MJ HUDSON

London Borough of Islington

Report to 30th September 2021

MJ Hudson

NOVEMBER 2021

Table of Contents

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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 +0.45% over Q3 2021, under the benchmark return by –0.43%.	The fund size was £10.06 billion as at end September. London Borough of Islington's investment amounts to 7.55% of the fund.
LCIV Global Equity Fund (Newton) (active global equities)	Newton's head of Sustainable Investment will leave the firm February 2022 and Jennifer Law joined Newton as the Head of Stewardship. The transition of Mellon Investments Corporation's equity and multi asset-focused business, announced in February, has now been completed.	The LCIV Global Equity Fund outperformed its benchmark during Q3 2021 by +0.75%. Over three years the portfolio outperformed the benchmark by +0.60% but is under the performance target of benchmark +1.5% p.a.	At the end of Q3 2021, the London CIV sub-fund's assets under management were £786.7m. London Borough of Islington owns 40.16% of the sub-fund.

LCIV Sustainable Equity Fund (RBC) (active global equities)	None reported by LCIV.	Over Q3 2021 the fund delivered a return of +2.64%, this outperformed the benchmark return of 2.45%. The one-year return was +25.39%, strong in absolute terms and well ahead of the benchmark by +1.87%.	As at end September the sub- fund's value was £1,246.1 million. London Borough of Islington owns 14.83% of the sub-fund.
BMO/LGM (active emerging equities)	In Q3 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. Juan Salaza, Director of Responsible Investment, is leaving BMO at the end of November.	Outperformed the benchmark by +5.41% in the quarter to September 2021. The fund is behind over three years by -3.00%.	Not reported.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Standard Life (corporate bonds)	There were 13 joiners, but 28 people left the firm during the quarter. One joiner and seven leavers were in the Fixed Income Group.	The portfolio was behind the benchmark return during the quarter by -0.52%, delivering an absolute loss of -1.50%. Over three years, the fund was ahead of the benchmark return (by +0.32% p.a.) but behind the performance target of benchmark +0.80% p.a.	As at end June the fund's value was £2,945 million. London Borough of Islington's holding of £166.94m stood at 5.7% of the total fund value.
Aviva (UK property)	Not reported at the time of writing.	Outperformed against the gilt benchmark by +5.46% for the quarter to September 2021 and outperformed the benchmark over three years by +3.68% p.a., delivering a return of +7.29% p.a., net of fees.	Fund was valued at £3.33 billion as at end Q3 2021. London Borough of Islington owns 4.2% of the fund.
Columbia Threadneedle (UK property)	During Q3 2021 there were five leavers, one of which was from the Property team, although he did not work on TPEN Property. There were also two joiners to the equity team.	The fund marginally underperformed the benchmark in Q3 2021, with a quarterly return of 4.49% compared to 4.51%. Over three years, the fund is slightly trailing the benchmark by -0.16% p.a. (source: Columbia Threadneedle).	Pooled fund has assets of £2.09 billion. London Borough of Islington owns 4.38% 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)	Four new joiners during Q3, Adam Tavel (Research Analyst), Rebecca Little (Transactions Manager), Ash Shah (Fund Controller), and Klaus Schmid (Director Acquisitions).	The portfolio return over three years was +9.48% p.a., slightly behind the target of 10% p.a. although over 5 years the fund is still +2.09% 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 Q3.	The fund underperformed the IPD UK All Property Index by -4.93% in Q3. Additionally, it is trailing the IPD benchmark over three years by -2.56% p.a. to end September 2021.	Fund was valued at £70.2m at end Q3 2021. London Borough of Islington owns 40.6% of the fund.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Schroders (multi-asset diversified growth)	During Q2 there were internal changes. Clement Yong a Multi-Asset Fund Manager has left the Team. Dominique Braeuninger joined the team as a Multi-Asset Fund Manager	Fund made a loss of -0.11% during the quarter and delivered a return of +6.59% p.a. over 3 years, -1.21% 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)	Mark Breen joined as a Senior Director, Charles Miller-Stirling as an Associate and David Velasquez as Vice President. There was one leaver (administrator).	For the year to Q3 2021 the fund returned +18.74%, 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 +3.95% p.a. over three years with a particularly strong 12 months, delivering a return of +38.66% to end September.	

Source: MJ Hudson

Minor Concern

Major Concern

Individual Manager Reviews

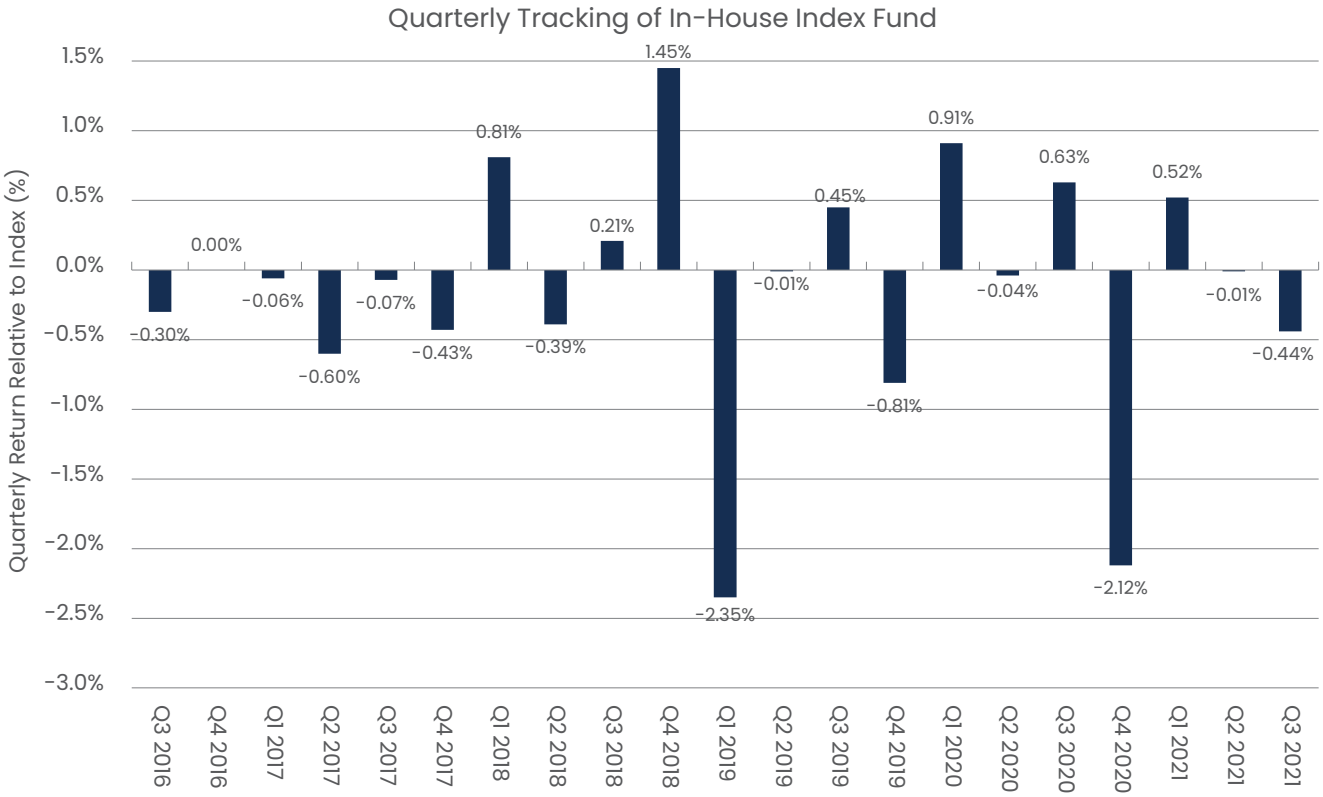
In-house – Passive UK Equities – FTSE UK Low Carbon Optimisation Index

Headline Comments: At the end of Q3 2021 the fund returned +1.79% for the quarter, compared to the FTSE All-Share index return of +2.23%. Over three years the fund has returned +3.17% p.a., ahead of the FTSE All-Share Index by +0.09%.

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 +0.09% 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 Q3 2021 the M&G Alpha Opportunities Fund returned +0.45%, underperforming 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 +0.45% 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 corporate bonds also performing strongly.

Portfolio Characteristics: the largest allocations in the portfolio were to industrials (34%), Securitised Assets (16%) and Financials (14%). 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.

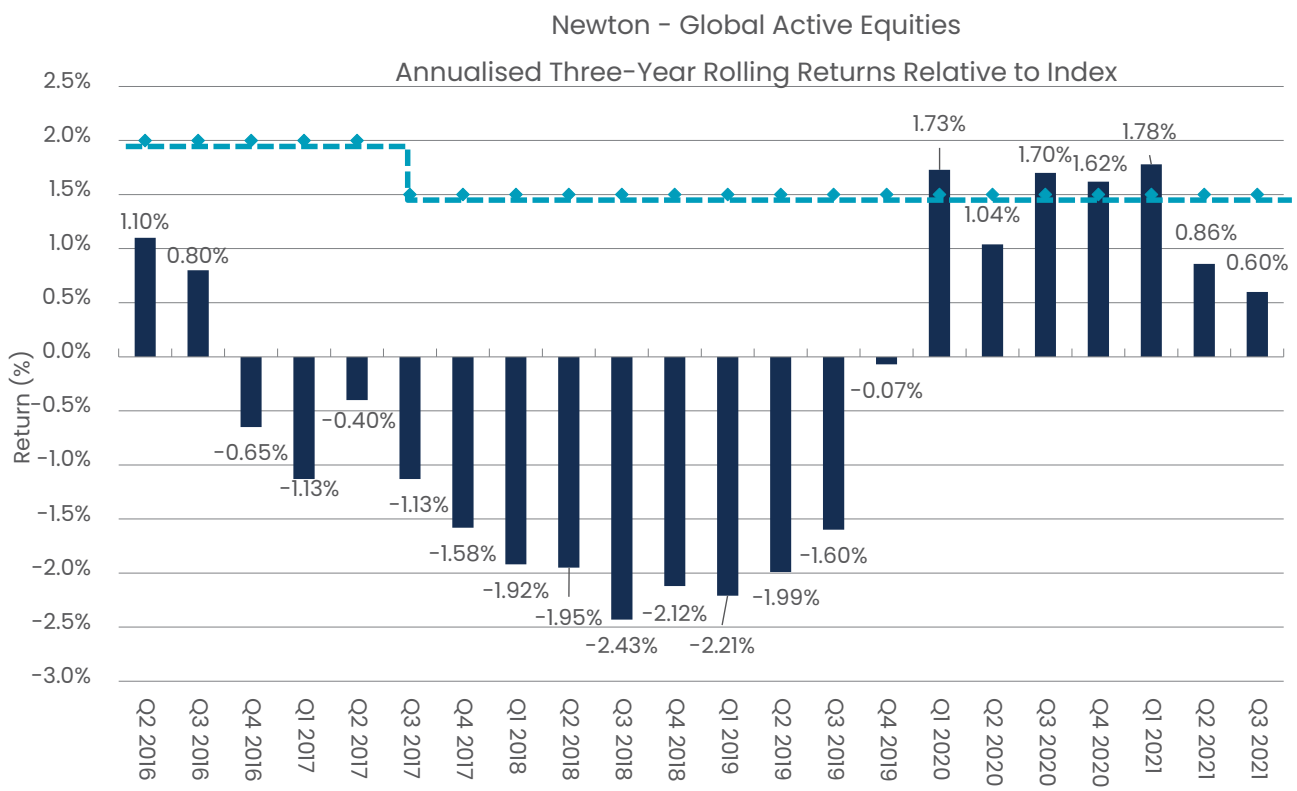
LCIV Global Equity Fund (Newton) – Global Active Equities

Headline Comments: The LCIV Global Equity Fund outperformed its benchmark during Q3 2021 by +0.75%. Over three years the portfolio outperformed the benchmark by +0.60% 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

Chart 3 shows that the level of outperformance over three years has been falling since Q1 2021, when the fund was ahead of the benchmark by +1.78% p.a. By Q3 2021 the outperformance had dropped to +0.6% p.a. This means it underperformed the performance objective by -0.90% 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 (+0.58% contribution to the total return), Albemarle (+0.43%), and Sony (+0.41%).

Negative contributions came from holdings including Alibaba Group (-0.74%), Ping An Insurance Company of China (-0.30%), and Continental AG (-0.23%).

The London CIV is now providing peer group analysis in its reporting, and they confirmed that Newton has consistently delivered returns in the middle range over the long term but for Q3 2021, their position dropped to the third quartile for the year to date. Over the past three-year period the level of *ex post* risk has been in the bottom quartile. (i.e. lower risk than its peers).

Portfolio Risk: The active risk on the portfolio stood at 3.0% as at quarter end, slightly lower than as at end March when it stood at 3.11%. The portfolio remains defensive, with the beta on the portfolio at end September 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 Q3 2021, the London CIV sub-fund's assets under management were £786.7m, compared with £769.4m last quarter. London Borough of Islington now owns 40.16% of the sub-fund.

Portfolio Characteristics: The number of stocks in the portfolio stood at 57 as at quarter-end (same as last quarter). The fund added three positions: Universal Music Group, Cooper Cos, and Vitesco Technologies Group Ag. Newton completed sales of Merck, Meituan Dianping, and Organon & Co

The manager invests on the basis of selected themes which evolve over time. As at September 2021, Newton favoured "Net Effects" (a concept built around the impact of modern technology), Consumer Power, Earth Matters (facilitators and beneficiaries of the transition to lower carbon economies) and Healthy Demand (affordable healthcare for aging populations.

LCIV has also introduced carbon foot-printing of sub funds, monitored by Trucost, and in Q3 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 Royal Dutch Shell (5.92% contribution to the weighted average carbon intensity), Taiwan Semiconductor (5.45%) and Norfolk Southern Corporation (5.13%).

Staff Turnover: Newton's head of Sustainable Investment will leave the firm in February 2022 and Jennifer Law joined Newton as Head of Stewardship.

The transition of Mellon Investments Corporation's (Mellon's) equity and multi asset-focussed clients, employees and assets to Newton, has been completed as of the 1st September 2021.

LCIV Sustainable Equity Fund (RBC) – global equities

Headline Comments: Over Q3 2021 the fund delivered a return of +2.64%. This outperformed the benchmark return of +2.45%. The one-year return was +25.39%, strong in absolute terms and ahead of the benchmark by +1.87%. The fund does not yet have a three-year track record. Islington's investment makes up 14.83% 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, consumer staples, and materials. The portfolio performance was mainly driven by stock selection within communication services, materials and industrial

companies, while gains on stocks within these sectors were offset by losses on holdings in Alibaba and Ping An. 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 performing very well 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 third quartile for its peer group for the first half of the year.

Portfolio Characteristics: As at end of September 2021 the fund had 37 holdings across 16 countries. The active risk of the fund was 13.18%. Over the quarter the largest contributors to return included Blackstone Group (+0.80%), Alphabet (+0.65%), and SBV Financial Group (+0.62%). There largest detractors include Anheuser-Busch Inbev SA/Nv (-0.56%), Naspers (-0.24%) and T-Mobile US (-0.23%).

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 Q3 2021 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 (16.15% contribution to the weighted average carbon intensity), Intercontinental Hotels (8.80%) and Neste Oyj (6.97%).

Organisation: RBC have announced that they are introducing a soft close on some of their funds. This means that they will stop marketing to new investors. The London CIV reports that they are generally supportive of the manager's efforts to control capacity issues.

BMO/LGM – Emerging Market Equities

Headline Comments: The portfolio made a loss of -0.30% in Q3 2021, compared with the benchmark loss of -5.71%, an overperformance of +5.41%. Meanwhile, over one year the fund is ahead of the benchmark by +0.64%, and over three years it is trailing by -3.00% per annum. 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: The Portfolio outperformed the index in the quarter, but the performance continued to be volatile, with added regulatory pressure in China. While some countries saw gains, others struggled in Q3. India was the standout performer in Emerging

markets, but while BMO has a large exposure to the Indian market, it has a larger exposure to China, which saw the second highest loss of the quarter.

During the quarter, the largest positive contributors to the quarterly relative return for the emerging markets portfolio came from Alibaba Group Holdings (+1.5%), HDCF Bank (+0.7%), and Infosys (+0.7%). Companies which detracted most from performance included Hualan Biological Engineering (-0.3%), and Zhejiang Supor Cookware (-0.3%)

Over one year, the fund has outperformed the benchmark for the first time since Q3 2019. 12-month performance to September 2021 shows the fund outperform against its benchmark by +0.64%. Not being exposed to Alibaba was the largest positive contributor to relative performance.

Portfolio Risk: Within the emerging markets portfolio there is a 9.4% allocation to non-benchmark countries (excluding holding in Cash & Equivalents). The largest overweight country allocation in the emerging markets portfolio remained India (+14.2% overweight). The most underweight country allocation was South Korea (-9.2%).

Portfolio Characteristics: The portfolio held 38 stocks as at end September compared with the benchmark which had 1,418. The largest absolute stock position was TSMC at 7.8% of the portfolio, while the largest absolute country position was China/HK and accounted for 32.7% of the portfolio.

Staff Turnover: In Q3 2021, there was one new joiner, and no leavers in the BMO LGM team. June Lui, CFA has joined Rishikesh Patel and Irina Hunter as Co-Portfolio Manager of the BMO LGM GEM Growth & Income Fund. Juan Salaza, Director of Responsible Investment for the wider BMO team, is leaving at the end of November.

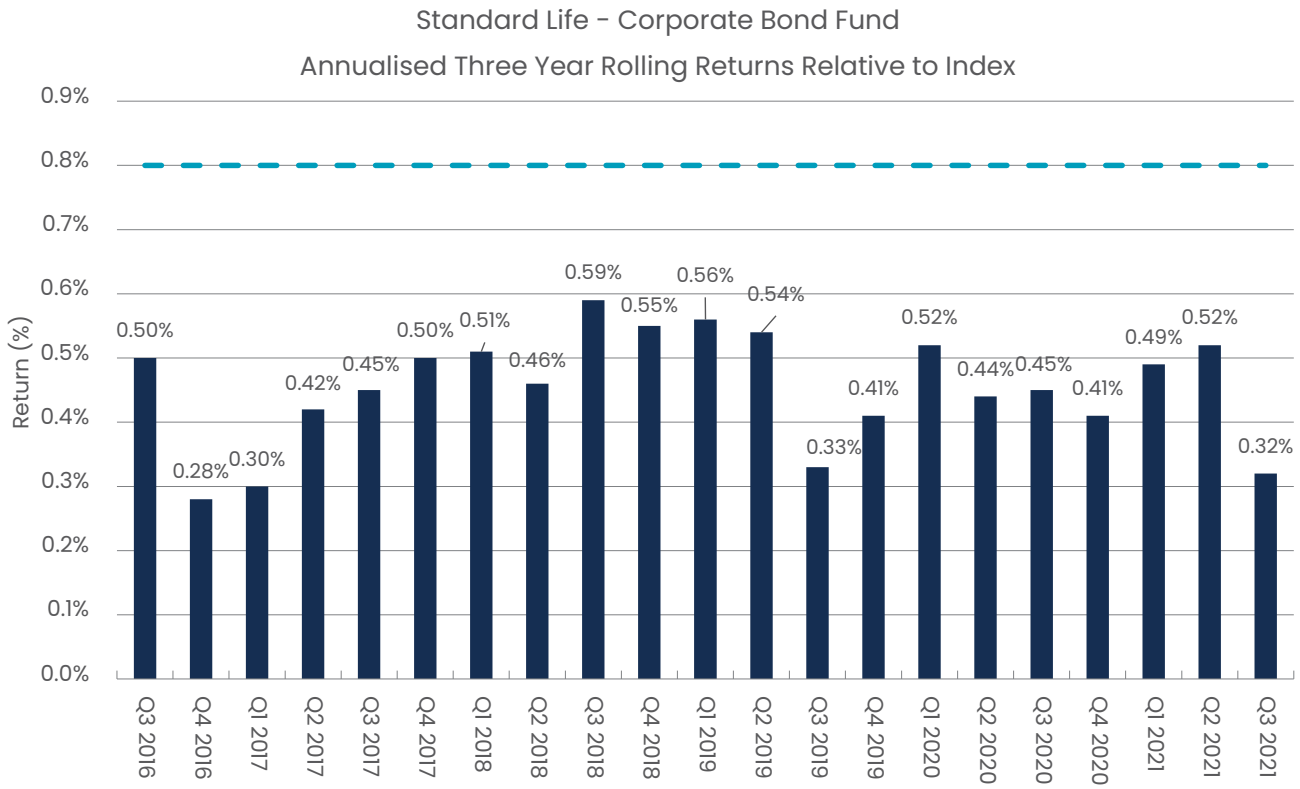
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio was behind the benchmark return during the quarter by -0.52%, with an absolute return of -1.50%. Over three years, the fund was ahead of the benchmark return (by +0.32% 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 +4.75% p.a. net of fees, compared to the benchmark return of +4.43% p.a. Over the past three years, asset allocation has added +0.25% value, meanwhile stock selection has added +0.28%.

Portfolio Risk: The largest holding in the portfolio at quarter-end was UK gilt 4.75% 2030 at 3.7% of the portfolio. The largest overweight sector position remained Financials (+5.3% relative) and the largest underweight position is Supranational (-8.7%). The fund holds 5.2% 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 September 2021 stood at £2,946 million. London Borough of Islington's holding of £166.94m stood at 5.7% of the total fund value.

Staff Turnover: There were 13 joiners, but 28 people left the firm during the quarter. One of the joiners was to the Fixed Income Group, a Credit Research Analyst. Seven of the leavers were part of the Fixed Income Group, this included the head of ESG – Fixed Income, the Head of Total Return Bond, four Investment Directors and one Investment Manager.

Aviva Investors – Property – Lime Property Fund

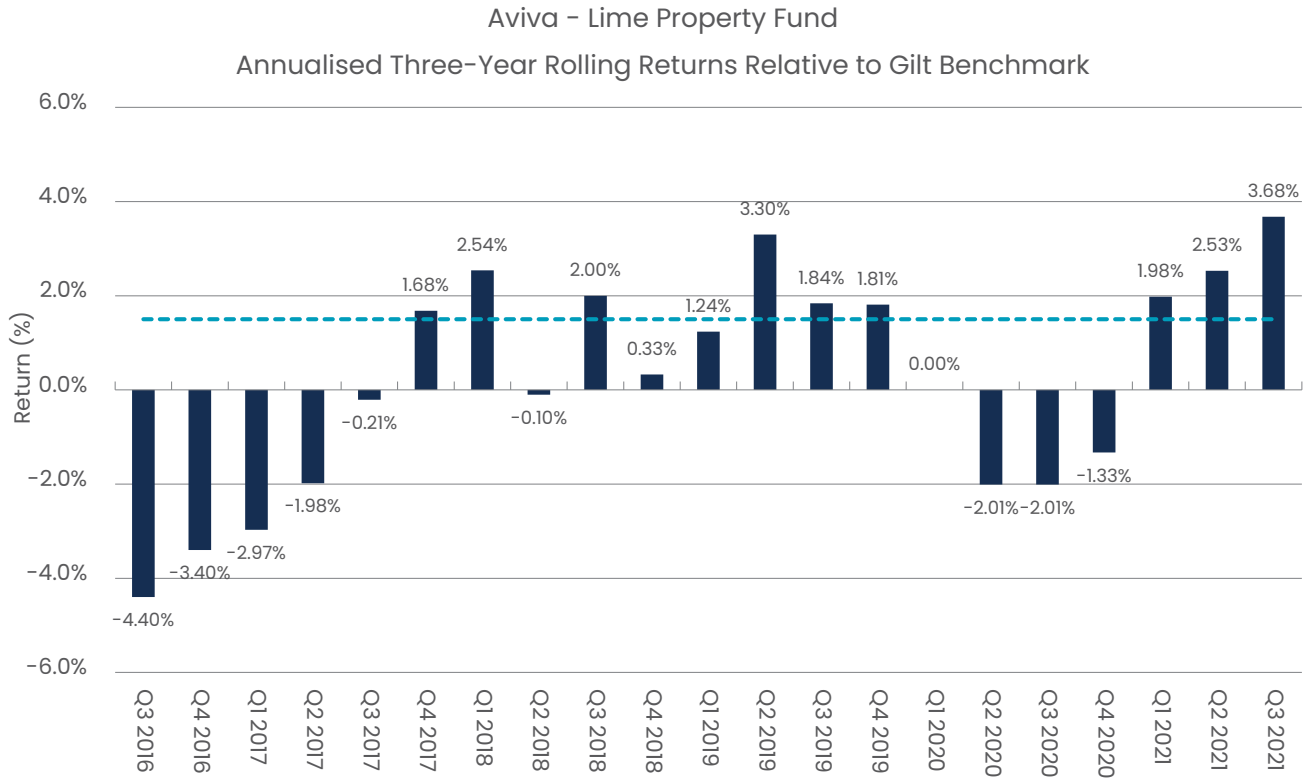
Headline Comments: The Lime Fund delivered another quarter of steady and positive absolute returns, it outperformed the fund benchmark return, with an overperformance of +5.46% in Q3. Over three years, the fund is ahead of the benchmark return by +3.68% p.a., with a particularly strong one-year outperformance of +18.63%.

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 Q3 2021 return was attributed by Aviva to +2.44% capital return and +0.83% income return.

Over three years, the fund has returned +7.29% p.a., ahead of the gilt benchmark of +3.61% 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, 50% of the return came from income and 50% from capital gain.

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Portfolio Risk: During the quarter, the fund sold one investment, an Office in Edinburgh let to the Convention of Scottish Local Authorities on a lease that expires in November 2030. There was strong interest from multiple bidders resulting in a final offer above the asking price and valuation. The sale delivered a c.9% IRR for this investment since acquisition.

The Fund provided capital to Next to install photovoltaic panels (PVs) at their distribution centre in South Elmsall. The Lime Fund has funded this PV installation at a cost of £3 million and will receive an annual rent roll of £210,000 subject to annual reviews to CPIH +1% for the next 24 years.

The fund has £313 million of investible capital and the manager believes the current drawdown period for new capital is 12 months.

The average unexpired lease term was 21.46 years as at end September 2021. 11.1% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 24.92%, and the number of assets in the portfolio is 90. The weighted average tenant credit quality rating of the Lime Fund remained at BBB+ this quarter.

Portfolio Characteristics: As at September 2021, the Lime Fund was valued at £3.33 billion, an increase of £83 million from the previous quarter end. London Borough of Islington's investment represents 4.2% of the total fund.

Staff Turnover/Organisation: Not reported at the time of going to print.

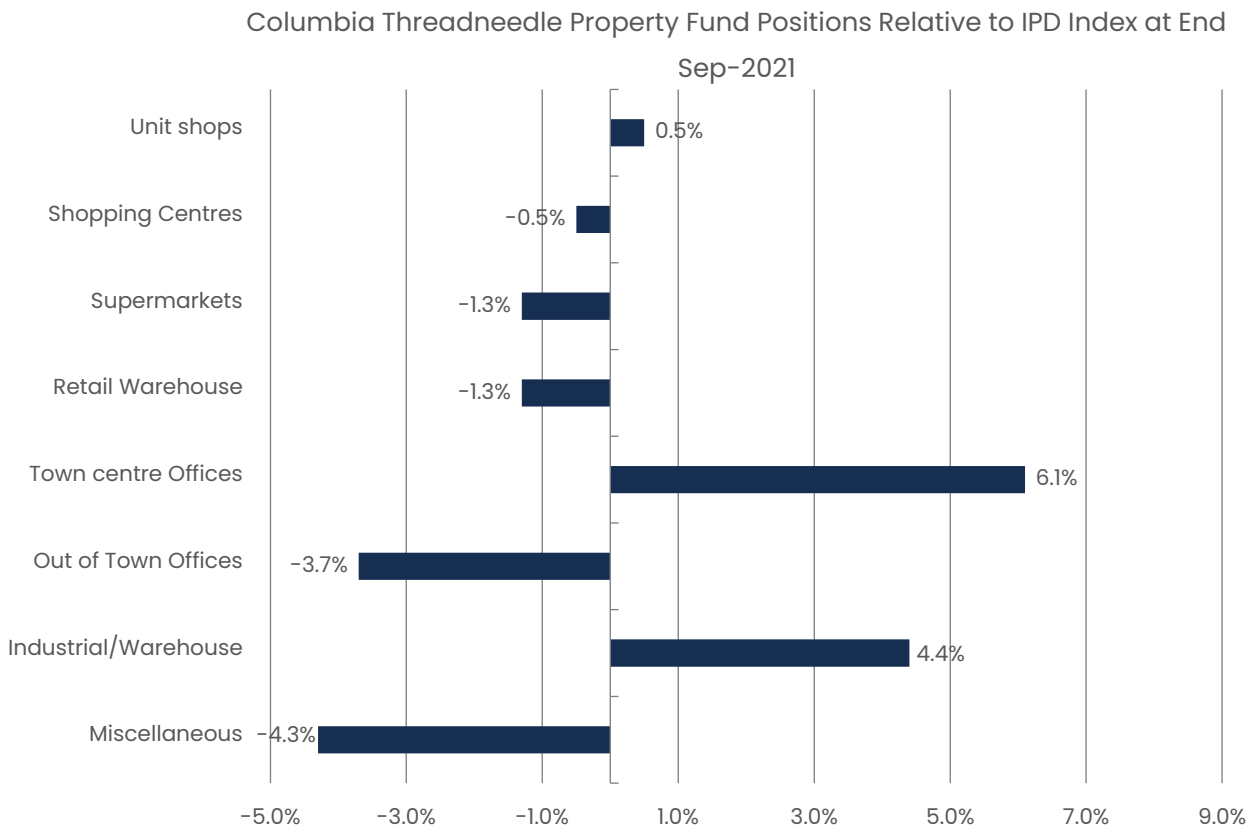
Columbia Threadneedle – Pooled Property Fund

Headline Comments: The fund marginally underperformed the benchmark in Q3 2021, with a quarterly return of 4.49% compared to 4.51% (source: Columbia Threadneedle). Over three years, the fund underperformed the benchmark by -0.16% (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 one sale.

The fund's void rate has decreased from 12.3% at end of June to 11.7% at end of September 2021, versus the benchmark's 9.6%. 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 94% by end June 2021 (most recent data point available).

The cash balance at end September was 6.0%.

Performance Attribution: The fund marginally underperformed the benchmark in Q3 2021, with a quarterly return of 4.49% compared to 4.51% (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 September 2021, the fund was valued at £2.09bn, an increase of £55m from the fund's value in June 2021. London Borough of Islington's investment represented 4.38% of the fund.

Staff Turnover: During Q3 2021 there were five leavers, one of which was from the Property team, although he did not work on TPEN Property. There were also two joiners to the Equity 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 Q3.

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 MSC Low Carbon index fund tracked its benchmark as expected, as shown in Table 2, although the FTSE-RAFI fund was higher than has been seen in recent quarters.

TABLE 2:

	Q3 2021 FUND	Q3 2021 INDEX	TRACKING
FTSE-RAFI Emerging Markets	+0.45%	+0.86%	-0.41%
MSCI World Low Carbon Target	+2.44%	+2.46%	-0.02%

Source: LGIM

Portfolio Risk: The tracking errors over three years are all within expected ranges. The allocation of the portfolio, as at quarter end, was 83.67% to the MSCI World Low Carbon Target index fund, and 16.33% 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 -0.52% p.a.

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 September 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: Not reported this quarter (The Manager's report was not available at the time of going to print)

Staff Turnover/Organisation: During Q3 2021 the firm announced that there were four new joiners to the Franklin Real Asset Advisors team, Adam Tavel (Research Analyst), Rebecca Little (Transactions Manager), Ash Shah (Fund Controller), and Klaus Schmid (Director Acquisitions). There were no departures from the team in Q3.

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio underperformed the benchmark for the quarter ending September 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

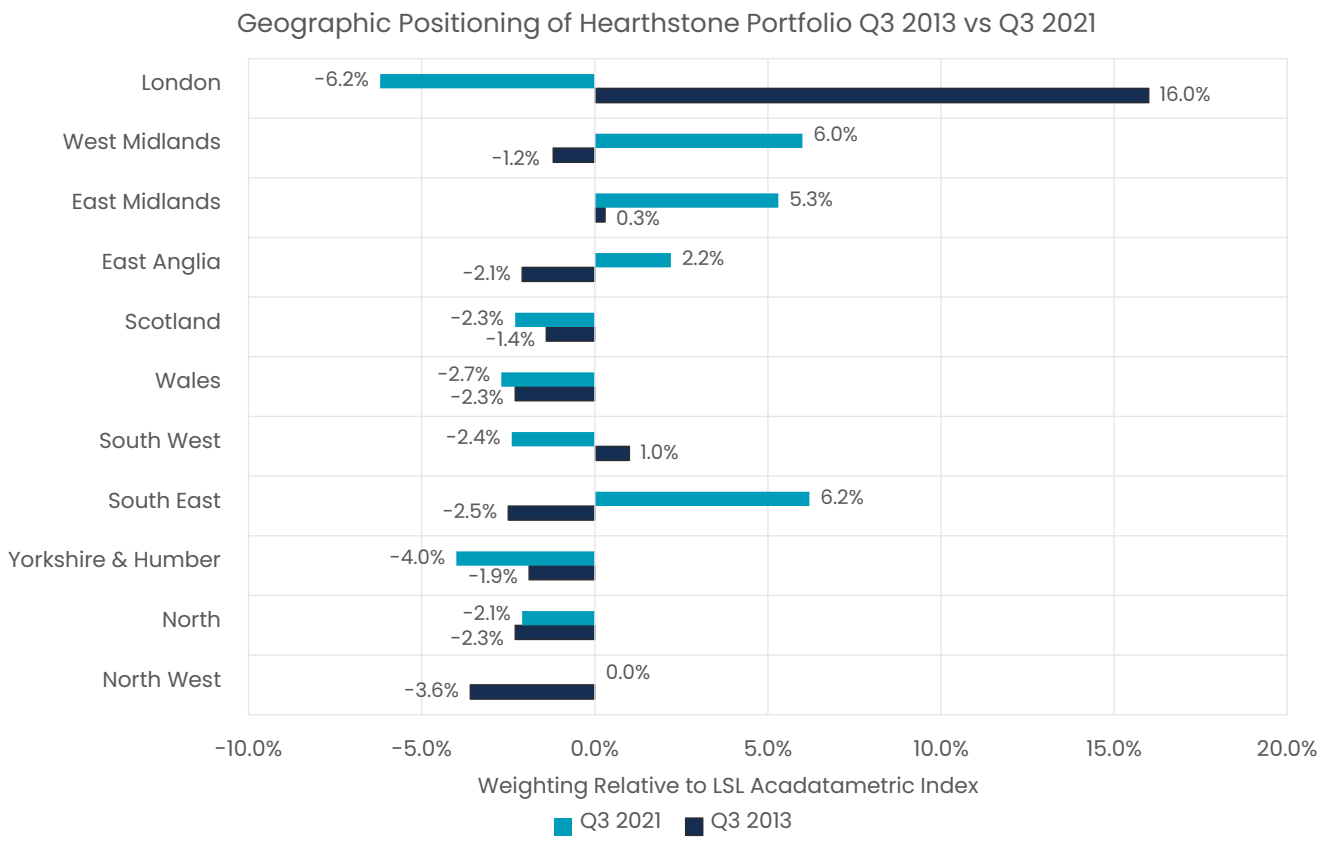
as providing an additional income return. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

Performance Attribution: The fund underperformed the IPD index over the three years to September 2021 by -2.56% p.a., returning +1.74% p.a. versus the index return of +4.30% p.a. The gross yield on the portfolio as at September 2021 was 4.77%. Adjusting for voids and property management/maintenance costs, however, the yield on the portfolio falls to 3.79%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 26.28% (£18.6 million), which is 10% higher than at the end of June 2021. Hearthstone have commented that £4.5 million is committed to acquisitions in Preston and Doncaster and £5 million is earmarked for further acquisitions on which they are carrying out due diligence. However, this is something to monitor because it could result in a drag on performance.

Chart 8 compares the regional bets in the portfolio in Q3 2021 (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 an 8% allocation to detached houses, 41% allocated to flats, 27% in terraced accommodation and 24% in semi-detached.

As at end September there were 200 properties in the portfolio and the fund stood at £70.2 million. London Borough of Islington's investment represents 40.6% of the fund. This compares with 72% at the start of this mandate in 2013.

Organisation and Staff Turnover: In Q3 there were no leavers or joiners from the team.

Schroders – Diversified Growth Fund (DGF)

Headline Comments: The DGF made a loss in Q3 2021, and in relative terms it underperformed its target by -2.80%. Over three years, the fund is behind the target return of RPI plus 5% p.a. by -1.20% 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 made a loss of -0.11% in Q3 2021. This is below the RPI plus 5% p.a. target return for Q3 which returned +2.69%. Over three years, the DGF delivered a return of +6.59% p.a. compared with the target return of +7.80% p.a., behind the target by –1.20% p.a.

In Q3 2021, equity positions detracted -0.4% from the total return, alternatives added +0.4%, credit and government debt -0.1%, and cash and currency added +0.4% (figures are gross of fees).

The return on global equities was +11% p.a. for the three years to September 2021 compared with the portfolio return of +6.6%. 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 8.5% compared to the three-year volatility of 17.2% in global equities (i.e., 49.4% of the volatility) so is less risky than expected.

Portfolio Characteristics: The fund had 50% in internally managed funds (up from last quarter), 34% in active bespoke solutions (down from last quarter), 6% in externally managed funds (up from last quarter), and 4% in passive funds (up from last quarter) with a residual balance in cash, 6% (up from last quarter), as at end September 2021. In terms of asset class exposure, 43.9% was in equities, 25.3% was in alternatives and 25.2% in credit and government debt, with the balance in cash, 5.6%.

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 37% lower than a comparator (a mix of equities, bonds, and alternative indices).

Organisation: During the quarter, Clement Yong, a Multi-Asset Fund Manager, left the Diversified Growth Team, he relocated to Hong Kong in August but remains within Multi-Asset. Dominique Braeuninger joined the team asa Multi-Asset Fund Manager supporting the team. He is an internal hire based in Zurich. He previously worked as a fund manager in the convertible bonds team.

Quinbrook – Low Carbon Power Fund

Headline Comments: Performance for the year to 30th September 2021 was positive at +18.74%, thus well 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 Q3 2021, on an unaudited basis, the fund had invested USD 603.1 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).

Note, the total invested by the fund has reduced since Q2 2021 because of the refinancing of certain assets in the Velox Power portfolio and completion of the proposed transfer of assets to the Quinbrook Renewables Impact Fund and Quinbrook Net Zero Power Fund.

Organisation: During the quarter, Joanne Hammond left her role as the bookkeeper in the Australia office. Mark Breen has joined as Senior Director, Charles Miller Stirling as an Associate and David Velasquez as Vice President.

Pantheon – Infrastructure and Private Equity Funds

Headline Comments: Over three years the return on the combined private equity and infrastructure funds was +3.95% 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.

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

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8th November 2021

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