

London Borough of Islington

Report to 30th June 2021

MJ Hudson

AUGUST 2021

Table of Contents

Table of Contents.....	2
Contacts	2
Fund Manager Overview	4
Individual Manager Reviews.....	9
In-house – Passive UK Equities – FTSE UK Low Carbon Optimisation Index	9
M&G – Alpha Opportunities Fund	10
LCIV Global Equity Fund (Newton) – Global Active Equities	11
LCIV Sustainable Equity Fund (RBC) – global equities	13
BMO/LGM – Emerging Market Equities.....	13
Standard Life – Corporate Bond Fund.....	14
Aviva Investors – Property – Lime Property Fund.....	17
Columbia Threadneedle – Pooled Property Fund	18
Legal and General Investment Management (LGIM) – Overseas Equity Index Funds	20
Franklin Templeton – Global Property Fund	21
Hearthstone – UK Residential Property Fund	23
Schroders – Diversified Growth Fund (DGF)	24
Quinbrook – Low Carbon Power Fund	25
Pantheon – Infrastructure and Private Equity Funds	26

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Fund Manager Overview

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

TABLE 1:

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
M&G Alpha Opportunities Fund	Not reported by the manager.	The Fund returned +0.99% over Q2 2021, above the benchmark return by +0.12%.	M&G’s assets under management and administration were £370bn as at June 2021.
LCIV Global Equity Fund (Newton) (active global equities)	Jeff Munroe (Lead PM) will leave the fund at the end of 2021. Paul Markham (Co-lead for the strategy) will be replacing Jeff Munroe. Curt Custard, CIO, is also changing roles and Newton are recruiting for a replacement.	The LCIV Global Equity Fund underperformed its benchmark during Q2 2021 by -1.27%. Over three years the portfolio outperformed the benchmark by +0.86% but is under the performance target of benchmark +1.5% p.a.	At the end of Q2 2021, the London CIV sub-fund’s assets under management were £769.4m. London Borough of Islington owns 40.17% of the sub-fund.

<p>LCIV Sustainable Equity Fund (RBC) (active global equities)</p>	<p>None reported by the London CIV.</p>	<p>Over Q2 2021 the fund delivered a return of +8.93%, this outperformed the benchmark return of +7.61%. The one-year return was +29.66%, strong in absolute terms and well ahead of the benchmark by +5.30%.</p>	<p>As at end June the sub-fund's value was £970.9 million. London Borough of Islington owns 18.55% of the sub-fund.</p>
<p>BMO/LGM (active emerging equities)</p>	<p>In Q2 2021, there was one new joiner, and no leavers in the BMO LGM team. June Lui has been added as a co-portfolio manager to the fund in which London Borough of Islington invests.</p>	<p>Underperformed the benchmark by -1.26% in the quarter to June 2021. The fund is behind over three years by 6.32%.</p>	<p>Not reported.</p>

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Standard Life (corporate bonds)	There were 15 joiners, but 32 people left the firm during the quarter. Three joiners and eight leavers were in the Fixed Income Group.	The portfolio was marginally ahead of the benchmark return during the quarter by +0.10%, delivering an absolute return of +1.81%. Over three years, the fund was ahead of the benchmark return (by +0.52%) but behind the performance target of benchmark +0.80% p.a.	As at end June the fund's value was £2,903 million. London Borough of Islington's holding of £169.47m stood at 5.8% of the total fund value.
Aviva (UK property)	Not reported at the time of writing.	Outperformed against the gilt benchmark by +0.98% for the quarter to June 2021 and outperformed the benchmark over three years by +2.53%, delivering a return of +6.16% p.a., net of fees.	Fund was valued at £3.23 billion as at end Q2 2021. London Borough of Islington owns 4.2% of the fund.
Columbia Threadneedle (UK property)	During Q2 2021 there were two leavers, none from the property team. There were also four joiners, two to the property team, a Fund manager, and an Investment Manager, although neither will be involved in the fund in which London Borough of Islington invests.	The fund outperformed the benchmark in Q2 2021, with a quarterly return of 4.3% compared to 3.8%. It underperformed the benchmark by -0.2% p.a. over three years, below the target of 1% p.a. outperformance (source Columbia Threadneedle).	Pooled fund has assets of £2.04 billion. London Borough of Islington owns 4.31% of the fund.

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 £1.3 trillion at end June 2021.
Franklin Templeton (global property)	Two leavers during Q2, Jennifer McCabe, transaction manager, and Collin Giannini, research analyst.	The portfolio return over three years was +9.28% p.a., slightly behind the target of 10% p.a. although over 5 years the fund is still +2.4% p.a. ahead of the target return.	£1,120.6 billion of assets under management as at end June 2021.
Hearthstone (UK residential property)	No leavers or joiners in Q2.	The fund underperformed the IPD UK All Property Index by -2.74% in Q2. Additionally, it is trailing the IPD benchmark over three years by -0.84% p.a. to end June 2021.	Fund was valued at £61.7m at end Q2 2021. London Borough of Islington owns 46.4% of the fund.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Schroders (multi-asset diversified growth)	During Q2 there were no changes to investment team.	Fund returned +4.86% during the quarter and +6.87% p.a. over 3 years, -0.73% p.a. behind the target return.	Total AUM stood at £602.4 billion as at end June 2021, up from £574.4 billion as at end December 2020.
Quinbrook (renewable energy infrastructure)	One new joiner, Brian Chase, as Head of Capital Formation & Investor Engagement.	For the year to Q2 2021 the fund returned +19.58%, ahead of 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 a disappointing +0.43% p.a. over three years.	

Source: MJ Hudson

Minor Concern

Major Concern

Individual Manager Reviews

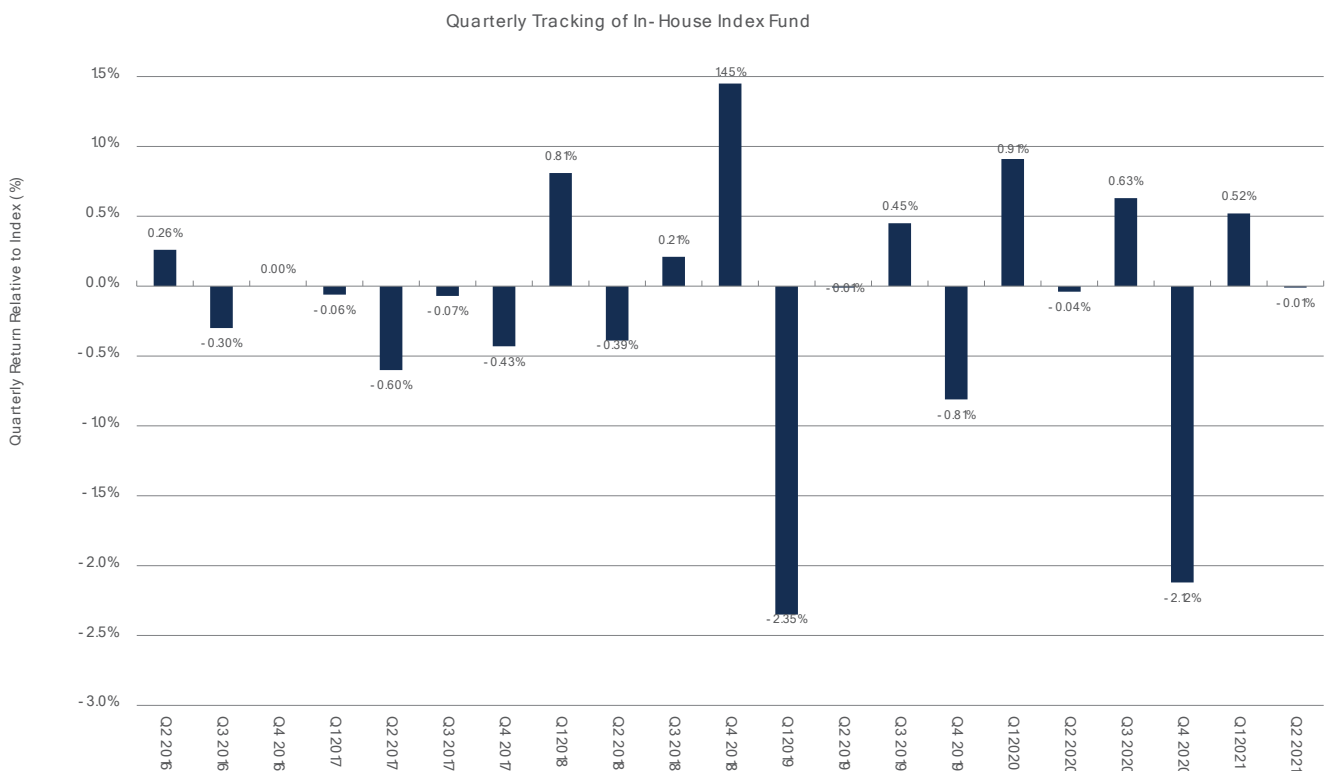
In-house – Passive UK Equities – FTSE UK Low Carbon Optimisation Index

Headline Comments: At the end of Q2 2021 the fund returned +5.60% for the quarter, compared to the FTSE All-Share index return of +5.61%. Over three years the fund has returned +2.35% 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. Over three years, the portfolio outperformed its three-year benchmark by +0.30% p.a.

CHART 2 :



Source: MJH; BNY Mellon

M&G – Alpha Opportunities Fund

Headline Comments: This is a new allocation for the pension fund, with proceeds from the equity protection strategy being invested in a Multi Asset Credit fund managed by M&G. During Q2 2021 the M&G Alpha Opportunities Fund returned +0.99%, outperforming the benchmark return of +0.88%.

Mandate Summary: a Multi Asset Credit fund, in which M&G aims to take advantage of opportunities in public and private credit markets by identifying fundamental value across securities and credit asset classes. In periods when the fund is not being sufficiently compensated for taking risk, the manager seeks to protect capital through allocating to low-risk asset classes. The objective of the fund is to deliver a total return of one month Libor / Euribor +3-5% per annum, gross of fees, over a full market cycle.

Performance Attribution: during the quarter, the fund returned +0.99% compared to the benchmark return (one month Libor plus 3.5% being used in Northern Trust's performance analysis) of +0.88%. Exposure to industrial corporate bonds was the top contributor, with financial bonds also performing strongly.

Portfolio Characteristics: the largest allocations in the portfolio were to industrials (35%), financials (16%) and securitised assets (16%). 44% of the portfolio was rated BB* or below. The manager is focusing on reducing the spread duration of the fund whilst maintaining exposure to securities which offer an attractive level of income.

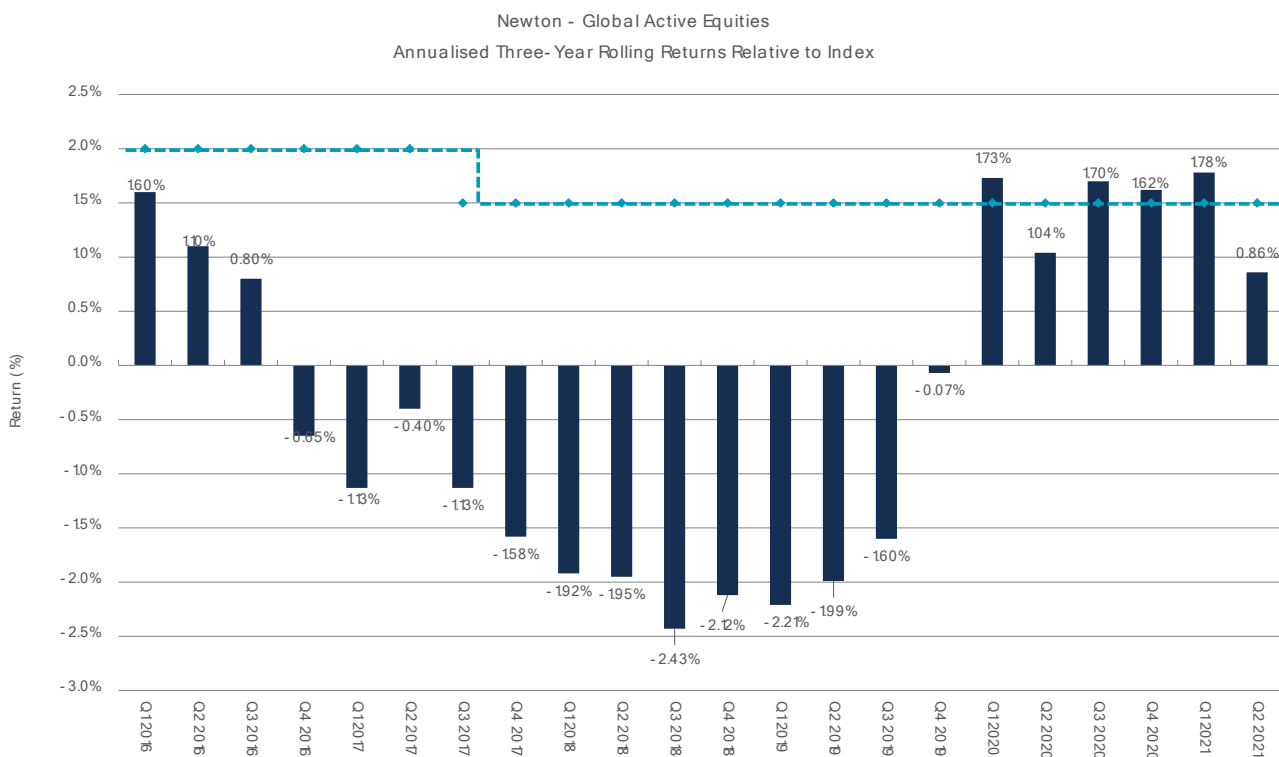
LCIV Global Equity Fund (Newton) – Global Active Equities

Headline Comments: The LCIV Global Equity Fund underperformed its benchmark during Q2 2021 by -1.27%. Over three years the portfolio outperformed the benchmark by +0.86% p.a. but has slipped behind 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 Q1 2021, the fund was ahead of the benchmark by +1.78% p.a. However, in Q2 2021 it was ahead the benchmark by only 0.86% p.a. This means it underperformed the performance objective by -0.64% p.a. (the performance objective is shown by the dotted line and dropped in May 2017 when the assets transferred into the London CIV sub-fund).

Positive contributions to the total return came from holdings such as Alphabet (+0.81% contribution to the total return), Microsoft (+0.69%), and Apple (+0.52%).

Negative contributions came from holdings including Ping an Insurance Group Company of China (-0.24%), Sony (-0.20%), and Kasikornbank (-0.14%).

The London CIV is now providing peer group analysis in its reporting, and they confirmed that Newton has consistently delivered returns in the top two quartiles in the long term but for Q2 2021, the position dropped to the third quartile. Over the past three years period the risk has been in the bottom quartile. (i.e. lower risk than its peers).

Portfolio Risk: The active risk on the portfolio stood at 3.11% as at quarter end, slightly lower than as at end March when it stood at 3.27%. The portfolio remains defensive, with the beta on the portfolio at end June standing at 0.92, in line with the previous quarter (if the market increases by +10% the portfolio can be expected to rise +9.2%).

At the end of Q2 2021, the London CIV sub-fund's assets under management were £769.4m, compared with £725.2m last quarter. London Borough of Islington now owns 40.17% of the sub-fund.

Portfolio Characteristics: The number of stocks in the portfolio stood at 57 as at quarter-end (1 less than last quarter). The fund added two positions: Volkswagen Prf, and Organon & Co. This was to bring more cyclical into the portfolio in expectation of an economic recovery. Newton completed sales of Kasikornbank and Verizon Communications.

The manager's positioning of the style of fund has changed from being style neutral to having tilts away from dividend generating stocks and toward companies with higher earnings as well as being more growth orientated.

LCIV has also introduced carbon foot-printing of sub funds, monitored by Trucost, and in Q2 2021 reported that the Newton sub fund had a weighted average carbon intensity of half that of the benchmark index (the MSCI World Index). The highest contributors were Norfolk Southern Corporation (5.74% contribution to the weighted average carbon intensity), Taiwan Semiconductor (5.64%) and Royal Dutch Shell (5.28%).

Staff Turnover: Newton reported that Jeff Munroe (the lead portfolio manager) will leave the fund at the end of 2021. Paul Markham (Co-lead for the strategy) will be replacing Jeff Munroe. The CIO, Curt Custard, is also changing roles and Newton will be recruiting for his replacement, although in the interim the CEO, Euan Munro, will cover some of Curt's role. LCIV is holding a meeting with the all the team members to understand the implications of these changes.

LCIV Sustainable Equity Fund (RBC) – global equities

Headline Comments: Over Q2 2021 the fund delivered a return of +8.93%, this outperformed the benchmark return of +7.61%. The one-year return was +29.66%, strong in absolute terms and well ahead of the benchmark by +5.30%. The fund does not yet have a three-year track record. Islington's investment makes up 18.55% of the total fund (source: LCIV)

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, consumer discretionary sectors, healthcare, industrials, and materials. The portfolio performance was mainly driven by stock selection within financials, communication services and healthcare while the utilities and consumer discretionary sector allocations detracted slightly over the quarter. The manager continues to add value through active stock selection.

The London CIV is now comparing managers against their peer group and reported that RBC is in the top quartile over the long term. This has been achieved whilst taken only average risk, when compared with peers. However, 2021 has been challenging, ranking at the bottom of the quartile range for its peer group.

Portfolio Characteristics: As at end of June 2021 the fund had 36 holdings across 15 countries. The tracking error of the fund was 3.66% meanwhile volatility stood at 17.27%. Over the quarter the largest contributors to return included Nvidia (+1.02%), Blackstone Group (+0.92%), Alphabet (+0.90%), and Deutsche Post (+0.90%). There largest detractors include Orsted A/S (-0.34%), Naspers (-0.23%) and USD Forward Currency Contracts (-0.17%).

London CIV report that the fund has sustained its “anti-value” stance and continues to favour quality companies with low gearing.

LCIV has also introduced carbon foot printing of sub funds, monitored by Trucost, and in Q2 2022 reported that the RBC sub fund had a weighted average carbon intensity of two-thirds that of the benchmark index (the MSCI World Index). The highest contributors were Orsted (16.66% contribution to the weighted average carbon intensity), Intercontinental Hotels (12.55%) and Neste Oyj (5.94%).

Staff Turnover: None reported by LCIV for Q2 2021.

BMO/LGM – Emerging Market Equities

Headline Comments: The portfolio delivered a return of +3.73% in Q2 2021, compared with the benchmark return of +4.99%, an underperformance of -1.26%. Meanwhile, over one year the fund is trailing the benchmark by -4.92%, and over three years it is trailing by -6.32%. The frontier markets portfolio previously held has now been closed, as such reporting on BMO now only discusses the emerging markets component.

Mandate Summary: Following the closure of their frontier markets fund, the manager now only invests in a selection of emerging market equities, with a quality and value, absolute return approach. The aim is to outperform the MSCI Emerging Markets Index by at least 3% p.a. over a three-to-five-year cycle.

Performance Attribution: performance across emerging markets was volatile, while some countries saw gains, others struggled in Q2. Brazil was the standout performer in Emerging markets, but BMO lacked exposure to the Brazilian market which accounts for a proportion of relative underperformance. The biggest contributor to performance came from holdings in India and South Korea.

During the quarter, the largest positive contributors to the quarterly relative return for the emerging markets portfolio came from Anta Sports Products (+0.9%), Infosys (+0.3%), and By-

Health Co (0.3%). Companies which detracted most from performance included Haier Smart Home (-0.5%), Inner Mongolia Yili Industrial (-0.4%), and Hualan Biological Engineering (-0.3%).

Over one year, the fund continues to trail behind the benchmark. 12-month performance to June 2021 shows the fund underperform against its benchmark by -4.92%. However, this includes the poor performance of the frontier markets in quarters prior to Q2. The performance for the emerging markets portfolio alone, over 12 months, was +38.67% versus a benchmark return of +40.90% (source: BMO).

Portfolio Risk: Within the emerging markets portfolio there is a 6% allocation to non-benchmark countries (excluding holding in Cash & Equivalents), as well as exposure to countries not typically considered emerging markets, such as a 1.5% exposure to the UK. The largest overweight country allocation in the emerging markets portfolio remained India (+12.9% overweight). The most underweight country allocation was South Korea (-10.3%).

Portfolio Characteristics: The portfolio held 39 stocks as at end June compared with the benchmark which had 1,406. The largest absolute stock position was TSMC at 7.4% of the portfolio, while the largest absolute country position was China/HK and accounted for 35.7% of the portfolio.

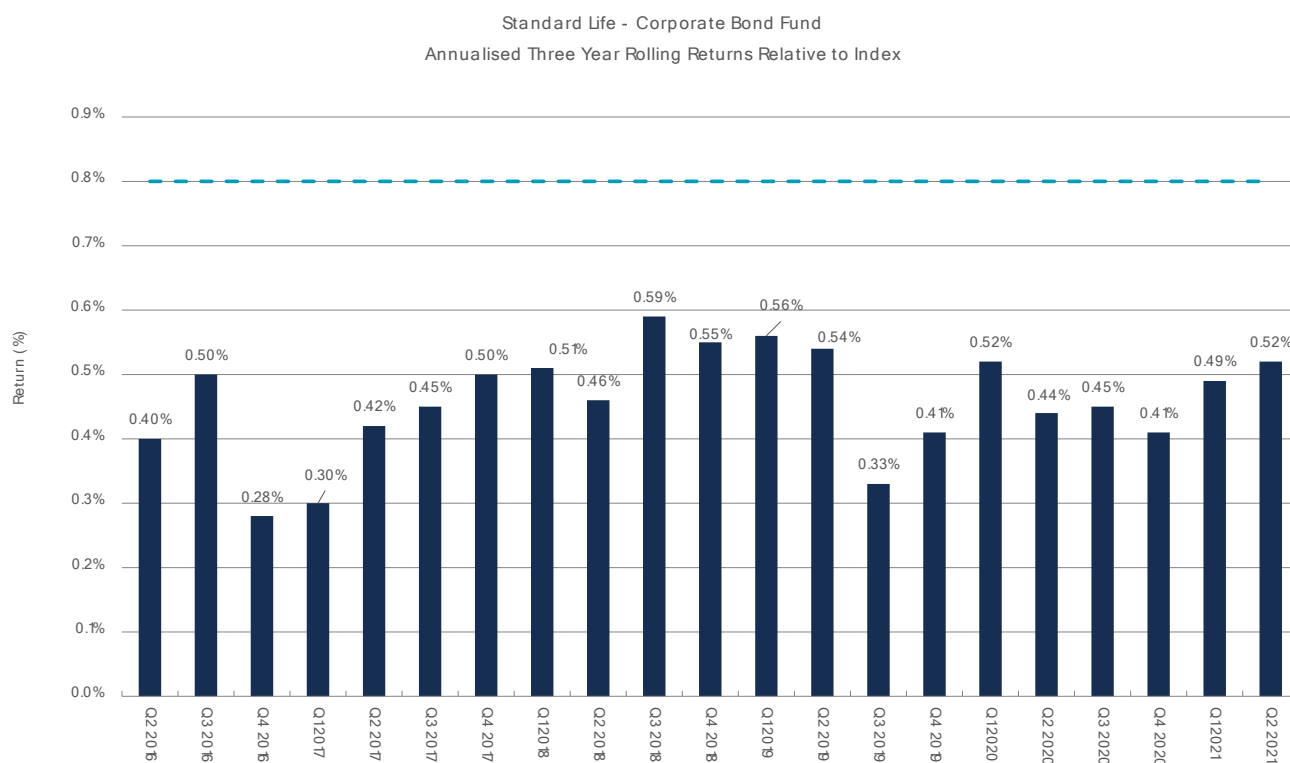
Staff Turnover: In Q2 2021, there was one new joiner, and no leavers in the BMO LGM team. June Lui has been added as co-Portfolio manager to the Emerging Market team, she previously led the LGM's Greater China strategies.

Standard Life – Corporate Bond Fund

Headline Comments: The portfolio was marginally ahead of the benchmark return during the quarter by +0.10%, delivering an absolute return of +1.81%. Over three years, the fund was ahead of the benchmark return (by +0.52% p.a.) 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 +5.17% p.a. net of fees, compared to the benchmark return of +4.65% p.a. Over the past three years, asset allocation has added +0.22% value, meanwhile stock selection has added +0.31%.

Portfolio Risk: The largest holding in the portfolio at quarter-end was UK gilt 4.75% 2030 at 1.7% of the portfolio. The largest overweight sector position remained Financials (+4.9% relative) and the largest underweight position is Supranationals (-8.4%). The fund holds 5.3% 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 June 2021 stood at £2,903 million. London Borough of Islington's holding of £169.48m stood at 5.8% of the total fund value.

Staff Turnover: There were 15 joiners, but 32 people left the firm during the quarter. Three of the joiners were to the Fixed Income Group, an Investment Manager, and an Analyst both in London, and an Analyst in Singapore. Eight of the leavers were part of the Fixed Income Group, this included one Investment director in Philadelphia, one senior investment manager in Jakarta, the head of Australian Macro, the head of Australian fixed income and four Analysts across multiple offices.

Aviva Investors – Property – Lime Property Fund

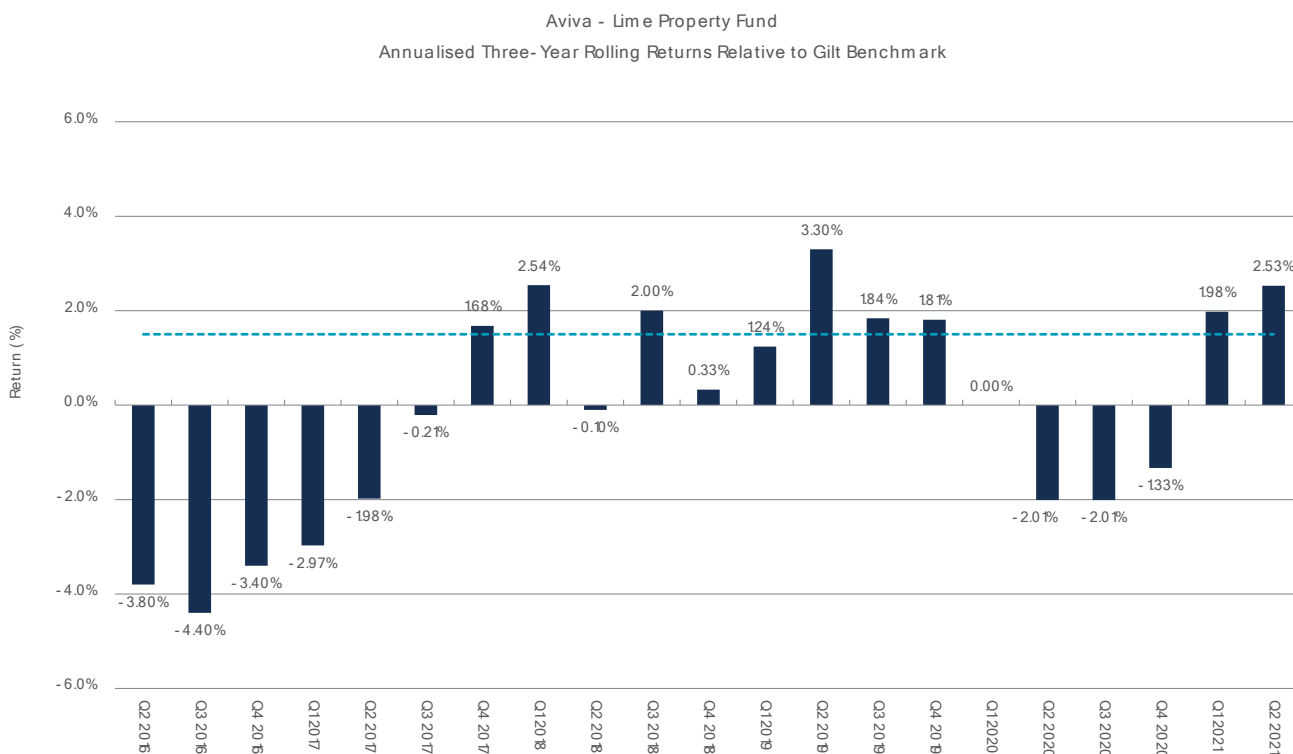
Headline Comments: The Lime Fund delivered another quarter of steady and positive absolute returns, it outperformed the fund benchmark return, with an overperformance of +0.98% in Q2. Over three years, the fund is ahead of the benchmark return by +2.53% p.a.

Mandate Summary: An actively managed UK pooled property portfolio, the Lime Fund invests in a range of property assets including healthcare, education, libraries, offices and retail. The objective of the fund is to outperform a UK gilt benchmark, constructed of an equally weighted combination of the FTSE 5-15 Years Gilt Index and the FTSE 15 Years+ Gilt Index, by +1.5% p.a., over three-year rolling periods.

Performance Attribution: The fund’s Q2 2021 return was attributed by Aviva to +2.34% capital return and +0.9% income return.

Over three years, the fund has returned +6.16% p.a., ahead of the gilt benchmark of +3.63% p.a., and ahead of its outperformance target of +1.5% p.a., as can be seen in Chart 5.

CHART 5 :



Source: MJH; BNY Mellon

Over three years, 54% of the return came from income and 46% from capital gain.

Portfolio Risk: During the quarter, the fund sold an investment; a Royal Mail sorting office near Manchester City Centre. It was sold on the open market and the price reflected the underlying

residential value rather than the rental income. The sale is aligned with the fund strategy, this sale will deliver a 14.3% return since acquisition.

The fund has £306 million of investible capital and the manager believes the current drawdown period for new capital is 12 months.

The average unexpired lease term was 20.61 years as at end June 2021. 9.09% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 25.89%, and the number of assets in the portfolio remained at 91. The weighted average tenant credit quality rating of the Lime Fund remained at BBB+ this quarter.

Portfolio Characteristics: As at June 2021, the Lime Fund was valued at £3.23 billion, an increase of £77 million from the previous quarter end. London Borough of Islington's investment represents 4.2% of the total fund.

Aviva are now monitoring the carbon intensity of their fund and reported a 10% drop in carbon emissions over the past year. They assess the physical risk exposure in the portfolio to be 'very low' (exposure to physical climate risk such as severe weather), and the transition risk exposure to be 'medium' (the portfolio's energy intensity, which determines the emission reduction required to align the fund with certain global warming scenarios). The carbon intensity on the portfolio is 10% lower than a year ago.

Staff Turnover/Organisation: Towards the end of Q2 in June the manager announced that David Cummings, current CIO Equity, will be stepping down from his role.

Columbia Threadneedle – Pooled Property Fund

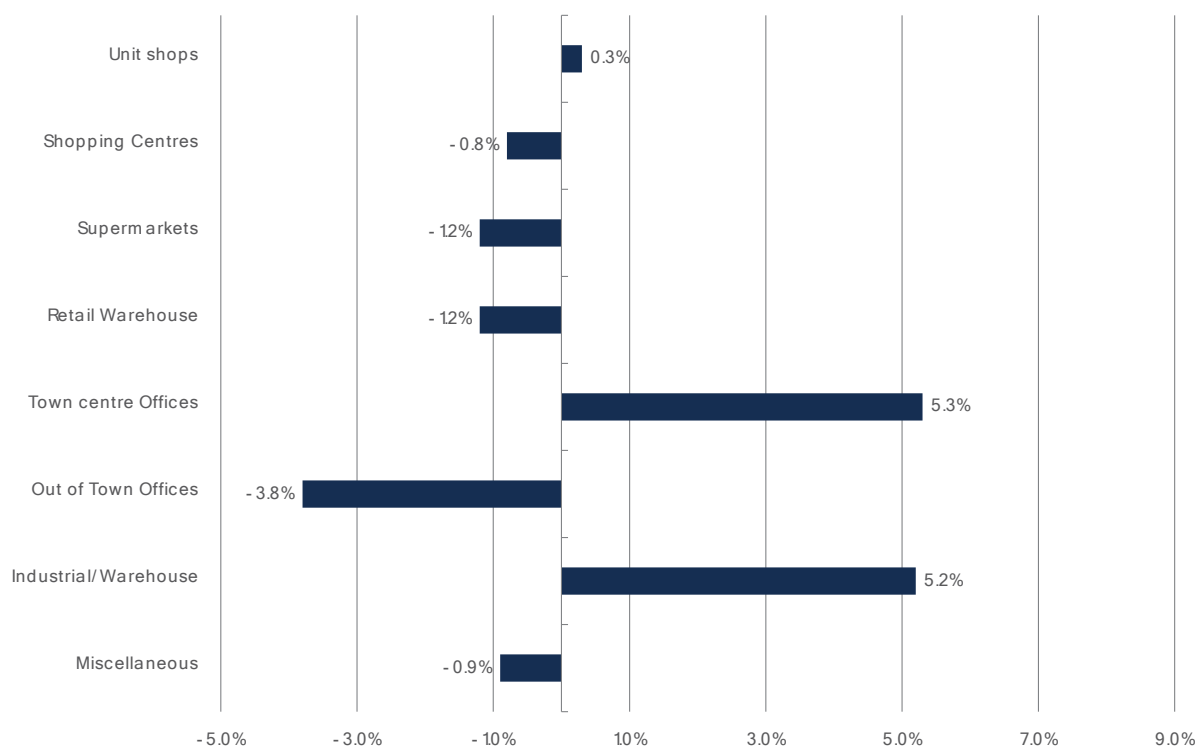
Headline Comments: The fund outperformed the benchmark in Q2 2021, with a quarterly return of 4.3% compared to 3.8% (source: Columbia Threadneedle). Over three years, the fund underperformed the benchmark by -0.2% (source: Columbia Threadneedle) and as such is behind the performance target of +1.0% p.a. 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:

Columbia Threadneedle Property Fund Positions Relative to IPD Index at End Jun-2021



Source: MJH; Columbia Threadneedle

During the quarter, the fund made two acquisitions and two sales.

The fund's void rate has increased from 10.2% at end of March to 12.3% at end of June 2021, versus the benchmark's 10.1%. This has been monitored because a higher-than-benchmark void rate could pull the performance down on a relative basis. The rent default rate increased during the pandemic: as 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 91% by end March 2021 (most recent data point available).

The cash balance at end June was 7.8%.

Performance Attribution: The fund outperformed the benchmark in Q2 2021, with a quarterly return of 4.3% compared to 3.8% (source: Columbia Threadneedle). Over three years, the fund underperformed the benchmark by -0.2% (source: Columbia Threadneedle) and as such is behind the performance target of +1.0% p.a. above benchmark.

Portfolio Characteristics: As at end June 2021, the fund was valued at £2.04bn, an increase of £54m from the fund's value in March 2021. London Borough of Islington's investment represented 4.31% of the fund.

Staff Turnover: During Q2 2021 there were two leavers, none from the property team. There were also four joiners, two to the property team, a fund manager and an investment manager.

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 Q2.

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 :

	Q2 2021 FUND	Q2 2021 INDEX	TRACKING
FTSE-RAFI Emerging Markets	+5.83%	+5.61%	+0.22%
MSCI World Low Carbon Target	+7.74%	+7.78%	-0.04%

Source: LGIM

Portfolio Risk: The tracking errors are all within expected ranges. The allocation of the portfolio, as at quarter end, was 83.40% to the MSCI World Low Carbon Target index fund, and 16.60% 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 underperformed the absolute return benchmark of 10% p.a. over three years by -0.72%. This was the first time it has underperformed the benchmark over three years since Q4 2014.

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 June 2021, 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\$494.3 million, or 154.9% of total Fund equity. The Fund’s use of leverage was at 36% for the quarter.

The largest remaining allocation in Fund I is to the US (53% of funds invested), followed by Spain (28%), Italy (12%), and UK (7%). 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 June 2021, 85.0% of committed capital had been distributed. Leverage rose from 53% to 55%. 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 (56% of funds invested), followed by the US (34%), China (5%), Hong Kong (4%), and Spain (1%).

Three of the underlying funds are performing well ahead of expectations, two are above expectations, four are on target, and one is below target. The fund that is below target is Mistral Napoleon and was downgraded from 'on target' this quarter triggered by delays in leasing because of suppressed demand in the retail market due to COVID-19.

Staff Turnover/Organisation: During Q2 2021 the firm announced that there were two leavers from the Franklin Real Asset Advisors team, Jennifer McCabe (previously a transaction manager) left in April 2021 and Collin Giannini (previously a research analyst) left in June 2021. An update on replacements is expected next quarter.

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio underperformed the benchmark for the quarter ending June 2021 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.

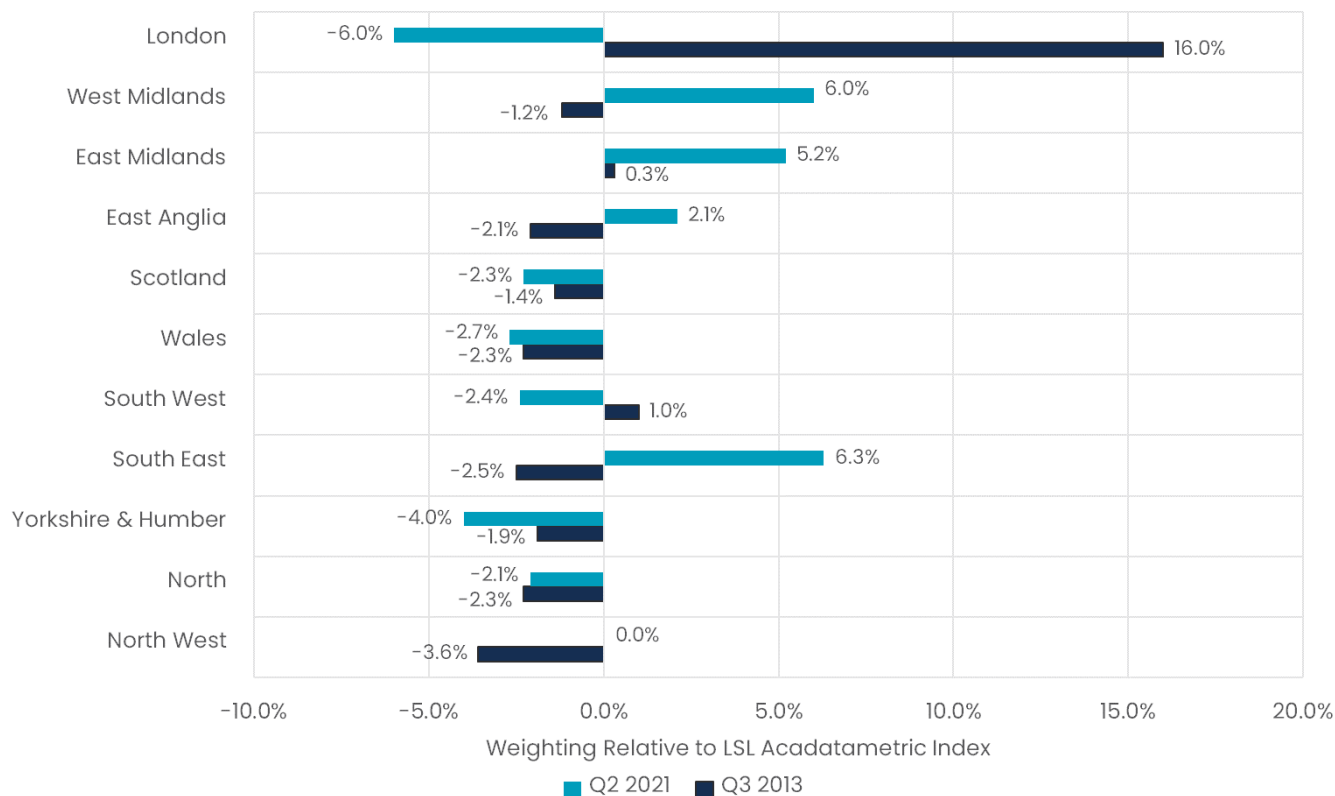
Performance Attribution: The fund underperformed the IPD index over the three years to June 2021 by -0.84% p.a., returning +2.50% p.a. versus the index return of +3.34% p.a. The gross yield on the portfolio as at June 2021 was 4.76%. Adjusting for voids and property management/maintenance costs, however, the yield on the portfolio falls to 2.62%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 16.88%.

Chart 8 compares the regional bets in the portfolio in Q2 2021 (turquoise bars) with the regional bets at the start of the mandate, in Q3 2013 (navy bars).

CHART 8 :

Geographic Positioning of Hearthstone Portfolio Q3 2013 vs Q2 2021



Source: MJH; Hearthstone

Portfolio Characteristics: By value, the fund has an 8% allocation to detached houses, 42% allocated to flats, 26% in terraced accommodation and 24% in semi-detached.

As at end June there were 200 properties in the portfolio and the fund stood at £61.7 million. London Borough of Islington's investment represents 46.4% of the fund. This compares with 72% at the start of this mandate in 2013.

Organisation and Staff Turnover: In Q2 there were no leavers or joiners from the team.

Schroders – Diversified Growth Fund (DGF)

Headline Comments: The DGF delivered a positive return in Q2 2021, and in relative terms it outperformed its target by +1.30%. However, over three years, the fund is behind the target return of RPI plus 5% p.a. by -0.73% 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 +4.86% in Q2 2021. This is above the RPI plus 5% p.a. target return for Q2 which returned +3.56. Over three years, the DGF delivered

a return of +6.87% p.a. compared with the target return of +7.60% p.a., behind the target by – 0.73% p.a.

In Q2 2021, equity positions added +2.9% to the total return, alternatives +1.0%, credit and government debt +0.6%, and cash and currency was neutral at +0.0% (figures are gross of fees).

The return on global equities was +12.9% p.a. for the three years to June 2021 compared with the portfolio return of +6.9%. Over a full three-to-five-year market cycle the portfolio is expected to deliver equity-like returns, so at current levels it is some way behind that strategic goal.

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 8.4% compared to the three-year volatility of 16.9% in global equities (i.e., 49.7% of the volatility) so is less risky than expected.

Portfolio Characteristics: The fund had 46% in internally managed funds (same as last quarter), 43% in active bespoke solutions (up from last quarter), 4% in externally managed funds (up from last quarter), and 3% in passive funds (down from last quarter) with a residual balance in cash, 4% (same as last quarter), as at end June 2021. In terms of asset class exposure, 47.0% was in equities, 24.8% was in alternatives and 24.4% in credit and government debt, with the balance in cash, 3.8%.

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

Schroder reported that the carbon intensity of the fund was -30% lower than a comparator (a mix of equities, bonds, and alternative indices).

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 June 2021 was positive at +19.58%, thus ahead of 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 Q2 2021, on an unaudited basis, the fund had invested USD 668.0 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 1,471 MW (including those with minority stakeholders) as at 30 June 2021. To put this into context, New York City uses around 11,000 megawatts of electricity per day.

Organisation: During the quarter, Anne Foster (Director) relocated back to the UK from Australia in May 2021, and Will Blake was promoted to Senior Vice President. As well as this there was one new joiner, Brian Chase who took on the role of Head of Capital Formation & Investor Engagement.

Pantheon – Infrastructure and Private Equity Funds

Headline Comments: Over three years the return on the combined private equity and infrastructure funds was +0.43% 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 £74.2m. Net IRR at 30th March 2021 across all strategies was 10.0%, up from 9.7% at Q4 2020, with a net multiple of 1.40x.

Portfolio Characteristics: Over the period Q1 2021 – Q2 2021, a total of £3.2m was drawn down, wholly to PGIF III. Distributions were received across two strategies – Pantheon USA Fund VII and Pantheon Global Secondary Fund IV Feeder – totalling £0.5m over the period. Overall, the programme’s rolled for cash valuation at Q2 2021 was £41.1m, up from £33.8m at Q1 2021.

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