

London Borough of Islington

Report to 30th June 2022

MJ Hudson

AUGUST 2022

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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 made a loss of -4.16% over Q2 2022, behind the target return by -5.25%. Over one year, the fund returned -4.31% which was behind the target return by -8.17%.	The fund size was £10.42 billion as at end June. London Borough of Islington's investment amounts to 0.70% of the fund.
LCIV Global Equity Fund (Newton) (active global equities)	None reported by LCIV.	The LCIV Global Equity Fund underperformed its benchmark during Q2 2022 by -0.14%. Over three years the portfolio underperformed the benchmark by -0.15% and is under the performance target of benchmark +1.5% p.a. Over five years it remains ahead of the benchmark by +0.02% p.a., however.	At the end of Q2 2022, the London CIV sub-fund's assets under management were £683.5 million. London Borough of Islington owns 43.05% of the sub-fund.
MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT

<p>LCIV Sustainable Equity Fund (RBC) (active global equities)</p>	<p>None reported by LCIV.</p>	<p>Over Q2 2022 the fund made an absolute loss of -8.75%, although this outperformed the benchmark return of +0.38%. The one-year return was -8.66%, weak in absolute terms and behind the benchmark by -6.10%. The fund does not yet have a three-year track record.</p>	<p>As at end June the sub-fund's value was £1,225 million. London Borough of Islington owns 13.42% of the sub-fund.</p>
<p>BMO/LGM (active emerging equities)</p>	<p>No staff changes reported by BMO. BMO Global Asset Management became part of Columbia Threadneedle Investments in November 2021 and will be changing its name in July 2022. Towards the end of the year the emerging markets team is being sold to Polen Capital.</p>	<p>Underperformed the benchmark by -0.94% in the quarter to June 2022. The fund is behind over three years by -4.4% p.a.</p>	<p>Not reported.</p>
<p>Standard Life (corporate bonds)</p>	<p>There were 8 joiners and 18 leavers during the quarter. Two leavers were from the Fixed Income Group.</p>	<p>The portfolio underperformed the benchmark return during the quarter by -1.14%, delivering an absolute loss of -7.92%. Over three years, the fund was behind the benchmark return (by -0.13% p.a.) and behind the performance target of +0.80% p.a.</p>	<p>As at end June the fund's value was £2,327 million. London Borough of Islington's holding of £123.1m stood at 5.3% of the total fund value.</p>

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Aviva (UK property)	There were no team changes during Q2 2022.	Outperformed against the gilt benchmark by +10.44% for the quarter to June 2022 and outperformed the benchmark over three years by +12.80% p.a., delivering a return of +8.46% p.a., net of fees.	The fund was valued at £3.68 billion as at end Q2 2022. London Borough of Islington owns 4.1% of the fund.
Columbia Threadneedle (UK property)	There were no leavers or new joiners to the property team this quarter.	The fund overperformed the benchmark in Q2 2022, with a quarterly return of +4.6% compared with +3.9% (source: Columbia Threadneedle). Over three years, the fund is outperforming the benchmark by +1.0% p.a. (source: Columbia Threadneedle).	Pooled fund has assets of £2.31 billion. London Borough of Islington owns 4.47% of the fund.
Legal and General (passive equities)	Not reported by LGIM.	Funds are tracking as expected.	The funds have a combined assets under management of £3.57 billion at end June 2022.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Franklin Templeton (global property)	Information not received at the time of going to print.	The portfolio return over three years was +6.26% p.a., and so behind the target of 10% p.a. although over 5 years the fund is still +3.55% 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)	There were two new joiners and no leavers during Q2 2022.	<div style="border: 2px solid black; padding: 5px;"> <p>The fund underperformed the IPD UK All Property Index by -2.12% in Q2. Additionally, it is trailing the IPD benchmark over three years by -6.66% p.a. to end June 2022.</p> </div>	Fund was valued at £73.0m at end Q2 2022. London Borough of Islington owns 39.8% of the fund.
Schroders (multi-asset diversified growth)	There were no team changes during Q2 2022.	Fund made a loss of -5.35% during the quarter and delivered a return of +3.89% p.a. over 3 years, +0.08% p.a. ahead of the target return.	Total AUM stood at £773.4 billion as at end June 2022, up from £716.9 billion as at end September 2021.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Quinbrook (renewable energy infrastructure)	Two joiners, one from the US office and one from the UK office, and one leaver from the UK office.	For the three years to Q2 2022 the fund returned +15.41%, and therefore ahead of the annual target return of +12.00% p.a.	
Pantheon (Private Equity and Infrastructure Funds)	Not reported.	The private equity fund returned +8.91% p.a. over three years, and +16.79 p.a. over five years. The infrastructure fund returned +10.45% p.a. over three years to end June.	

Source: MJ Hudson

Minor Concern

Major Concern

Individual Manager Reviews

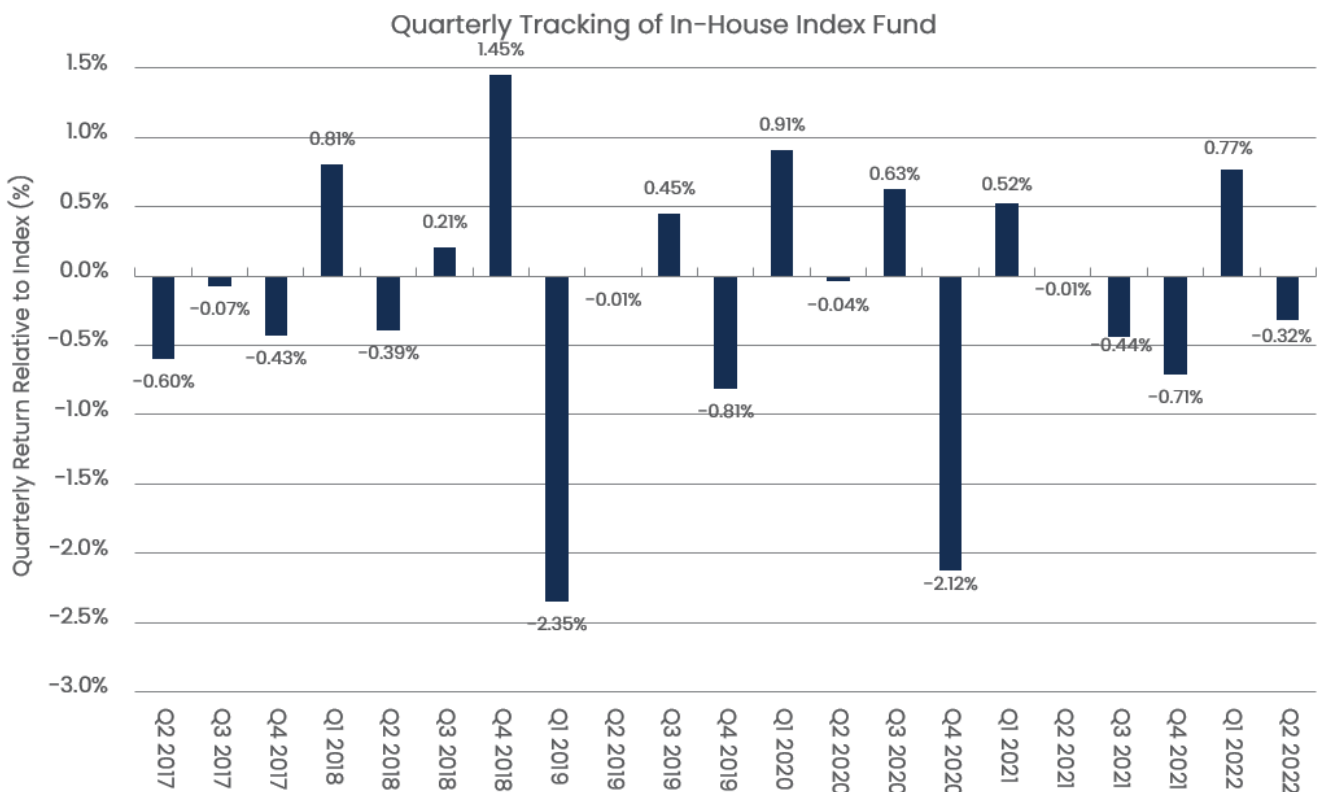
In-house – Passive UK Equities – FTSE UK Low Carbon Optimisation Index

Headline Comments: At the end of Q2 2022 the fund returned -5.36% for the quarter, compared to the FTSE All-Share index return of -5.04%. Over three years the fund has returned +2.20% p.a., behind the FTSE All-Share Index by -0.21%.

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 -0.21% p.a.

CHART 2:



Source: MJH; BNY Mellon

M&G – Alpha Opportunities Fund

Headline Comments: During Q2 2022 the M&G Alpha Opportunities Fund made a loss of -4.16%, underperforming the benchmark return of +1.09%.

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, funded with proceeds from the equity protection strategy which matured in 2021. 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 made a loss of -4.16% compared to the benchmark return (one month Libor plus 3.5% being used in Northern Trust's performance analysis) of +1.09%. Exposure to industrial corporate bonds was the top detractor, with financial corporate bonds and leveraged loans also performing poorly. Over one year, the fund is trailing the target return by -8.17% p.a.

Portfolio Characteristics: The largest allocations in the portfolio were to industrials (33%), Financials (17%) and Securitised Assets (16%). Net cash and derivatives account for 13%. 39% of the portfolio was rated BB* or below. The manager continues to focus on reducing the level of risk in the fund, believing that credit markets are overvalued and as a result intend to remain defensively positioned.

As at end June, the weighted average carbon intensity (WACI) of the portfolio was 37% of the WACI of a benchmark index, with 60% of the portfolio being measured where data was available (compared with 88% for the index).

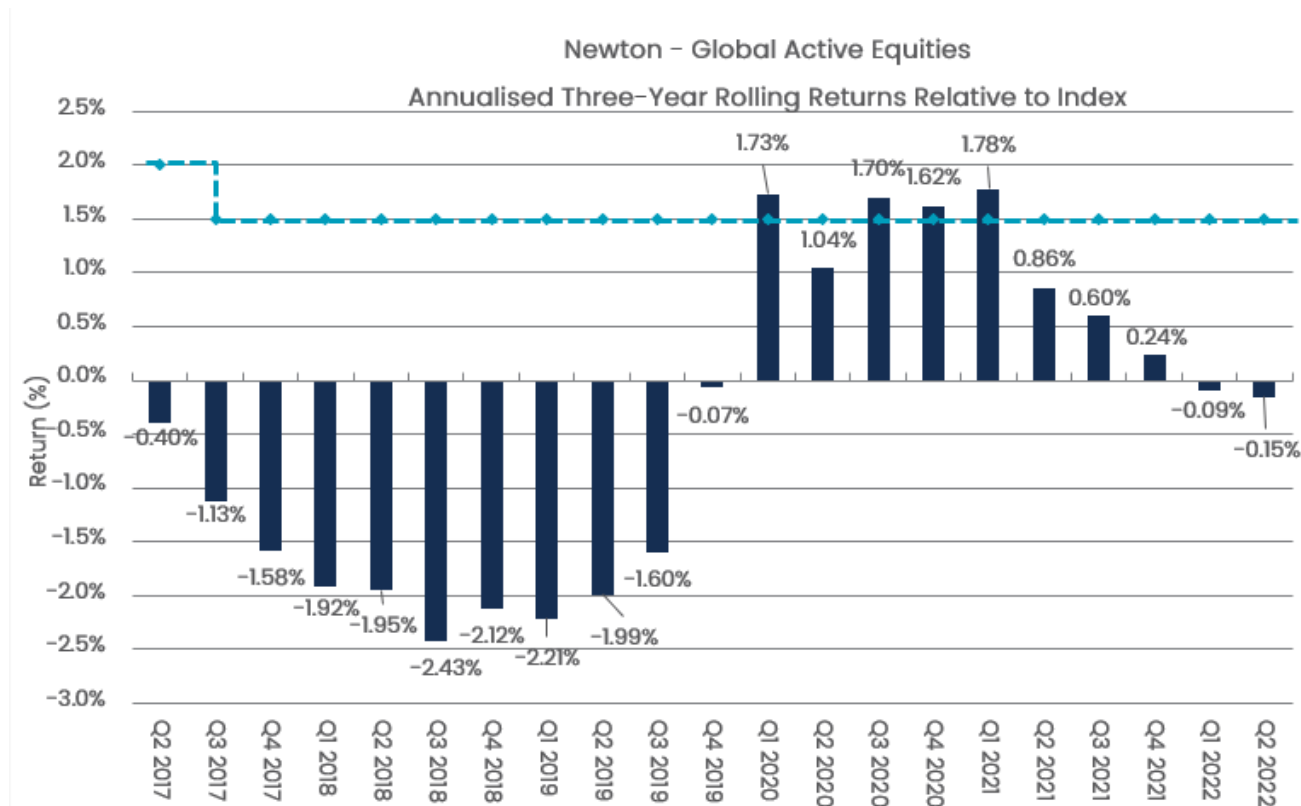
LCIV Global Equity Fund (Newton) – Global Active Equities

Headline Comments: The LCIV Global Equity Fund underperformed its benchmark during Q2 2022 by -0.14%. Over three years the portfolio underperformed the benchmark by -0.15% p.a. Over five years the manager is very slightly ahead of the benchmark return.

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. The London CIV monitors this manager.

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 Q2 2022 the fund has underperformed the benchmark over three years by -0.15%. This means it underperformed the performance objective by -1.65% 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 Dollar General (+0.34%), AIA Group (+0.27%), and Astrazeneca (+0.13%). Negative contributions came from holdings including Amazon.com (-1.12%), Apple (-0.89%), and Alphabet Inc (-0.73%).

In its peer group analysis, the London CIV reported that Newton has consistently delivered returns in the middle range over the shorter and longer term. 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 3.65% as at quarter end, slightly higher than as at end March when it stood at 3.60%. The portfolio remains defensive, with the beta on the portfolio at end June standing at 0.91, in line with the previous quarter (if the market falls by -10% the portfolio can be expected to fall -9.1%).

At the end of Q2 2022, the London CIV sub-fund's assets under management were £683.5m, compared with £747.4m last quarter. London Borough of Islington now owns 43.09% of the sub-fund.

Portfolio Characteristics: The number of stocks in the portfolio stood at 55 as at quarter-end (the same as last quarter). The fund added three positions; Sanofi, Chubb Limited, and Hubbell Inc. Newton completed three sales; Citigroup Inc, Ferguson, and BNY Mellon Investments.

The portfolio continues to be heavily weighted to Technology (an allocation of 23%) and Healthcare (15%), though while it has reduced its overweighting in Technology, the Manager continues to look for opportunities in the healthcare space. Exposure to consumer-facing companies has been reduced as the manager looks for companies that are expected to be relatively resilient to margin pressure and slower demand from emerging economies.

In Q2 2022, LCIV reported that the Newton sub fund had a weighted average carbon intensity of less than half that of the benchmark index (the MSCI World Index). The highest contributor was Shell (10.72% contribution to the weighted average carbon intensity).

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 was the only energy holding in the LCIV portfolio until Q1 2022 when Exelon was added. Shell represented c.1.2% of the portfolio as at end December 2021 (latest data available).

During the Quarter, the Manager announced its targets towards the goal of achieving net zero emissions across Newtons Investment Portfolios as part of the Net Zero Asset Managers (NZAM) initiative. More specifically, it is committing to an interim target of 50% of its financed emissions being covered by credible transition plans by 2030, and 100% of those emissions being covered by 2040. This only covers 65% of Newton's wider assets under management but will include the global equity portfolio.

Staff Turnover: None reported by LCIV for Q2 2022. The London CIV have reported that they are comfortable with the management of the portfolio since the departure of Charles French, one of the fund managers, in early 2022. They have not seen evidence of a change in investment process nor any excessive or unusual trading.

LCIV Sustainable Equity Fund (RBC) – global equities

Headline Comments: Over Q2 2022 the fund made a loss of -8.75%. This outperformed the benchmark return by +0.38%. The one-year return was -8.66%, weak in absolute terms and behind the benchmark by -6.10%. The fund does not yet have a three-year track record. Islington's investment makes up 13.41% 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: Following a period of weakness and a particularly challenging Q1 2022, the fund has outperformed the benchmark in Q2, though has made a loss for the quarter in absolute terms. This overperformance was mainly due to favourable sector positionings. The portfolio has overweight allocations to the Financial, Healthcare, Consumer Staples, Industrials, Communication Services and Energy sectors. The fund was underweight in the Information Technology sector which was favourable to performance. Over the quarter the largest contributors to return included Unitedhealth Group (+0.60%), T-Mobile US (+0.47%), and AutoZone (+0.37%). The largest detractors include Amazon.com (-1.25%), Nvidia (-1.14%), and Alphabet Inc (-0.96%).

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, the short-term has been challenging, ranking at the fourth quartile for its peer group for the year to date.

Portfolio Characteristics: As at end of June 2022 the fund had 36 holdings across 14 countries. The active risk of the fund was 3.83%, slightly higher than Newton.

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

In Q2 2022, LCIV reported that the RBC sub fund had a weighted average carbon intensity of 70% that of the benchmark index (the MSCI World Index) which is an improvement from last quarter (when it was 80%). The highest contributors were Equinor ASA (excluding this holding from the portfolio would reduce the weighted average carbon intensity by 12.82%), InterContinental Hotels Group plc (10.24%) and First Quantum Minerals Ltd (6.20%).

BMO/LGM – Emerging Market Equities

Headline Comments: The portfolio made a loss of -4.81% in Q2 2022, compared with the benchmark loss of -3.87%, an underperformance of -0.94%. Meanwhile, over one year the fund is ahead of the benchmark by +2.74%, over three years it is trailing by -4.40% per annum and over five years by -3.59% p.a. The frontier markets portfolio previously held has now been closed, as such reporting on BMO now only discusses the emerging markets component. The manager has also announced that the emerging markets business is being sold to Polen Capital in Q4 2022 or Q1 2023.

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 underperformed the index in the quarter, and the performance continued to be volatile along with markets during the quarter, with record levels of inflation in many countries and Central Banks attempting to curtail this with various rate hikes. Most countries saw losses; however, China was the biggest winner in the period with a gain of 3.5%, having been a significant underperformer recently. BMO has a high exposure to China/Hong Kong, so this therefore contributed to performance. On the other hand, Brazil, Taiwan, South Africa and India posted double digit losses, and these account for a combined 35.3% of BMO's portfolio.

During the quarter, the largest positive contributors to the quarterly relative return came from AIA Group Ltd (+0.8%), Hong Kong Exchanges and Clearing (+0.8%), and Haier Smart Home Co Ltd (+0.7%). Companies which detracted most from performance included Naver Corp (-1.1%), Infosys (-0.7%), and Wizz Air Holdings plc (-0.7%).

Over one year, the fund has outperformed the benchmark by +2.74%.

Portfolio Risk: Within the emerging markets portfolio there is a 14.2% allocation to non-benchmark countries (excluding holding in Cash & Equivalents). The largest overweight country allocation in the emerging markets portfolio remained India (+11.8% overweight). The most underweight country allocation was South Korea (-7.8%).

Portfolio Characteristics: The portfolio held 39 stocks as at end June compared with the benchmark which had 1,382. The largest absolute stock position was TSMC at 7.0% of the portfolio, while the largest absolute country position was China/HK and accounted for 36.0% of the portfolio.

Staff Turnover/Organisation: BMO Global Asset Management EMEA (including LGM Investments) became part of Columbia Threadneedle Investments, the global asset management business of Ameriprise in November 2021. From July, following a period of integration, the branding will switch to sit under the Columbia Threadneedle banner. There were no staff changes reported for Q2 2022. However, the manager has announced that the emerging markets team is being sold to a US firm, Polen Capital, later in the year or early next year.

The Chief Executive of LGM Capital will remain at Columbia Threadneedle, along with the Global Emerging Markets responsible investment strategy team. There are 11 people moving to Polen including 10 on the investment side.

The reason for the planned sale of this team was that, as Columbia Threadneedle worked through the detail of the two businesses, most areas were complementary. However, in emerging markets there were some similarities but there were also some key differences, which would make it difficult to blend the two teams

There were three key objectives that Columbia Threadneedle were seeking in a future buyer of the business, and these were: (a) client continuity (b) continuity in the investment process and (c) team continuity. Polen Capital met all these three.

Polen Capital are a Miami-based asset manager with \$70bn of assets under management across three main strategies: large cap equities (US and global plus a small \$70m emerging markets mandate); high yield and small cap equity (US). There was already a connection with the firm because Damian Bird (who used to be the lead portfolio manager on LGM's emerging markets strategy) and Daffydd Edwards (who used to be the frontier markets portfolio manager) had both moved to Polen. Daffydd Edwards is currently running an emerging markets strategy for Polen.

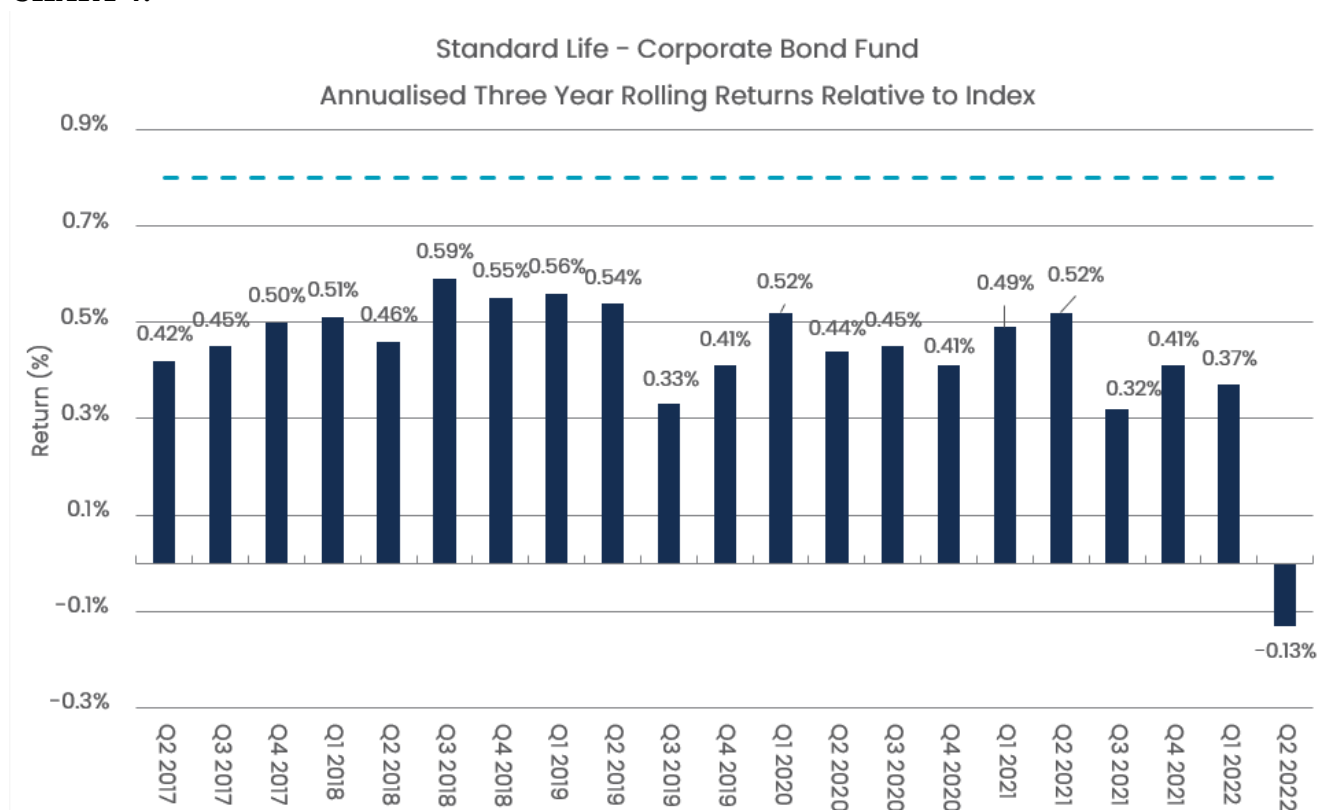
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio underperformed the benchmark return during the quarter by -1.14%, with an absolute loss of -7.92%. Over three years, the fund was behind the benchmark return (by -0.13% p.a.) for the first time since inception, and 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 that the fund is now behind the benchmark over three years, as well as behind the performance objective (shown by the dotted line in Chart 4).

CHART 4:



Source: MJH; BNY Mellon

Over three years, the portfolio has returned -2.16% p.a. net of fees, compared to the benchmark return of -2.03% p.a. Over the past three years, asset allocation has detracted -0.40% value, meanwhile stock selection has detracted -0.40%.

Portfolio Risk: The largest holding in the portfolio at quarter-end was European Investment Bank at 3.1% of the portfolio. The largest overweight sector position was Quasi Sovereign (+2.6% relative) and the largest underweight position is Supranational (-6.0%). The fund holds 1.8% 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 2022 stood at £2,327 million. London Borough of Islington's holding of £123.1m stood at 5.3% of the total fund value.

Staff Turnover: There were 8 joiners and 18 leavers during the quarter. There were no new joiners into the Fixed Income Group. Two of the leavers were from the fixed income group; Investment Manager Emilia Matei and Investment Analyst Yulong Wang.

Aviva Investors – Property – Lime Property Fund

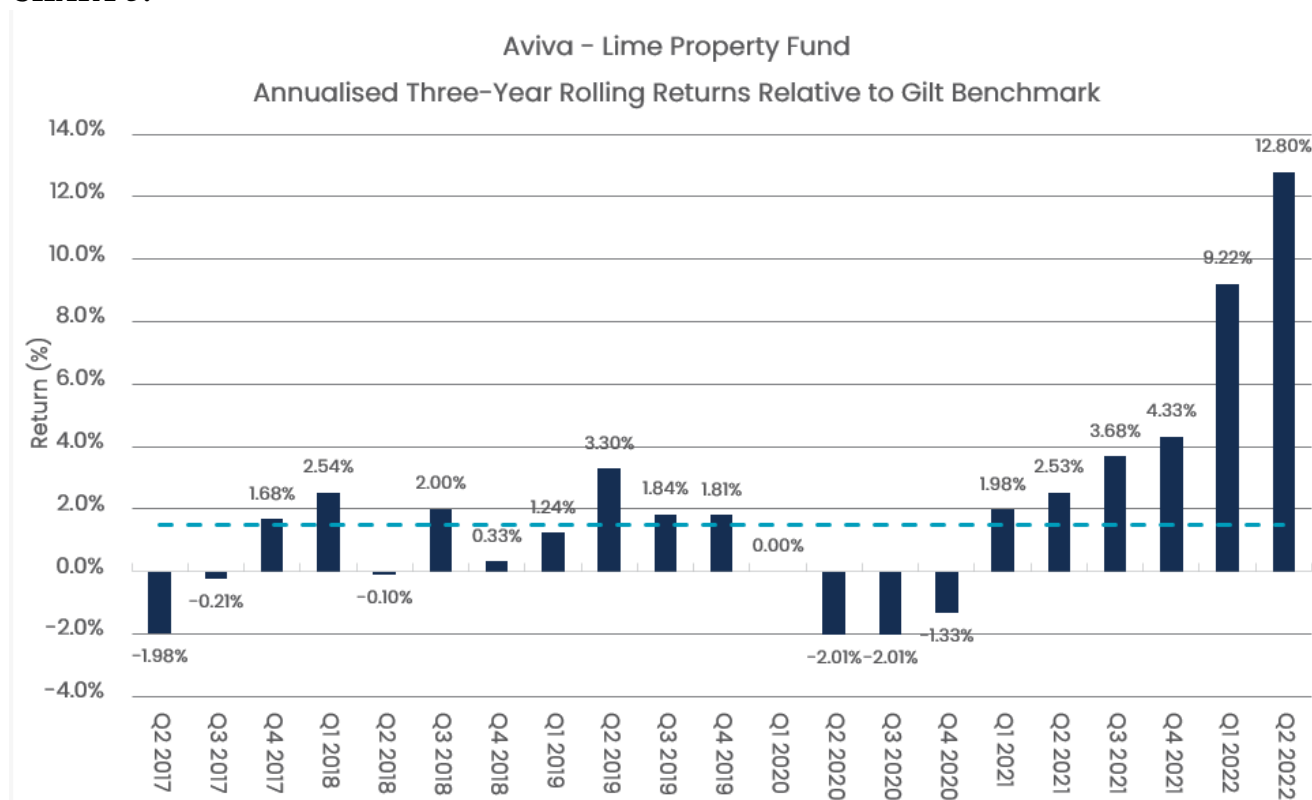
Headline Comments: The Lime Fund delivered another quarter of steady and positive absolute returns, it outperformed the fund benchmark return, with an overperformance of +10.44% in Q2. Over three years, the fund is ahead of the benchmark return by +12.80% p.a., with a particularly strong one-year outperformance of +28.08%.

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 2022 return was attributed by Aviva to +0.35% capital return and +0.81% income return.

Over three years, the fund has returned +8.46% p.a., considerably ahead of the gilt benchmark of -4.34% 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, 42% of the return came from income and 58% from capital gain.

Portfolio Risk: within the MSCI quarterly index of UK real estate funds, the Lime Fund is the least volatile fund over the short, medium and long term. There was one transaction reported this quarter of a supported living residential portfolio of £55 million, spread across the UK.

The average unexpired lease term was 21.1 years as at end June 2022. 10.6% of the portfolio’s lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 25.91% (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 June 2022, the Lime Fund had £3.68 billion of assets under management, an increase of £24 million from the previous quarter end. London Borough of Islington's investment represents 4.1% of the total fund.

Staff Turnover/Organisation: There were no significant departures in Q2 2022.

It is worth noting that the Fund has joined the Association of Real Estate Funds (AREF) UK Long Income Open Ended Property Fund Index. This is a Long Income Index with nine funds run on a similar basis, totalling over £14 billion. This will be another useful reference point for assessing whether the manager is delivering best value to London Borough of Islington.

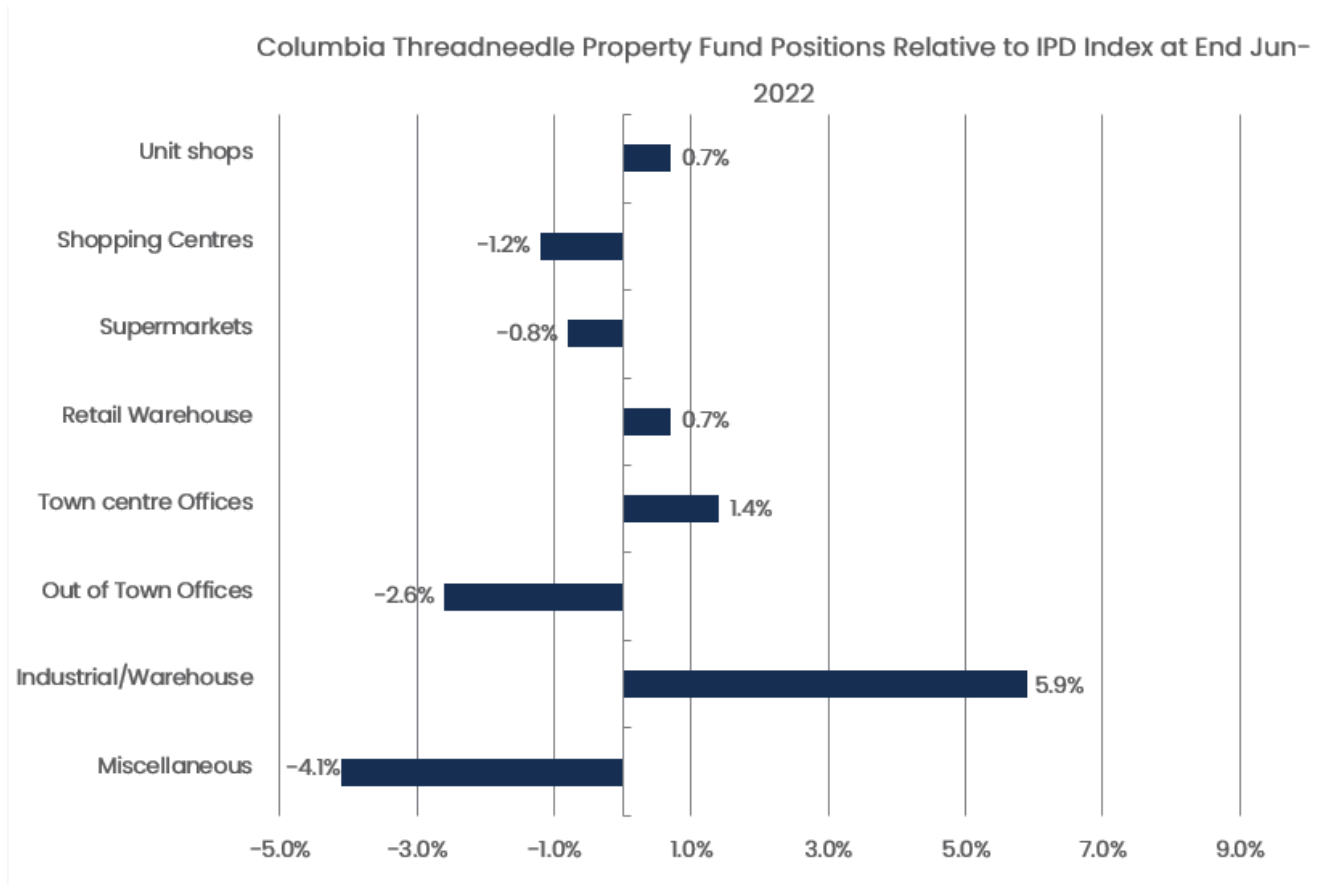
Columbia Threadneedle – Pooled Property Fund

Headline Comments: The fund outperformed the benchmark in Q2 2022, with a quarterly return of +4.6% compared to +3.9% (source: Columbia Threadneedle). Over three years, the fund outperformed the benchmark by +1.0% and as such is in line with the performance target of +1.0% p.a. above benchmark (source: Columbia Threadneedle).

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 eleven sales. The sales include four warehouses where the business plan of regearing the existing occupier or a new leasing transaction had been completed, and the remaining sales were non-core assets which had limited prospects of rental or capital growth.

The cash balance at end June was 5.7%, which is in line with the target liquidity parameters.

Performance Attribution: The fund outperformed the benchmark in Q2 2022, with a quarterly return of +4.6% compared to +3.9% (source: Columbia Threadneedle). The manager attributes this to outperformance of its industrial assets (+2.4%). Over three years, the fund outperformed the benchmark by +1.0% and as such is in line with the performance target of +1.0% p.a. above benchmark (source: Columbia Threadneedle).

Portfolio Characteristics: As at end June 2022, the fund was valued at £2.31bn, a decrease of £28m from the fund's value in March 2022. London Borough of Islington's investment represented 4.47% of the fund.

Staff Turnover: There were no changes to the TPEN property team or the wider property team in Q2 2022.

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 MSCI World Low Carbon index fund tracked its benchmark as expected, as shown in Table 2. The Low Carbon index returned -9.45% which was behind the full World Index return of -9.40%.

TABLE 2:

	Q2 2022 FUND	Q2 2022 INDEX	TRACKING
FTSE-RAFI Emerging Markets	-3.65%	-3.47%	-0.17%
MSCI World Low Carbon Target	-9.45%	-9.40%	-0.05%

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 83.48% to the MSCI World Low Carbon Target index fund, and 16.52% allocated to the FTSE RAFI Emerging Markets index fund.

Staff Turnover/Organisation: Not reported by LGIM.

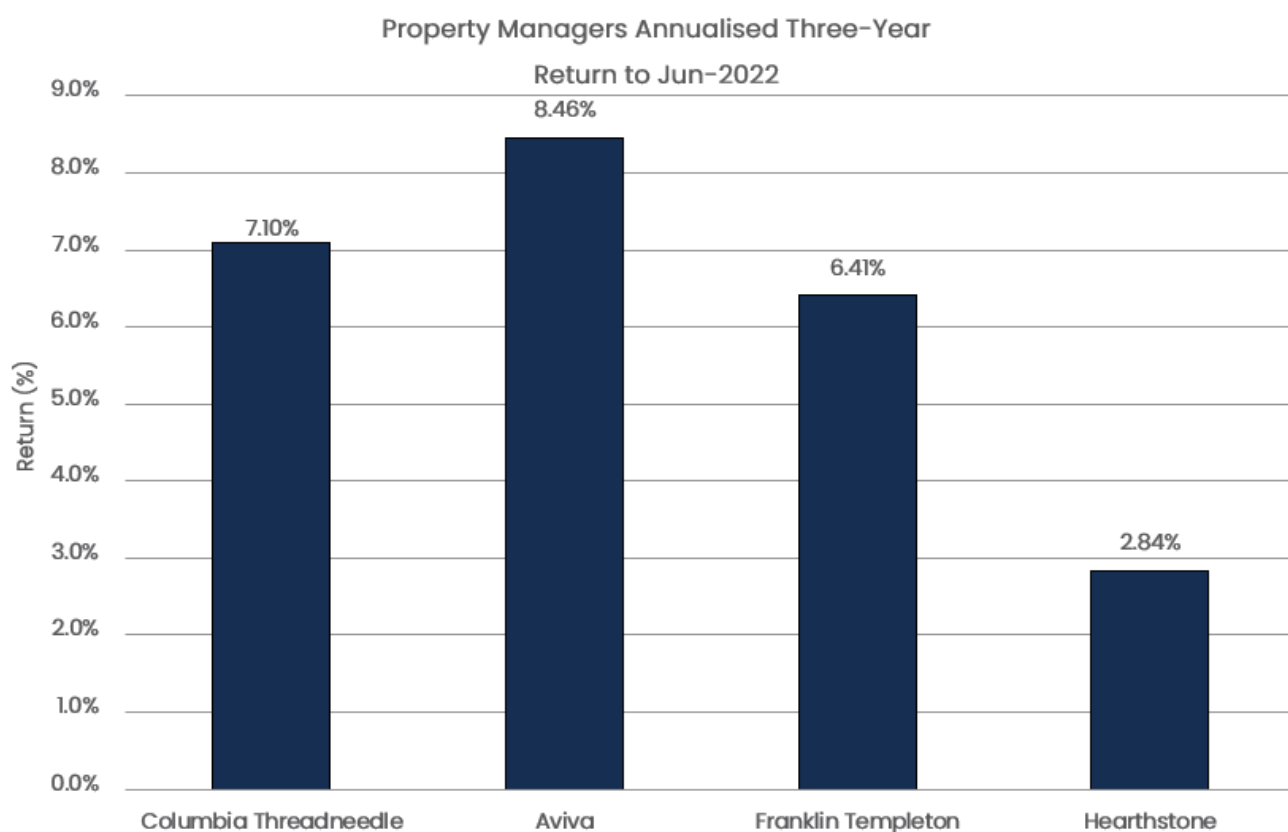
Franklin Templeton – Global Property Fund

Headline Comments: This is a long-term investment and as such a longer-term assessment of performance is recommended. There are now three 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 -3.74% p.a.

Mandate Summary: Three 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 2022, Aviva is the best performing fund across all four property managers. Chart 7 compares their annualised three-year performance, net of fees.

CHART 7:



Source: MJH;

Portfolio Risk: Fund I continues to be 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\$494.8 million, or 155% of total Fund equity. The Fund’s use of leverage was at 48% for the quarter.

The largest remaining allocation in Fund I is to the US (57% of funds invested), followed by Spain (29%) and UK (14%). 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 (Both have now been fully liquidated).

Fund II is now fully invested in a diverse mix of property sectors including office, retail and industrial uses. There have been no changes in the level of distributions from end June 2021, and so as at end June 2022, 85.0% of committed capital had been distributed. Leverage

remained at 57% for the quarter to June 2022. The manager notes that the pandemic has led to some delays in implementing business plans.

The largest geographic allocation in Fund II is to Italy (57% of funds invested), followed by the US (33%), China (5%), Hong Kong (4%), and Spain (1%).

Of all the underlying funds (realised and unrealised), three of the underlying funds are performing well ahead of expectations, two are above expectations, two are on target, and three are below target. The funds that are below target are Mistral Napoleon, which has seen delays incurred in the leasing space, Alphabet, who's performance has been impacted by one of the tenants declaring bankruptcy, and Mistral Corn, who's master lease expired in Dec-21, and is currently not at full occupancy.

Fund III continues to invest in a diverse mix of property sectors including residential, retail, industrial and office uses. There was a total of £17.8million in distributions made over the period. In Q2 2022, the fund made two realizations, Alpine, and Luna, and made no new investments. A sale of Luna-Levante has been concluded but it is still listed as unrealised at the end of Q2, and will likely be recorded as realised in Q3 2022. The largest geographic allocation in Fund III is currently the US (51% of funds invested), followed by Europe (49%).

Of the realized investments, one performed in-line with expectations, and one performed well ahead of expectations. Of the unrealised funds, one is in line with expectations, three are too early to tell and one, Josephine-Levante, is below target. This is due to a lease expiring in June 2022, and a new temporary lease being taken by a different tenant.

Staff Turnover/Organisation: not received at the time of going to print.

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio underperformed the benchmark for the quarter ending June 2022 by -2.12% as well as over three years by -6.66% p.a.

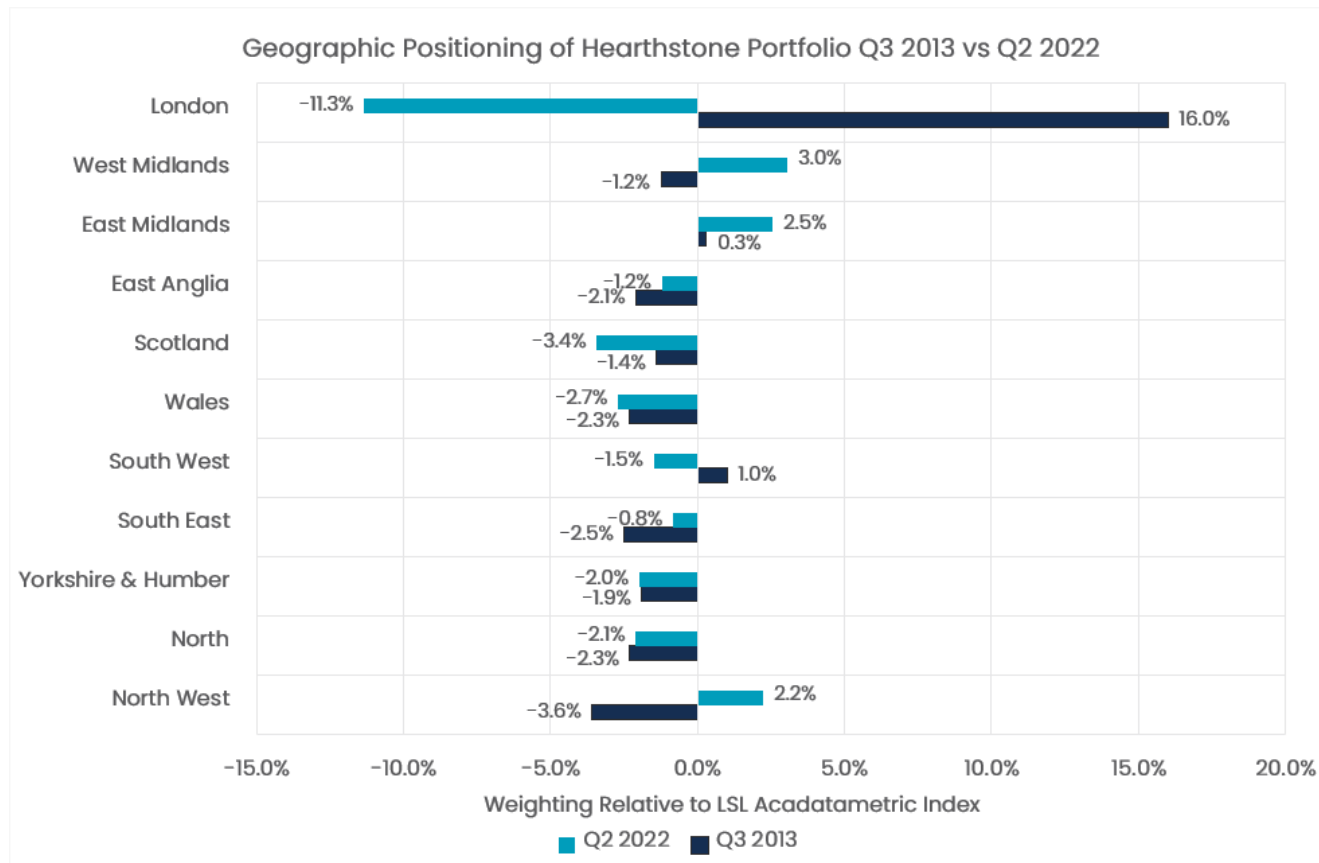
Mandate Summary: The fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

Performance Attribution: The fund underperformed the IPD index over the three years to June 2022 by -6.66% p.a., returning +2.84% p.a. versus the index return of +9.50% p.a. The manager has also underperformed over 5 years by -5.74% p.a. The gross yield on the portfolio as at end June 2022 was 4.84%. Adjusting for voids and property management/maintenance costs, however, the yield on the portfolio falls to 3.02%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 17.38% (£12.7 million), which is 3.11% lower than at the end of March 2022.

Chart 8 compares the regional bets in the portfolio in Q2 2022 (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, 35% allocated to flats, 31% in terraced accommodation and 26% in semi-detached.

As at end June there were 228 properties in the portfolio and the fund stood at £73.0 million. London Borough of Islington’s investment represents 39.8% of the fund. This compares with 72% at the start of this mandate in 2013.

Organisation and Staff Turnover: There were two new joiners in Q2 2022; Jamie Jago as Non-Executive Director on the Hearthstone Investments Limited Board, and Lydia Minto as an Asset Manager. There were no leavers during the quarter.

Schroders – Diversified Growth Fund (DGF)

Headline Comments: The DGF made a loss of -5.35% in Q2 2022, and in relative terms it underperformed its target by -9.66%(source: Schroder). Over three years, the fund is ahead of the target return by +0.09% p.a. (source: Schroder).

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. The target for this fund changed on 1st April 2022 and is now the ICE BofA Sterling 3-Month Government Bill Index plus 4.5% per annum (before fees have been deducted) over a 5-7-year period. The manager aims to deliver capital growth and income, with a volatility of less than two-thirds the volatility of equities.

Performance Attribution: The DGF made a loss of -5.35% in Q2 2022. This is below the target return for Q2 which returned +4.31% (source: Schroder). Over three years, the DGF delivered a return of +3.89% p.a. compared with the target return of +3.81% p.a. (source: Schroder), ahead of the target by +0.08% p.a.

In Q2 2022, equity positions detracted -4.2% from the total return, alternatives detracted -0.7%, credit and government debt detracted -2.3%, and cash and currency contributed +1.6% (figures are gross of fees).

Portfolio Risk: The portfolio is expected to exhibit less than 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 16.7% in global equities (i.e., 50.3% of the volatility) which is in line with target.

Portfolio Characteristics: The fund had 56% in internally managed funds (down from last quarter), 25% in active bespoke solutions (down from last quarter), 8% in externally managed funds (up from last quarter), and 7% in passive funds (the same as last quarter) with a residual balance in cash, 1% (down from last quarter), as at end June 2022. In terms of asset class exposure, 32.5% was in equities, 35.1% was in alternatives and 28.2% in credit and government debt.

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 58% lower than a comparator (a mix of equities, bonds, and alternative indices).

Organisation: There were no team changes during Q2 2022.

Quinbrook – Low Carbon Power Fund

Headline Comments: Performance for the year to 30th June 2022 was positive at +31.64%, thus outperforming the target return of +12.0%. Over three years, the fund returned +15.41% p.a. and therefore ahead of the target by +3.41%.

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 2022, on an unaudited basis, the fund had invested USD 723.8 million into projects ranging from onshore wind farms, solar power plants, battery storage and natural gas peaking facilities (power plants that generally run only when there is a high demand for electricity, in order to balance the grid). The total operational generating capacity of operational projects which the Fund is invested in is 1,568 MW (including those with minority stakeholders) as at 30 June 2022.

Organisation: Ariana Brighenti joined as an Associate in the UK office, and Gavin O’Brien joined as an Analyst in the US office. Associate, Charles Millter-Stirling, has left the UK office.

Pantheon – Infrastructure and Private Equity Funds

Headline Comments: Over three years the return on the private equity fund was +8.91% per annum. This compares with a three-year return on listed global equities of 11.5% per annum. The three-year return on the infrastructure fund was +10.45% versus the absolute return target of 10%.

Mandate Summary: London Borough of Islington have made total commitments of £103.6m across five Pantheon strategies including two US primary funds, two global secondary funds and one global infrastructure fund. This infrastructure fund, Patheon Global Infrastructure Fund III “PGIF III”, was the most recent commitment from Islington in 2018 totalling £74.7m.

Portfolio Characteristics: Over the period Q1 2022 – Q2 2022, a total of £2.4m was drawn down, wholly to PGIF III. Distributions were received across four strategies totalling £1.1m

Permira – Credit Solutions Senior Fund

Headline Comments: The Permira Credit Solutions V (“PCS5”) is a new allocation for the London Borough of Islington. To 6th June 2022 the fund has closed commitments of £2.1bn, and has made a total of seven investments equalling 40% invested (most recent data available).

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