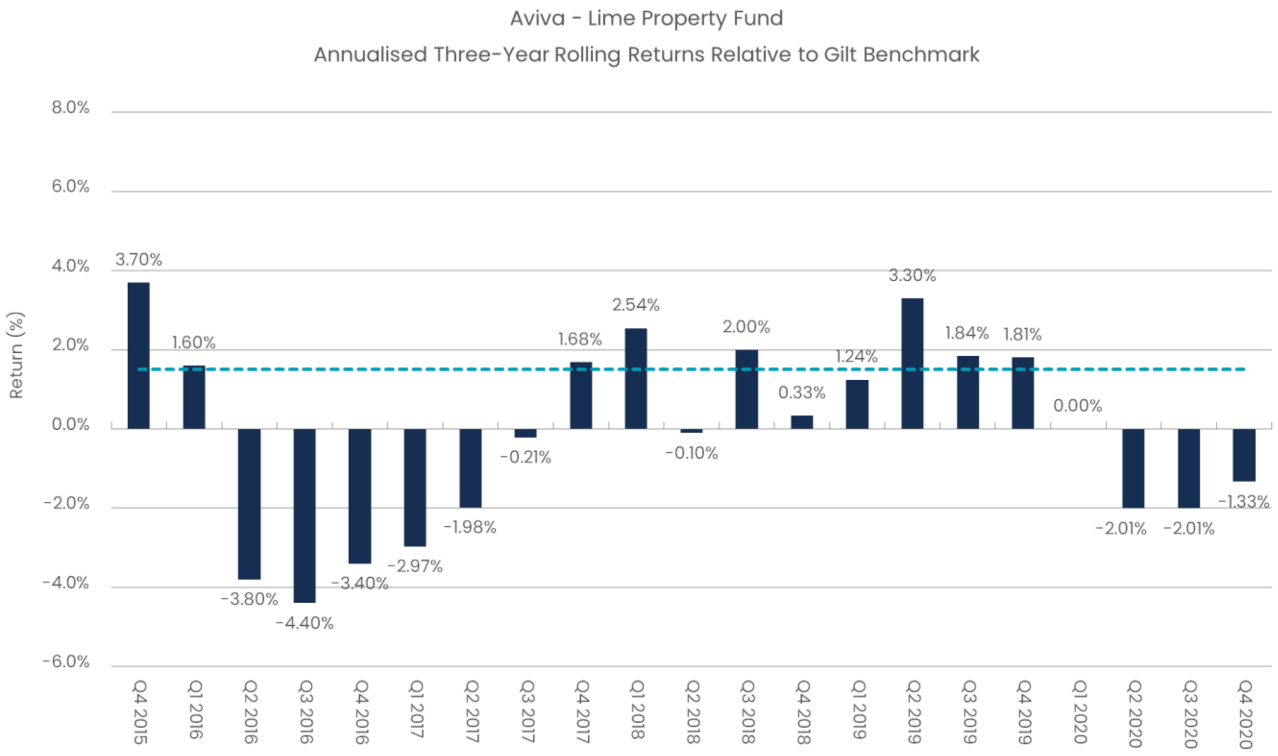
Headline Comments: The Lime Fund delivered another quarter of steady and positive absolute returns, it surpassed the fund benchmark return, with a relative overperformance of +1.01% in Q4. Over three years, the fund is behind the benchmark return by -1.33%.

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 2020 return was attributed by Aviva to +0.99% capital return and +0.95% income return.

Over three years, the fund has returned +4.88% p.a., below the gilt benchmark of +6.21% p.a., and behind its outperformance target of +1.5% p.a., as can be seen in Chart 5.

CHART 5:



Source: MJH; BNY Mellon

Over three years, 60% of the return came from income and 40% from capital gain.

Portfolio Risk: This quarter the fund sold two investments, the first being a £5.1m sale of an HSBC high street bank in Lincoln. The second was the sale of a John Lewis distribution centre for £110m in Milton Keynes. These two sales were aimed at de-risking the portfolio and reducing credit risk and property risk. Three purchases during the quarter included a £139m distribution centre let to Sainsbury's on a 25-year lease in Birmingham, a £60m sale and lease back with Leeds Beckett University on their new sport science facility, and a £22m deal funding new offices for M&G Investments for a 20-year inflation linked rent agreement.

The fund has £244 million of investible capital and the manager believes the current drawdown period for new capital is 12-15 months.

The average unexpired lease term was 20.6 years as at end December 2020. 10.4% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 25.4%, and the number of assets in the portfolio increased from 87 to 89 in Q4. The weighted average tenant credit quality rating of the Lime Fund changed from A- in the previous quarter to BBB+ this quarter.

Portfolio Characteristics: As at December 2020, the Lime Fund was valued at £3.04 billion, an increase of £199 million from the previous quarter end. London Borough of Islington's investment represents 4.2% of the total fund. The fund had 96% allocated to inflation-linked or fixed rental uplifts as at end December 2020.

Staff Turnover/Organisation: During Q4, there were four joiners and three leavers from the Real Asset business, but not changes to the Lime Property team or the Executive team.

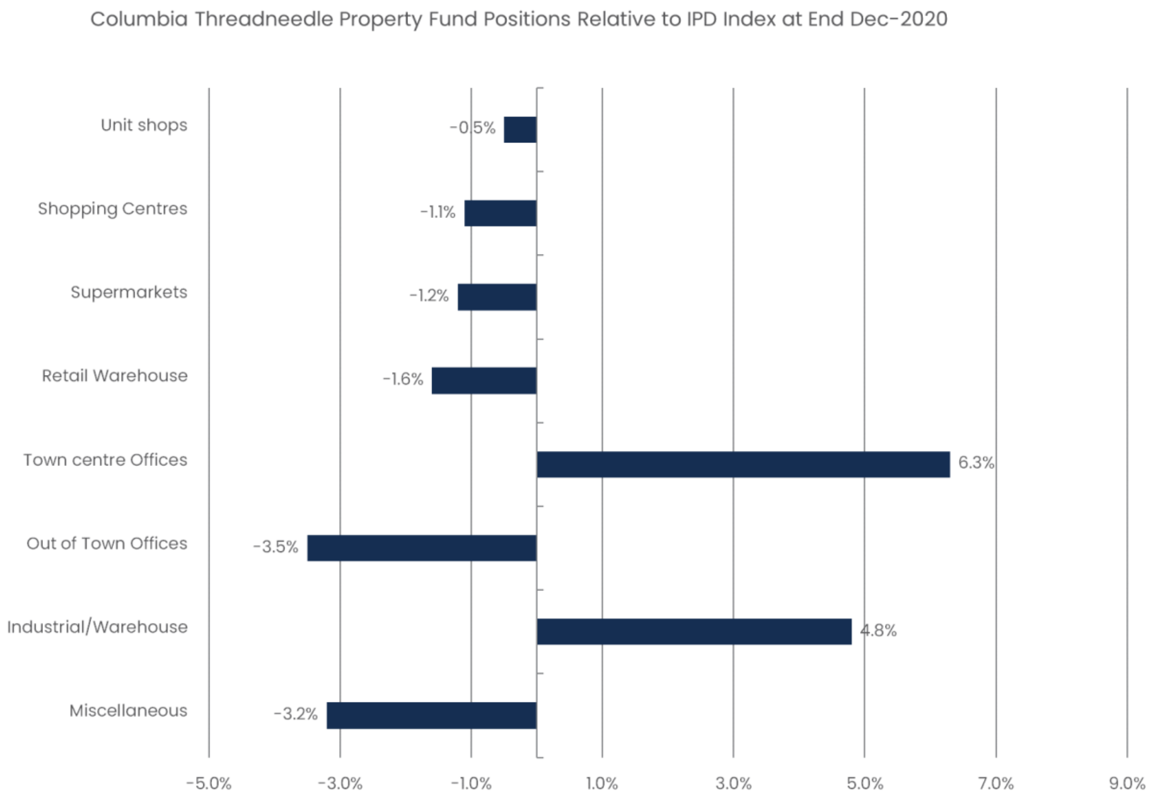
Columbia Threadneedle – Pooled Property Fund

Headline Comments: The fund underperformed the benchmark return in Q4 2020 by -0.9% (source: Columbia Threadneedle). Over three years, the fund also underperformed the benchmark by -0.5% (source: Columbia Threadneedle) 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; Columbia Threadneedle

During the quarter, the fund made no acquisitions and five sales.

The fund's void rate has increased from 9.7% at end September to 10.1 at end of December, versus the benchmark's 9.0%. This has been monitored because a higher-than-benchmark void

MJ HUDSON

rate could pull the performance down on a relative basis. The rent default rate has increased during the pandemic, and this is worth noting. At December 2019, 99% of rents were collected by Columbia Threadneedle. This fell to a low of 82% by June 2020, but has begun to improve, with rent collections running at 88% by end September (most recent data point available).

The cash balance at end December was 8.9%.

Performance Attribution: The portfolio slightly underperformed the benchmark in Q4 2020, by -0.9% (source: Columbia Threadneedle). Over three years, the fund is behind its benchmark, a relative underperformance of -0.5% 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 December 2020, the fund was valued at £1.95bn, slightly down from the fund's value in September 2020. London Borough of Islington's investment represented 4.21% of the fund.

Staff Turnover: There were three leavers from the team, two of whom have already been replaced by existing staff at the manager (John Willcock, who retired, has been replaced by Joseph Vullo who was previously Head of Asset Management, Real Estate, and Tim Jagger who sadly passed away). The manager noted that there may be further recruitment into the team.

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 in Q4.

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 2020 FUND	Q4 2020 INDEX	TRACKING
FTSE-RAFI Emerging Markets	+16.02%	+16.01%	0.01%
MSCI World Low Carbon Target	+7.95%	+7.97%	-0.02%

Source: LGIM

Portfolio Risk: The tracking errors are all within expected ranges. The allocation of the portfolio, as at quarter end, was 83.36% to the MSCI World Low Carbon Target index fund, and 16.64% allocated to the FTSE RAFI Emerging Markets index fund.

Staff Turnover/Organisation: Not reported by LGIM.

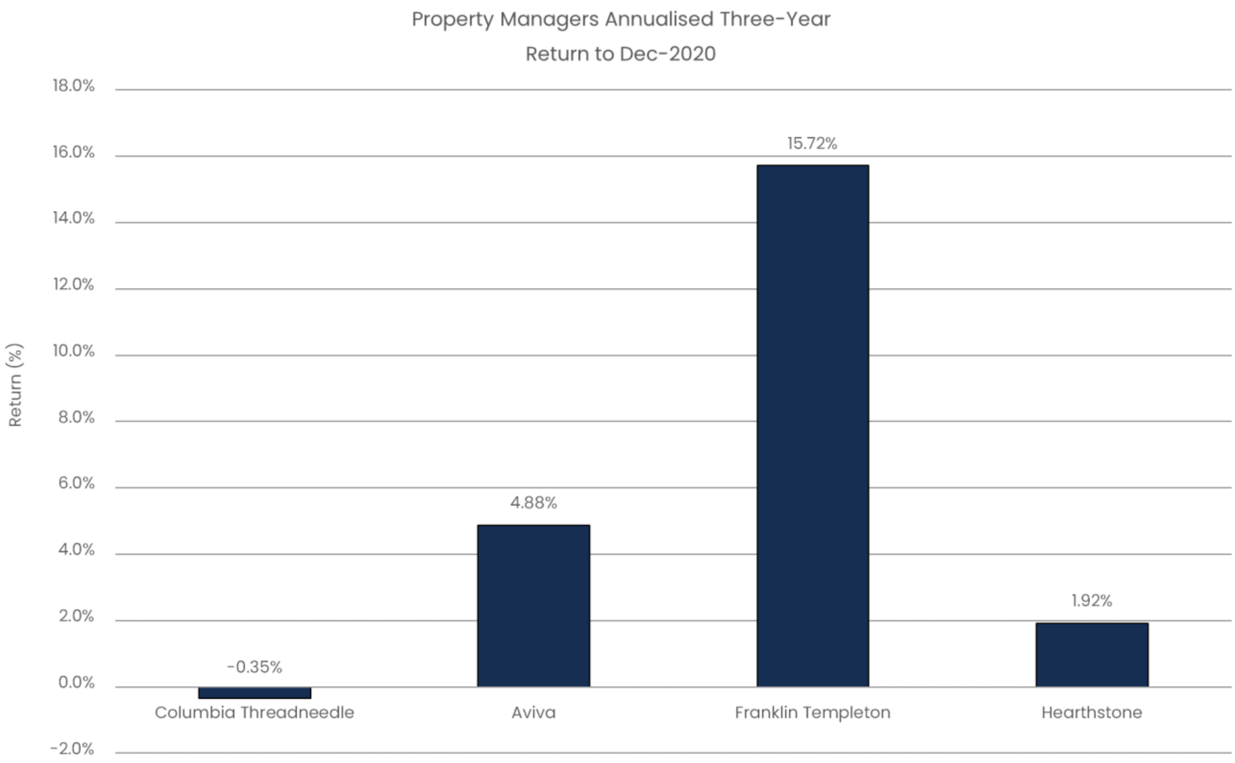
Franklin Templeton – Global Property Fund

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 +5.72%.

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 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; Columbia Threadneedle

Portfolio Risk: Fund I is currently in its harvesting phase. Ten of the underlying Funds in the portfolio have now been fully realised, with four remaining, and total distributions to date have been US$494.2 million, or 154.8% of total Fund equity. The Fund's use of leverage was at 42% for the quarter.

The largest remaining allocation in Fund I is to the US (48% of funds invested), followed by Spain (36%), Italy (10%), and UK (6%). As the fund distributes, the geographic exposure is likely to become increasingly concentrated.

Of all the underlying funds (realised and unrealised), three have performed well ahead of expectations, five were above expectations, four were on target and two were below expectations, Sveafastigheter III and Lotus Co-Investment (Lotus has now been fully liquidated).

Fund II is now fully invested in a diverse mix of property sectors including office, retail and industrial uses and is continuing to make distributions. As at end December 2020, 74.0% of committed capital had been distributed. Leverage stood at 54%. The manager notes that the pandemic has led to some delays in implementing business plans in some of the underlying investments, in this Fund.

The largest geographic allocation in Fund II is to Italy (53% of funds invested), followed by the US (39%) and China (6%).

MJ HUDSON

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

Staff Turnover/Organisation: During Q4 2020 there was only one change to the team, Riccardo Abello, who left in December 2020. However, his role was focussed on the acquisition of European assets and, since both Fund I and Fund II are fully invested, his departure will not affect London Borough of Islington's portfolio.

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio underperformed the benchmark for the quarter ending December 2020 as well as over three years.

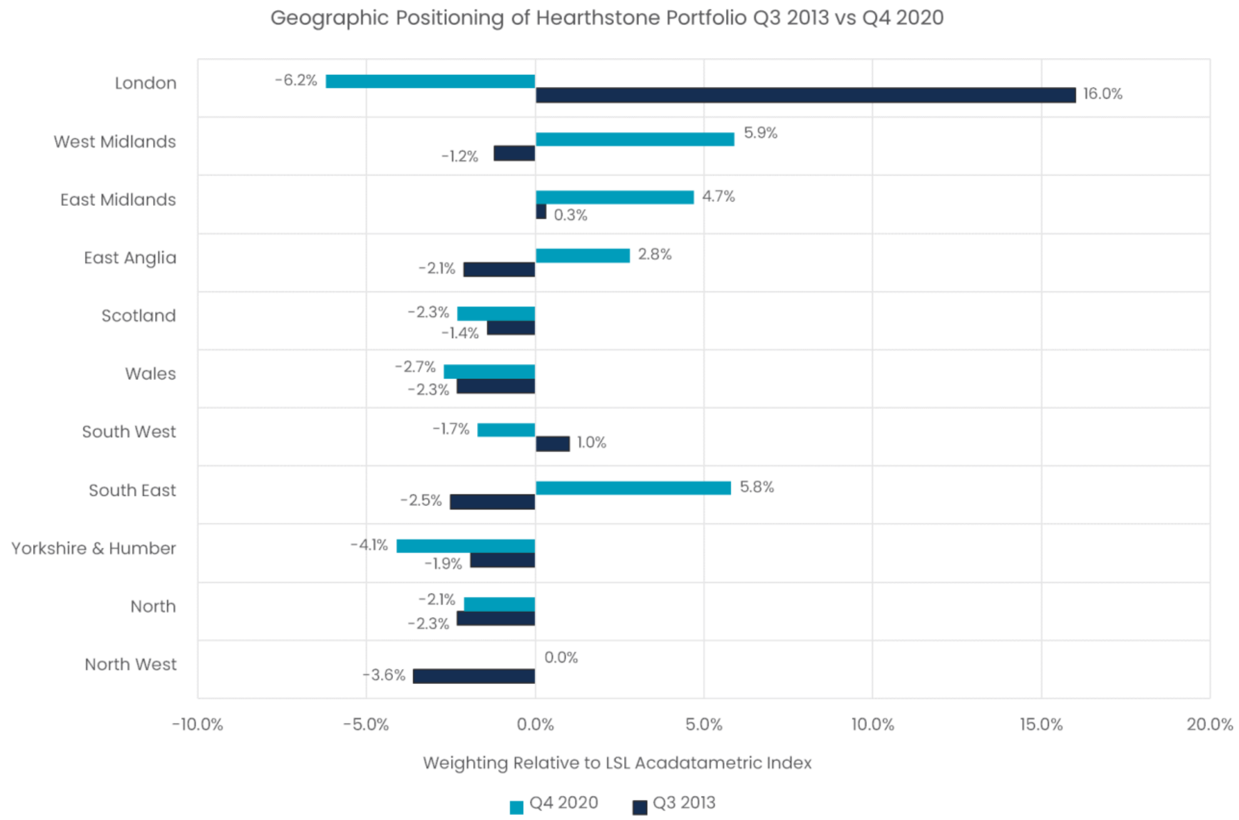
Mandate Summary: The fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

Performance Attribution: The fund underperformed the IPD index over the three years to December 2020 by -0.62% p.a., returning +2.16% p.a. versus the index return of +2.78% p.a. The gross yield on the portfolio as at December 2020 was 4.43%. Adjusting for voids and property management/maintenance costs, however, the yield on the portfolio falls to 2.26%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 14.08%.

Chart 8 compares the regional bets in the portfolio in Q4 2020 (turquoise bars) with the regional bets at the start of the mandate, in Q3 2013 (navy bars).

CHART 8:



Source: MJH; Hearthstone

Portfolio Characteristics: By value, the fund has a 9% allocation to detached houses, 42% allocated to flats, 26% in terraced accommodation and 24% in semi-detached.

As at end December there were 204 properties in the portfolio and the fund stood at £60.0 million. London Borough of Islington's investment represents 48.1% of the fund. This compares with 72% at the start of this mandate in 2013.

Organisation and Staff Turnover: In Q4 there were no leavers. However, there was one new addition to the team, Darren Cotter, as Director of Institutional Business Development.

Schroders – Diversified Growth Fund (DGF)

Headline Comments: The DGF delivered a positive return in Q4 2020, and in relative terms it outperformed against its target. However, over three years, the fund is behind the target return of RPI plus 5% p.a. by -2.70%.

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 +7.48% in Q4 2020. This is +1.58% ahead of the RPI plus 5% p.a. target return of +5.90% for Q4. Over three years, the DGF delivered a return of +4.34% p.a. compared with the target return of +7.03% p.a., behind the target by –2.70% 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 Q4 2020, equity positions contributed +6.5% to the total return, alternatives +0.6%, credit and government debt +1.2%, and cash and currency detracted -1.1% (figures are gross of fees).

The return on global equities was +8.3% p.a. for the three years to December 2020 compared with the portfolio return of +4.3%. 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 8.5% compared to the three-year volatility of 17.2% in global equities (i.e. 50% of the volatility) so is less risky than expected.

Portfolio Characteristics: The fund had 38% in internally managed funds (same as last quarter), 35% in active bespoke solutions (same as last quarter), 3% in externally managed funds (same as last quarter), and 16% in passive funds (down from 21% last quarter) with a residual balance in cash, 10% (up from 4% last quarter), as at end December 2020. In terms of asset class exposure, 43.8% was in equities, 16.9% was in alternatives and 29.2% in credit and government debt, with the balance in cash, 10.1%

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

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

Quinbrook – Low Carbon Power Fund

Headline Comments: Performance for the year to 30th December 2020 was positive at 10.88%, behind 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 Q4 2020, on an unaudited basis, the fund had invested $622.8 million 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 1,406 MW (including those with minority stakeholders) as at 31 December 2020.

Organisation: During the quarter there were no changes to the team. However, early in Q1 2021 James Allan joined as a Director and Team Leader, specialising in Digital Applications.

Pantheon – Infrastructure and Private Equity Funds

Headline Comments: Over three years the return on the combined private equity and infrastructure funds was +15.76% per annum.

Mandate Summary: London Borough of Islington have made total commitments of £103.5m 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 £74.6m. Net IRR at 30 September 2020 across all strategies was 9.6%, up from 9.4% at Q2 2020, with a net multiple of 1.41 x at Q3 2020, up from 1.40 x at Q2 2020.

Portfolio Characteristics: Over the quarter, a total of £4.5m was drawn down, wholly to PGIF III, the infrastructure fund. Distributions were received across all strategies bar one (Pantheon Global Secondaries Fund III 'A'), totalling £1.0m over the period. Overall, the programme's rolled for cash valuation at Q4 2020 was £31.1m.

Karen Shackleton
Senior Adviser, MJ Hudson
3rd March 2021

MJ HUDSON

1 Frederick's Place, London, EC2R 8AE, United Kingdom | +44 20 7079 1000 | london@mjhudson.com | mjhudson.com | mjhudson.com