# London Borough of Islington

Report to 31st December 2021

MJ Hudson

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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 +0.04% over Q4 2021, under the benchmark return by –0.85%. | The fund size was £10.37 billion as at end December. London Borough of Islington's investment amounts to 0.74% of the fund. |
| LCIV Global Equity Fund (Newton) (active global equities) | Therese Niklasson will be joining the firm as Global Head of Sustainable Investment in February 2022, and an additional Stewardship Analyst was added to the team over the quarter. | The LCIV Global Equity Fund overperformed its benchmark during Q4 2021 by +0.21%. Over three years the portfolio outperformed the benchmark by +0.24% but is under the performance target of benchmark +1.5% p.a. | At the end of Q4 2021, the London CIV sub-fund's assets under management were £781.9m. London Borough of Islington owns 43.03% of the sub-fund. |

| MANAGER | LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS | PERFORMANCE | ASSETS UNDER MANAGEMENT |
|---|---|---|---|
| LCIV Sustainable Equity Fund (RBC) (active global equities) | None reported by LCIV. | Over Q4 2021 the fund delivered a return of +6.59%, this underperformed the benchmark return of 7.28%. The one-year return was +19.39%, strong in absolute terms but behind the benchmark by -3.55%. | As at end December the sub- fund's value was £1,468 million. London Borough of Islington owns 13.42% of the sub-fund. |
| BMO/LGM (active emerging equities) | In Q4 2021, there was one departure, and no new joiners in the BMO LGM team. The departure was an analyst with a speciality in the technology sector. | Outperformed the benchmark by +2.00% in the quarter to December 2021. The fund is behind over three years by -3.57% p.a. | Not reported. |
| Standard Life (corporate bonds) | There were 19 joiners and 19 leavers during the quarter. Four joiners and two leavers were in the Fixed Income Group. | The portfolio outperformed the benchmark return during the quarter by +0.10%, delivering an absolute return of +0.44%. Over three years, the fund was ahead of the benchmark return (by +0.41% p.a.) but behind the performance target of benchmark +0.80% p.a. | As at end June the fund's value was £2,276 million. London Borough of Islington's holding of £142.6m stood at 6.3% of the total fund value. |

| MANAGER | LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS | PERFORMANCE | ASSETS UNDER MANAGEMENT |
|---|---|---|---|
| Aviva (UK property) | Not reported at the time of writing. | Outperformed against the gilt benchmark by +0.48% for the quarter to December 2021 and outperformed the benchmark over three years by +4.33% p.a., delivering a return of +8.14% p.a., net of fees. | The fund was valued at £3.55 billion as at end Q4 2021. London Borough of Islington owns 4.1% of the fund. |
| Columbia Threadneedle (UK property) | One joiner and four leavers in Q4. Two leavers from the property division but not involved in London Borough of Islington's mandate. | The fund outperformed the benchmark in Q4 2021, with a quarterly return of +9.13% compared to +7.50%. Over three years, the fund is outperforming the benchmark by +0.32% p.a. (source: Columbia Threadneedle). | Pooled fund has assets of £2.27 billion. London Borough of Islington owns 4.42% of the fund. |
| 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 (most recent data available). |

| MANAGER | LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS | PERFORMANCE | ASSETS UNDER MANAGEMENT |
|---|---|---|---|
| Franklin Templeton (global property) | No joiners or leavers within the real estate investment team during Q4 2021. | The portfolio return over three years was +6.76% p.a., and so behind the target of 10% p.a. although over 5 years the fund is still +0.35% p.a. ahead of the target return. | £542.6 million of assets under management for the real estate group as at end September 2021 (latest figures reported). |
| Hearthstone (UK residential property) | Richard Smith, Business Development Manager (Retail IFAs) retired, and Andrea Antonioni joined as Institutional Business Development Manager just after the quarter end. | The fund underperformed the IPD UK All Property Index by -5.59% in Q4. Additionally, it is trailing the IPD benchmark over three years by -4.25% p.a. to end December 2021. | Fund was valued at £72.8m at end Q4 2021. London Borough of Islington owns 39.4% of the fund. |
| Schroders (multi-asset diversified growth) | There were no team changes during Q4 2021. | Fund returned +1.50% during the quarter and delivered a return of +9.11% p.a. over 3 years, -1.81% p.a. behind the target return. | Total AUM stood at £716.9 billion as at end September 2021, up from £700.4 billion as at end June 2021. |



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| MANAGER | LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS | PERFORMANCE | ASSETS UNDER MANAGEMENT |
|---|---|---|---|
| Quinbrook (renewable energy infrastructure) | Two joiners and two new advisers joined the Quinbrook Advisory Board. | For the year to Q4 2021 the fund returned +6.70%, 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) | Not reported. | The private equity fund returned +3.14% p.a. over three years and the infrastructure fund returned +23.09% for the one year to end December. | |

Source: MJ Hudson

**Minor Concern**

**Major Concern**

# Individual Manager Reviews

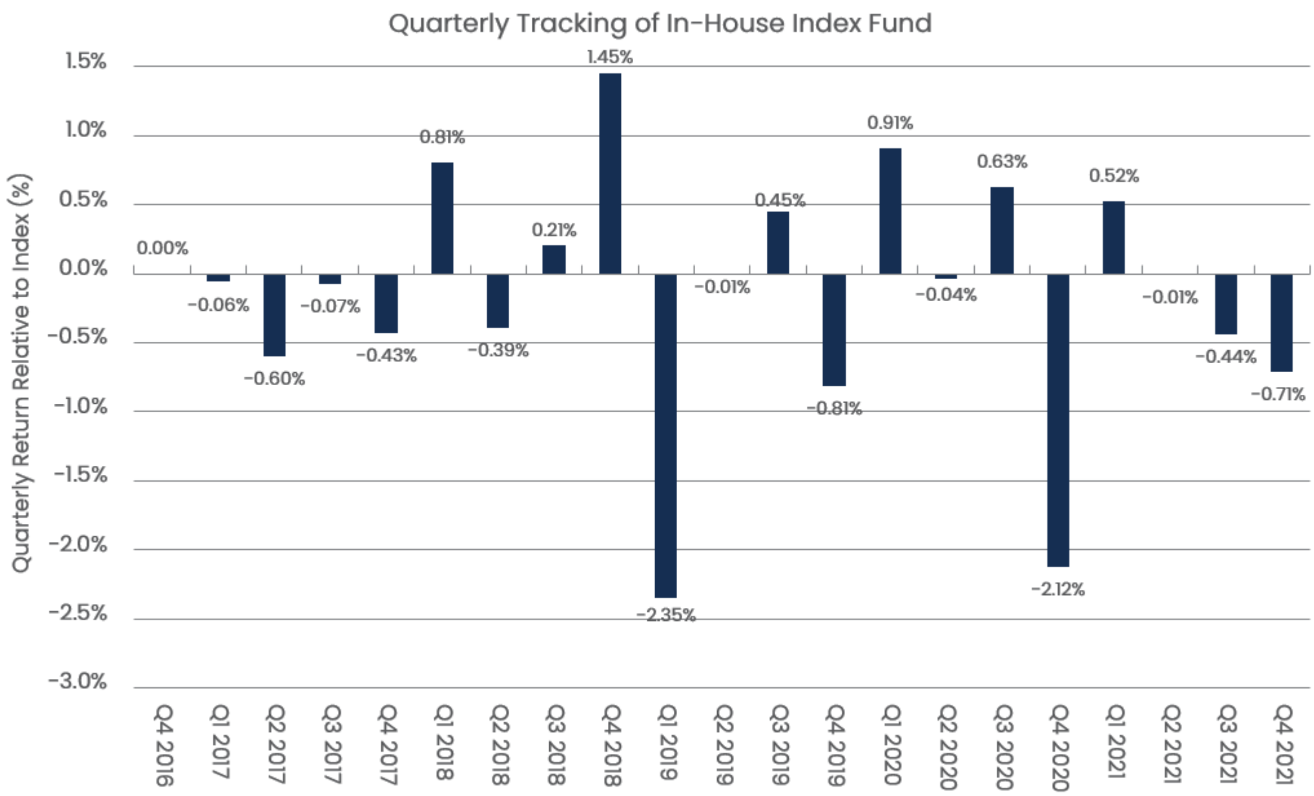
## In-house – Passive UK Equities – FTSE UK Low Carbon Optimisation Index

**Headline Comments**: At the end of Q4 2021 the fund returned +3.49% for the quarter, compared to the FTSE All-Share index return of +4.20%. Over three years the fund has returned +7.61% p.a., behind the FTSE All-Share Index by -0.73%.

**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 underperformed its three-year benchmark by -0.73% p.a.

CHART 2:




Source: MJH; BNY Mellon



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## 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 Q4 2021 the M&G Alpha Opportunities Fund returned +0.04%, 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 +0.04% compared to the benchmark return (one month Libor plus 3.5% being used in Northern Trust's performance analysis) of +0.88%. Exposure to leveraged loans was the top contributor, with industrial and financial corporate bonds also performing strongly.

**Portfolio Characteristics**: the largest allocations in the portfolio were to industrials (30%), Securitised Assets (16%) and Financials (13%). 42% of the portfolio was rated BB* or below. The manager continues to focus on reducing the level of risk in the fund. The manager believes that credit markets are overvalued and as a result they intend to remain defensively positioned.

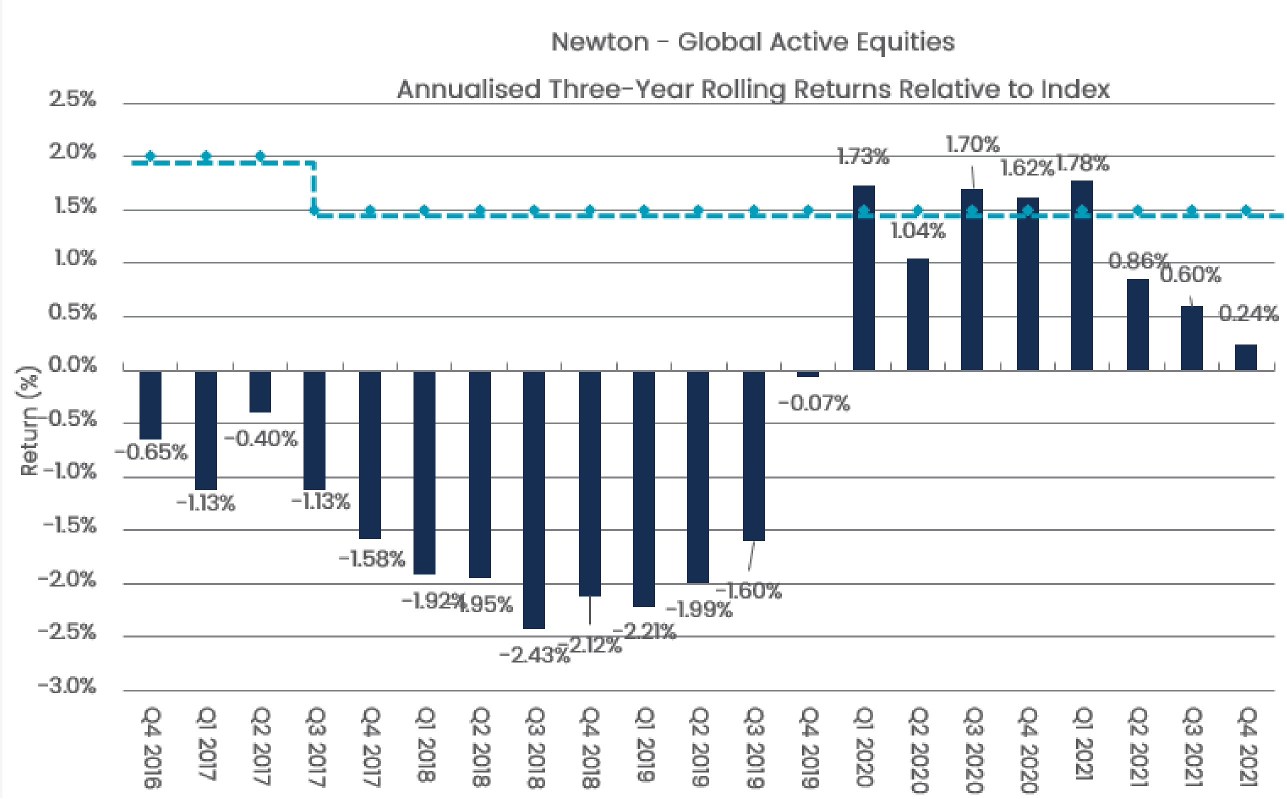
## LCIV Global Equity Fund (Newton) – Global Active Equities

**Headline Comments:** The LCIV Global Equity Fund outperformed its benchmark during Q4 2021 by +0.21%. Over three years the portfolio outperformed the benchmark by +0.24% 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 Q4 2021 the outperformance had dropped to +0.24% p.a. This means it underperformed the performance objective by -1.26% 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 Apple (+1.18% contribution to the total return), Microsoft (+0.99%), and Accenture (+0.69%).

Negative contributions came from holdings including Citigroup Inc (-0.31%), Medtronic (-0.31%), and AIA Group (-0.29%).

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 their position dropped to the third quartile in the last year. 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 3.13% as at quarter end, slightly higher than as at end September when it stood at 3.00%. The portfolio remains defensive, with the beta on the portfolio at end December 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%).



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At the end of Q4 2021, the London CIV sub-fund's assets under management were £781.9m, compared with £786.7m last quarter. London Borough of Islington now owns 43.03% of the sub-fund.

**Portfolio Characteristics**: The number of stocks in the portfolio stood at 58 as at quarter-end (one up from last quarter). The fund added three positions: JPMorgan Chase, Ecolab, and HDFC Bank ADR. Newton completed sales of Brenntag AG and Vitesco Technologies Group Ag

The manager invests on the basis of selected themes which evolve over time. As at December 2021, Newton favoured "Net Effects" (a concept built around the impact of modern technology) and Healthy Demand (affordable healthcare for aging populations). As a result, the portfolio is heavily weighted to Technology (an allocation of 27%) and Healthcare (10%).

LCIV has also introduced carbon foot-printing of sub funds, monitored by Trucost, and in Q4 2021 reported that the Newton sub fund had a weighted average carbon intensity of just over half that of the benchmark index (the MSCI World Index). The highest contributors were Royal Dutch Shell (7.23% contribution to the weighted average carbon intensity), and Norfolk Southern Corporation (6.90%) and Novozymes A/S (5.15%).

The Manager has a generally cautious view about companies in the oil and gas sector, and the outlook for energy companies, and has therefore been underweight in the sector for at least the last 10 years. Shell is the only energy holding in the LCIV portfolio, and currently represents c.1.2% of the portfolio. The Manager justifies its position in Shell on the view that the company has a large portfolio of assets, and a clear plan to shift the business away from fossil fuels, and toward cleaner energy forms. In the Manager's view, it has been towards the top of the sector when it comes to emissions' targets and engagement.

**Staff Turnover:** Therese Niklasson will be joining the firm as Global Head of Sustainable Investment in February 2022, and an additional Stewardship Analyst was added to the team over the quarter.

## LCIV Sustainable Equity Fund (RBC) – global equities

**Headline Comments:** Over Q3 2021 the fund delivered a return of +6.59%. This underperformed the benchmark return of +7.28%. The one-year return was +19.39%, strong in absolute terms but behind the benchmark by -3.55%. The fund does not yet have a three-year track record. Islington's investment makes up 13.42% 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. Over the quarter the largest contributors to return included Unitedhealth Group (+1.21%), Microsoft (+1.08%), and Nividia (+0.93%). There largest detractors include Industria De Diseno Textil (-0.44%), AIA Group (-0.37%) and Neste Oyj (-0.32%). Not owning Apple was also a key performance detractor during the quarter.

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 year to end September 2021.

**Portfolio Characteristics:** As at end of December 2021 the fund had 37 holdings across 15 countries. The active risk of the fund was 3.79%.

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 Q4 2021 reported that the RBC sub fund had a weighted average carbon intensity of 57% that of the benchmark index (the MSCI World Index). The highest contributors were InterContinental Hotels Group plc (excluding this holding from the portfolio would reduce the weighted average carbon intensity by 12.77%), Orsted (12.45%) and Neste Oyj (8.34%).

## BMO/LGM – Emerging Market Equities

**Headline Comments:** The portfolio delivered a return of +0.32% in Q4 2021, compared with the benchmark loss of -1.69%, an overperformance of +2.00%. Meanwhile, over one year the fund is ahead of the benchmark by +4.05%, and over three years it is trailing by -3.57% 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 the emergence of the Covid-19 Omicron Variant. While some countries saw gains, others struggled in Q4. Taiwan was the standout performer in Emerging markets, but while BMO has a large exposure to the Taiwan 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 Infosys Ltd (+0.6%), Wal Mart De Mexico SAB De CV (+0.5%), in which the fund was overweight, and Alibaba Group Holdings (+0.5%), where the fund had a zero holding and the stock fell by -16.5%. Companies which detracted most from performance included AIA Group ltd (-0.5%), an off-benchmark holding, Moscow Exchange Micex-Rts OAO (-0.5%), and HDFC Bank Ltd Common Stock (-0.3%), another off-benchmark holding.

Over one year, the fund has outperformed the benchmark by +4.05%. Security selection in China/Hong Kong was the largest positive contributor to relative performance, as well as having limited exposure to a weak Brazilian Market and being underweight in China.

**Portfolio Risk:** Within the emerging markets portfolio there is a 9.6% allocation to non-benchmark countries (excluding holding in Cash & Equivalents). The largest overweight country allocation in the emerging markets portfolio remained India (+12.4% overweight). The most underweight country allocation was South Korea (-8.9%).

**Portfolio Characteristics:** The portfolio held 38 stocks as at end December compared with the benchmark which had 1,418. The largest absolute stock position was TSMC at 8.2% of the portfolio, while the largest absolute country position was China/HK and accounted for 35.7% of the portfolio.

**Staff Turnover:** In Q4 2021, there was one departure - an analyst with a speciality in the technology sector.

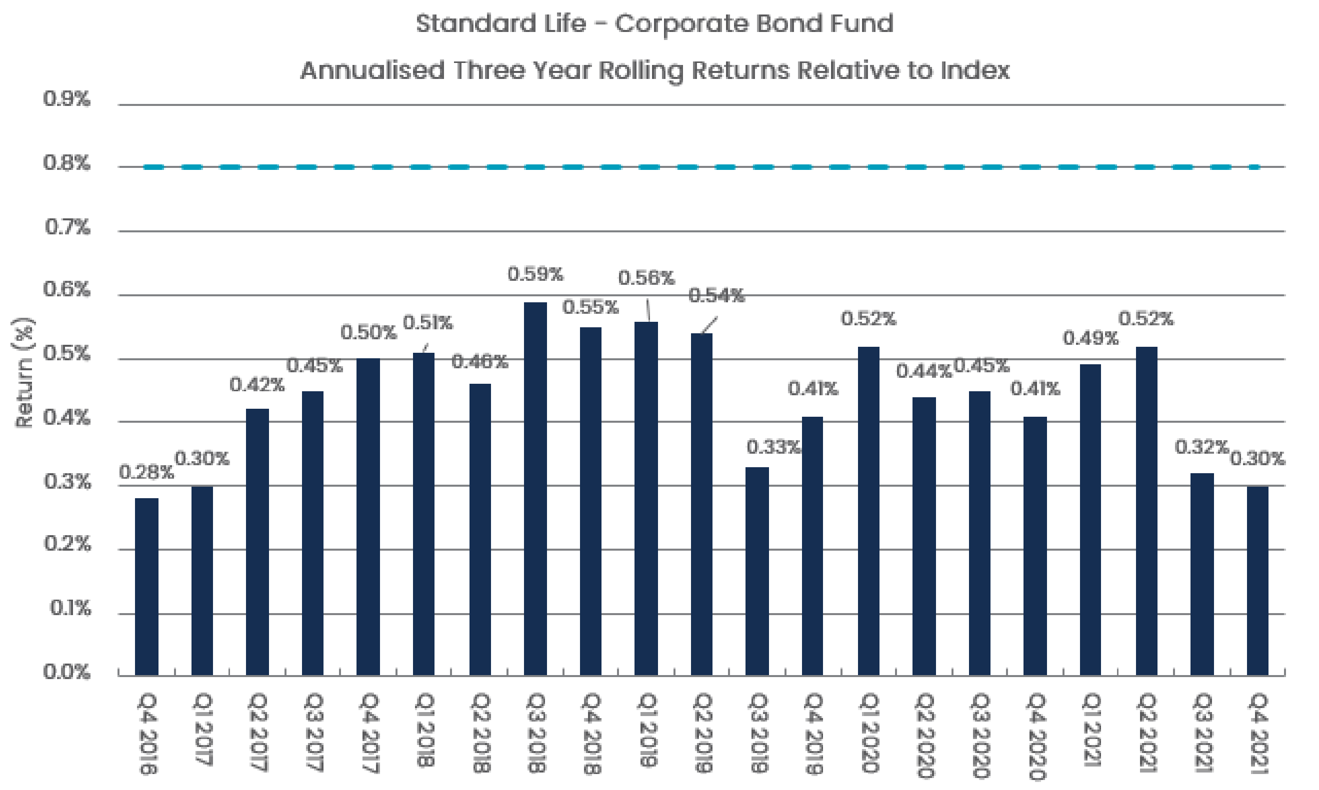
## Standard Life – Corporate Bond Fund

**Headline Comments:** The portfolio outperformed the benchmark return during the quarter by +0.10%, with an absolute return of +0.44%. Over three years, the fund was ahead of the benchmark return (by +0.41% 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 +4.92% p.a. net of fees, compared to the benchmark return of +4.51% p.a. Over the past three years, asset allocation has added +0.27% value, meanwhile stock selection has also added +0.27%.

**Portfolio Risk:** The largest holding in the portfolio at quarter-end was European Investment Bank 5.625% 2032 at 2.8% of the portfolio. The largest overweight sector position was real estate (+3.9% relative) and the largest underweight position is Supranational (-6.7%). The fund holds 2.6% 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 £2,276 million. London Borough of Islington's holding of £142.6m stood at 5.3% of the total fund value.

**Staff Turnover:** There were 19 joiners and 19 leavers during the quarter. Four joiners were into the fixed income group, including two Investment Managers, and two Investment Analysts, one of which is focused on ESG. There were two leavers from the fixed income group; an Investment Director, and a Senior Research Analyst. None of the staff changes were in the UK.

# Aviva Investors – Property – Lime Property Fund

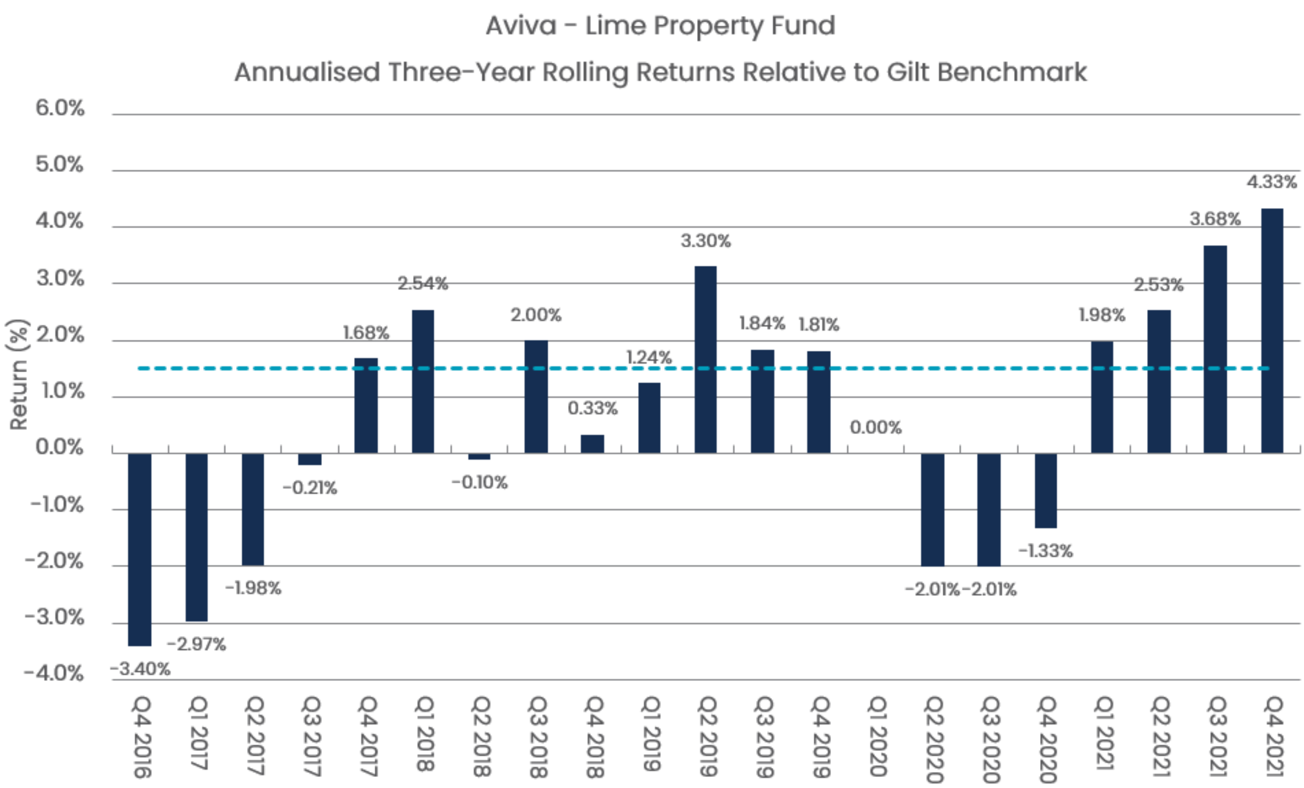
**Headline Comments:** The Lime Fund delivered another quarter of steady and positive absolute returns, it outperformed the fund benchmark return, with an overperformance of +0.48% in Q4. Over three years, the fund is ahead of the benchmark return by +4.33% p.a., with a particularly strong one-year outperformance of +18.48%.

**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 2021 return was attributed by Aviva to +2.93% capital return and +0.89% income return.

Over three years, the fund has returned +8.14% p.a., ahead of the gilt benchmark of +3.81% 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, 45% of the return came from income and 55% from capital gain.

**Portfolio Risk:** During the quarter, the fund sold two car showroom investments. There was strong interest from multiple bidders resulting in a final offer 28% above the valuation. The sale delivered a 4.59% Net Initial Yield.

The Fund acquired a student accommodation investment in Bath. The Lime Fund worked with the University of Bath to acquire the property on market and lease it back to them on a 27-year lease with annual CPI rent reviews.

The average unexpired lease term was 21.3 years as at end December 2021. 11.2% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 25.23% (proportion of current rent), and the number of assets in the portfolio is 89. The weighted average tenant credit quality rating of the Lime Fund remained at BBB+ this quarter.

**Portfolio Characteristics:** As at December 2021, the Lime Fund had £3.49 billion of assets under management, an increase of £177 million from the previous quarter end. London Borough of Islington's investment represents 4.1% of the total fund.

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

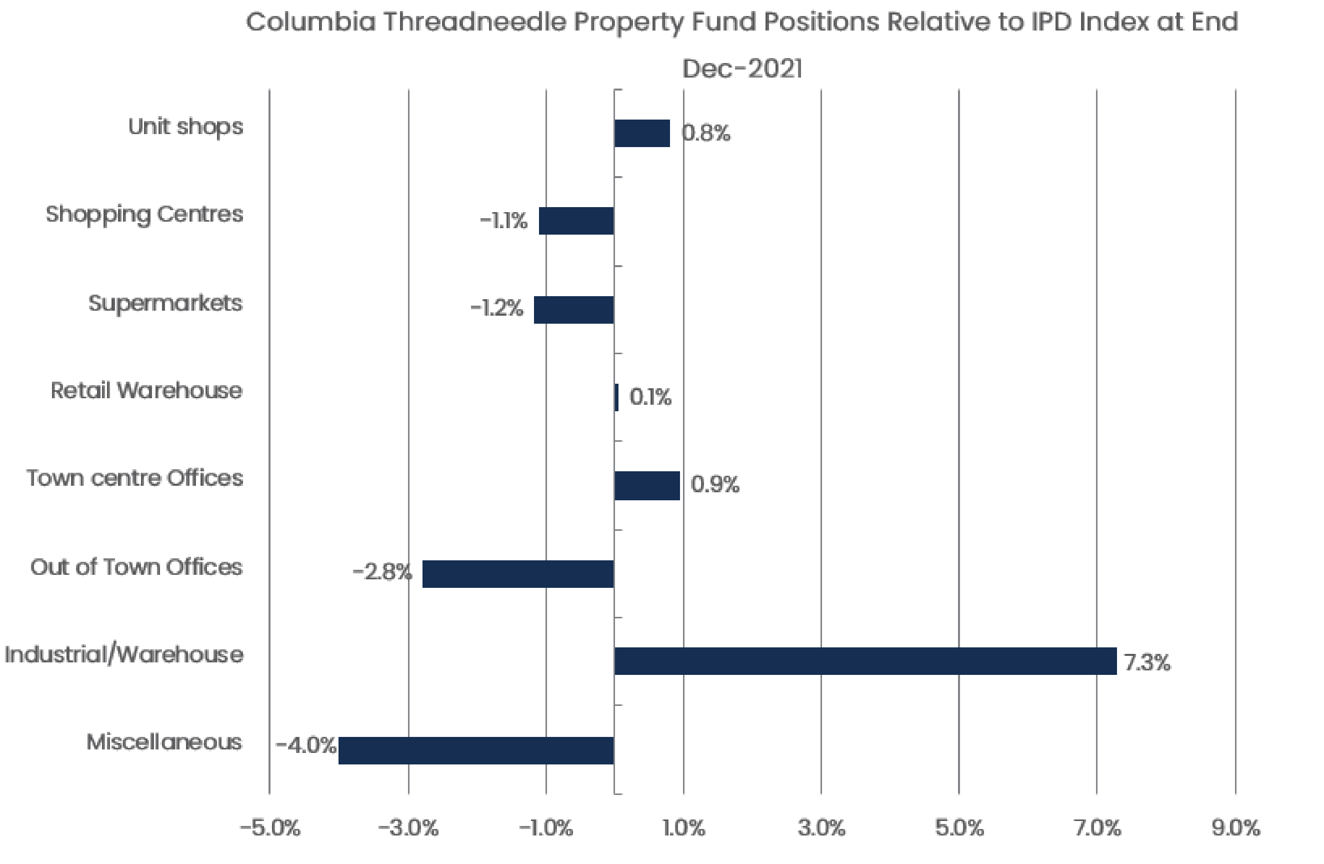
## Columbia Threadneedle – Pooled Property Fund

**Headline Comments:** The fund outperformed the benchmark in Q4 2021, with a quarterly return of +9.13% compared to +7.50% (source: Columbia Threadneedle). Over three years, the fund outperformed the benchmark by +0.32% (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 three acquisitions and seven sales. The acquisitions include an office building in Manchester, and a mixed-use retail and office-building in Richmond, and the sales included the longstanding Grade II listed office and retail asset in Tottenham Court Road (Heals). This sale has addressed the Central London office overweight position (shown in Chart 6 – last quarter "town centre offices" was 6% overweight). Heals had been the largest asset in fund for some time and had the highest vacancy rate (40%). Following the trade, the vacancy rate of the portfolio dropped from 12.1% to 9.6%, more in line with the benchmark.

The cash balance at end September was 10.3%. This is marginally higher than target liquidity levels with TPEN PF which has been addressed following the completion of a number of acquisitions in January 2022, which should bring liquidity in line with target parameters.

**Performance Attribution:** The fund outperformed the benchmark in Q4 2021, with a quarterly return of +9.13% compared to +7.50% (source: Columbia Threadneedle). Over three years, the fund outperformed the benchmark by +0.32% (source: Columbia Threadneedle) and as such is behind the performance target of +1.0% p.a. above benchmark.

**Portfolio Characteristics:** As at end December 2021, the fund was valued at £2.27bn, an increase of £175m from the fund's value in September 2021. London Borough of Islington's investment represented 4.42% of the fund.

**Staff Turnover:** During Q4 2021 there were four leavers, two of whom were from the property team, although they did not work on TPEN Property. There was also one joiner on the fixed income side.

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

**TABLE 2:**

| | Q4 2021 FUND | Q4 2021 INDEX | TRACKING |
|---|---|---|---|
| FTSE-RAFI Emerging Markets | -0.25% | -0.69% | +0.44% |
| MSCI World Low Carbon Target | +7.39% | +7.40% | -0.01% |

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 84.65% to the MSCI World Low Carbon Target index fund, and 15.35% allocated to the FTSE RAFI Emerging Markets index fund.

**Staff Turnover/Organisation:** Not reported by LGIM.

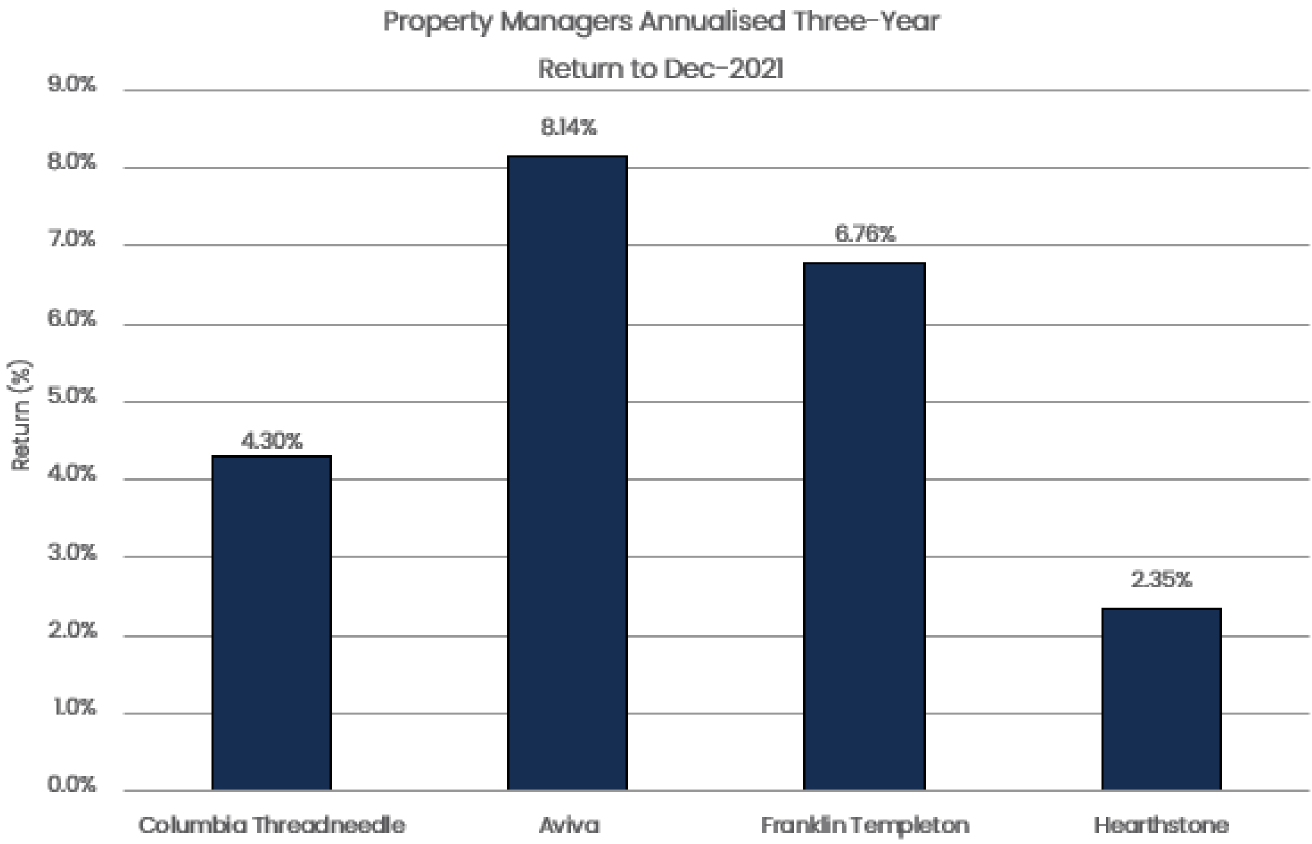
## Franklin Templeton – Global Property Fund

**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 -3.24% 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 December 2021, Aviva is the best performing fund across all four property managers, overtaking Franklin Templeton who have held the top position for a considerable amount of time. Chart 7 compares their annualised three-year performance, net of fees.

CHART 7:




Source: MJH; Columbia Threadneedle

**Portfolio Risk:** The Manager's report was not available at the time of going to print

**Staff Turnover/Organisation:** During Q4 2021 there were no new leavers or joiners to the Franklin Real Asset Advisors (FRAA) team. The total assets under management for the FRAA investment group was £542.6 million as of 30 September 2021 (latest available figures).

# Hearthstone – UK Residential Property Fund

**Headline Comments:** The portfolio underperformed the benchmark for the quarter ending December 2021 by -5.29% as well as over three years by -4.25% p.a.

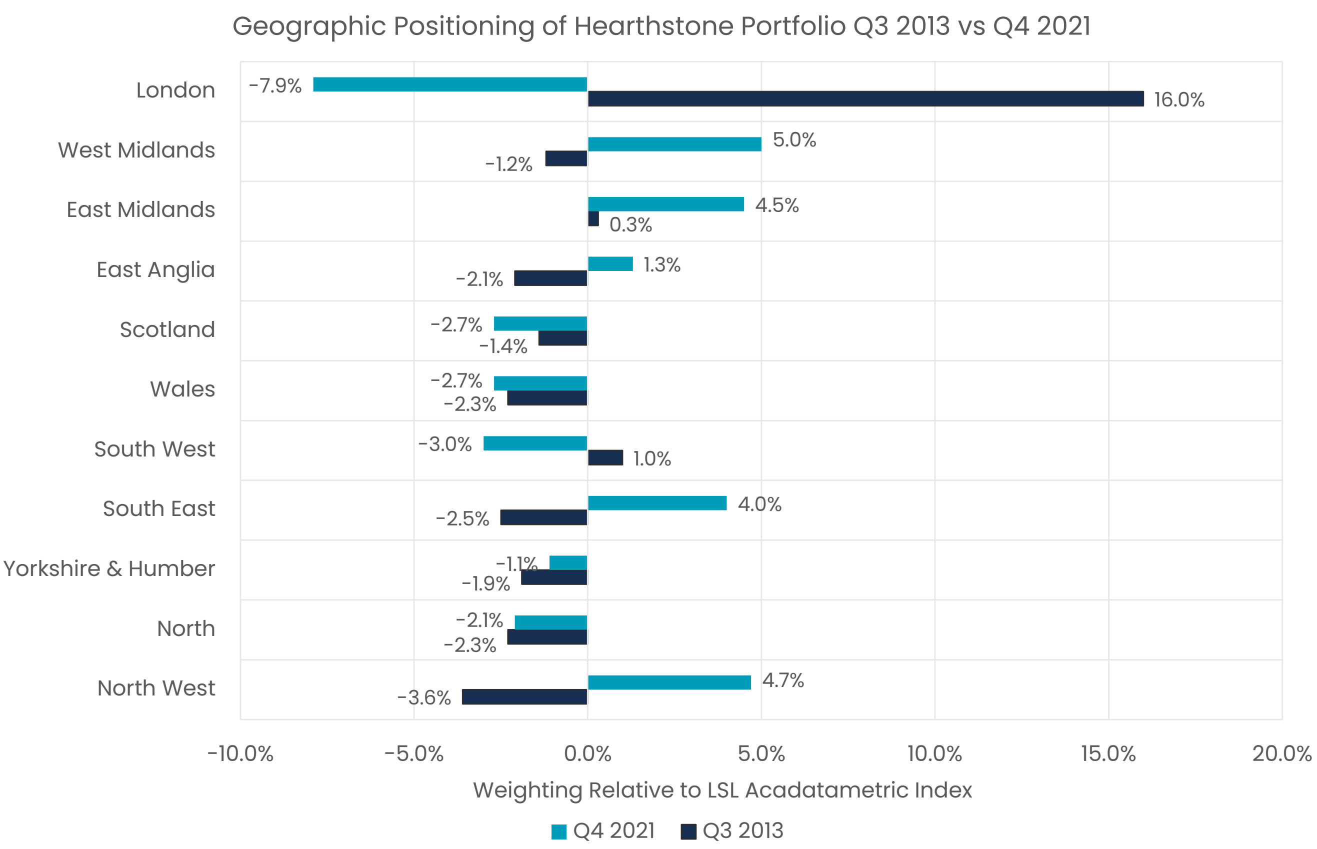
**Mandate Summary:** The fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

**Performance Attribution:** The fund underperformed the IPD index over the three years to December 2021 by -4.25% p.a., returning +2.35% p.a. versus the index return of +6.60% p.a. The gross yield on the portfolio as at end December 2021 was 4.81%. Adjusting for voids and property management/maintenance costs, however, the yield on the portfolio falls to 4.41%.

**Portfolio Risk:** The cash and liquid instruments on the fund stood at 21.81% (£15.5 million), which is 4.5% lower than at the end of September 2021.

Chart 8 compares the regional bets in the portfolio in Q4 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, 37% allocated to flats, 28% in terraced accommodation and 27% in semi-detached.

As at end September there were 221 properties in the portfolio and the fund stood at £72.8 million. London Borough of Islington's investment represents 39.4% of the fund. This compares with 72% at the start of this mandate in 2013.

**Market outlook:** Hearthstone have provided an outlook for 2022, the highlights of which include an expectation of continued house price rises, but some cooling off in the market; wage inflation leading to rent inflation whilst inflation in building supplies leading to increased costs; demand for properties in suburban areas with access to green space; and climate action leading to energy efficient homes.

**Organisation and Staff Turnover:** In Q4 there was one retirement by Richard Smith, Retail Business Development Manager, and Andrea Antonioni has been recruited as a new Institutional Business Development Manager, joining in Q1 2022.

## Schroders – Diversified Growth Fund (DGF)

**Headline Comments:** The DGF returned +1.50% in Q4 2021, and in relative terms it underperformed its target by -1.90% (source: Schroders).. Over three years, the fund is behind the target return of RPI plus 5% p.a. by -1.81% p.a  (source: Schroders).

**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 returned +1.50%% in Q4 2021. This is below the RPI plus 5% p.a. target return for Q4 which returned +3.40% (source: Schroders). Over three years, the DGF delivered a return of +9.11% p.a. compared with the target return of +7.30% p.a., behind the target by –1.81% p.a.

In Q4 2021, equity positions contributed +1.3% to the total return, alternatives contributed +0.5%, credit and government debt +0.1%, and cash and currency detracted -0.3% (figures are gross of fees).

The return on global equities was +18.9% p.a. for the three years to December 2021 compared with the portfolio return of +9.1%. 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

8.0% compared to the three-year volatility of 15.9% in global equities (i.e., 50.3% of the volatility) so is less risky than expected.

**Portfolio Characteristics:** The fund had 57% in internally managed funds (up from last quarter), 25% in active bespoke solutions (down from last quarter), 6% in externally managed funds (the same as last quarter), and 5% in passive funds (up from last quarter) with a residual balance in cash, 7% (up from last quarter), as at end December 2021. In terms of asset class exposure, 40.2% was in equities, 27.1% was in alternatives and 25.8% in credit and government debt, with the balance in cash, 6.9%.

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 36% lower than a comparator (a mix of equities, bonds, and alternative indices).

**Organisation:** There were no team changes during Q4 2021.

## Quinbrook – Low Carbon Power Fund

**Headline Comments:** Performance for the year to 31st December 2021 was positive at +6.70%, thus falling behind the target return of +12.0% although it is still somewhat early to judge the success of this manager.

**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 2021, on an unaudited basis, the fund had invested USD 617.0 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 1,547 MW (including those with minority stakeholders) as at 31 December 2021.

**Organisation:** Raimund Grube joined as Operating Partner in the US office, Alicia Bowry joined as Finance and Operations Manager in the UK office in November, and Fiona Reynolds (former CEO of UNPRI) and Kurt Akers (founder of Tangible Assets Advisory Group) have joined Mark Fulton and Dawn Turner on the Quinbrook Advisory Board.

## Pantheon – Infrastructure and Private Equity Funds

**Headline Comments:** Over three years the return on the private equity fund was +3.14% per annum. The one-year return on the infrastructure was +23.09% versus the absolute return target of 10%.

**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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