

**Resources**  
**7 Newington Barrow Way**  
**London N7**  
**7EP**

Report of: Corporate Director of Resources

Meeting of: Pensions Sub-Committee

Date: 5 December 2022

Ward(s): n/a

**Appendix 3, attached** is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information relating to the financial or business affairs of any particular person (including the authority holding that information).

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## **Subject: Pension Fund Performance 1 July to 30 September 2022**

<b>1.</b>	<b>Synopsis</b>
1.1	This is a quarterly report to the Pensions Sub-Committee to allow the Council as administering authority for the Fund to review the performance of the Fund investments at regular intervals and review the investments made by Fund Managers quarterly.
<b>2.</b>	<b>Recommendations</b>
2.1	To note the performance of the Fund from 1 July to 30 September 2022 as per BNY Mellon interactive performance report
2.2	To receive the presentation by MJ Hudsons, our independent investment advisers, on our fund managers' quarterly performance attached as Appendix 1.
2.3	To note the update briefing on Hearthstone in Appendix1 and consider the three exit options discussed.

2.4	To note the briefing from BMO giving further details on the purchase by a US investment manager subject to regulatory approval attached as Exempt Appendix 3
2.5	To note the transition summary of the In-House UK Low Carbon Index to Legal and General ESG Paris Aligned Index on 1 <sup>st</sup> September 2022.
<b>3.</b>	<b>Fund Managers Performance for 1 July to 30 September 2022</b>
3.1	<p>The fund managers' latest quarter net performance figures compared to the benchmark and Mercer ESG ratings is shown in the table below.</p> <p><i>NB: Mercer's ESG ratings provide an assessment of the integration of ESG issues into the investment process and provides an overall rating – ESG 1 is the highest possible rating and ESG 4 is the lowest possible rating. As such, Mercer has provided the latest ESG ratings for the Fund's 9 strategies across equities, fixed income, DGFs, property and private equity.</i></p>

3.1 Fund Managers	Asset Allocation	Mandate	*Mercer ESG Rating	Latest Quarter Performance (July-Sept'22) Gross of fees		12 Months to Sept' 2022-Performance Gross of fees	
				Portfolio	Benchmark	Portfolio	Benchmark
LCIV Sustainable EQ- RBC	10.1%	Global equities	1	1.5%	2.1%	-9.6%	-2.9%
LCIV -Newton	18.1%	Global equities	2	1.3%	1.5%	-5.6%	-3.7%
Legal & General	13.3%	Global equities	1	1.7%	1.8%	-3.4%	-3.4%
Legal & General-Paris Aligned	9.1%	Global equities	N	-5.5%	-5.5%	n/a	n/a
BMO Investments-LGM	3.9%	Emerging equities	2	-3.9%	-3.6%	-15.1%	-12.8%
Quinbrook	5.5%	Renewable Infrastructure		12.9%	2.9%	45.9%	12.0%
Pantheon	4.6%	Infrastructure		18.7%	2.4%	36.9%	10.0%
Aviva (1)	8.9%	UK property	2	-2.6%	-16.1% -4.1%	5.3%	-28.3% 13.5%
Columbia Threadneedle Investments (TPEN)	6.3%	UK commercial property	3	-4.9%	-3.9%	13.3%	13.3%
Hearthstone	1.8%	UK residential property	N	0.7%	-4.1%	5.4%	13.5%
Standard Life	3.8%	Corporate bonds	2	-10.7%	-11.0%	-22.6%	-21.9%
M&G Alpha Opportunities	4.4%	Multi Asset Credit	3	0.5%	1.2%	-4.2%	4.2%
Schroders	6.3%	Diversified Growth Fund	2	-3.8%	3.4%	-10.0%	17.6%
Market value of total fund	£1,649m						

-16.1% & -28.3% = original Gilts benchmark; -4.1% and 13.5% are the IPD All property index; for information

3.2	BNY Mellon our performance monitoring service provider now provides our quarterly interactive performance report. Performance attributions can be generated via their portal if required.														
3.3	<p>The combined fund performance and benchmark for the last quarter ending September 2022 is shown in the table below.</p> <table border="1" data-bbox="225 421 1426 656"> <thead> <tr> <th rowspan="2">Combined Fund Performance</th> <th colspan="2">Latest Quarter Performance <b>Gross</b> of fees</th> <th colspan="2">12 Months to Sept'2022 Performance Gross of fees</th> </tr> <tr> <th>Portfolio %</th> <th>Benchmark %</th> <th>Portfolio %</th> <th>Benchmark %</th> </tr> </thead> <tbody> <tr> <td></td> <td>-0.8</td> <td>-3.9</td> <td>-3.7</td> <td>-6.5</td> </tr> </tbody> </table>	Combined Fund Performance	Latest Quarter Performance <b>Gross</b> of fees		12 Months to Sept'2022 Performance Gross of fees		Portfolio %	Benchmark %	Portfolio %	Benchmark %		-0.8	-3.9	-3.7	-6.5
Combined Fund Performance	Latest Quarter Performance <b>Gross</b> of fees		12 Months to Sept'2022 Performance Gross of fees												
	Portfolio %	Benchmark %	Portfolio %	Benchmark %											
	-0.8	-3.9	-3.7	-6.5											
3.4	Copies of the latest quarter fund manager's reports are available to members for information if required.														
3.5	<p><b>Total Fund Position</b> The Islington combined fund absolute performance with the hedge over the 1,3- and 5-year periods to Sept' 2022 is shown in the table below.</p> <table border="1" data-bbox="225 1003 1369 1205"> <thead> <tr> <th>Period</th> <th>1 year per annum</th> <th>3 years per annum</th> <th>5 years per annum</th> </tr> </thead> <tbody> <tr> <td>Combined LBI fund performance hedged</td> <td>-3.7%</td> <td>5.6%</td> <td>5.9%</td> </tr> <tr> <td>Customised benchmark</td> <td>-6.5%</td> <td>2.7%</td> <td>4.3%</td> </tr> </tbody> </table>	Period	1 year per annum	3 years per annum	5 years per annum	Combined LBI fund performance hedged	-3.7%	5.6%	5.9%	Customised benchmark	-6.5%	2.7%	4.3%		
Period	1 year per annum	3 years per annum	5 years per annum												
Combined LBI fund performance hedged	-3.7%	5.6%	5.9%												
Customised benchmark	-6.5%	2.7%	4.3%												
3.6	<p><b>LCIV RBC Sustainability Fund</b></p> <p>3.6.1 RBC is the fund's global sustainable equity manager on the LCIV platform and was originally appointed in November 2018 to replace our Allianz mandate also on the LCIV platform.</p> <p>3.6.2 LCIV RBC Sustainability was fully funded on 5 August 2019. Mandate guidelines include the following;</p> <ul style="list-style-type: none"> <li>• The sub fund manager will invest only where they find all four forces of competitive dynamics (business model, market share opportunity, end market growth &amp; management and ESG</li> <li>• Target performance is MSCI World Index +2% p.a. net of fees over a three-year period.</li> <li>• Target tracking error range over three years 2% p.a – 8.0%.</li> <li>• Number of stocks 30 to 70</li> <li>• Active share is 85% to 95%</li> </ul> <p>3.6.3 The fund underperformed its quarterly benchmark to September by -0.5% and a twelve-month under performance of -6.7%. This was mainly due to stock selection and overweight positioning to underperforming European currencies. The portfolio is</p>														

	<p>overweight healthcare, followed by financials, and consumer staples. The defensive positioning should mitigate downside risk to forward earning expectations. The manager continues to position the portfolio more cautiously while also aiming to maintain its growth and upside dynamic.</p>
3.7	<p><b>LCIV Newton Investment Management</b></p>
3.7.1	<p>Newton is the Fund's other global equity manager with an inception date of 1 March 2008. There have been amendments to the mandate the latest being a transfer to the London CIV platform.</p>
3.7.2	<p>The inception date for the LCIV NW Global Equity Fund was 22 May 2017. The new benchmark is the MSCI All Country World Index Total return. The outperformance target is MSCI All Country Index +1.5% per annum net of fees over rolling three- year periods.</p>
3.7.3	<p>The fund returned 1.3% against a benchmark of 1.5% for the September quarter. Since inception, the fund has delivered an absolute return of 11.3%. The stock selection contribution was flat and relative contribution was from materials and industrial sectors. The focus is on growth stocks in healthcare and consumer staple that are cyclical and can withstand a prolonged slowdown.</p>
3.7.4	<p>Islington owns 57.4% of the fund with 2 other local authorities on the LCIV platform.</p>
3.8	<p><b>LBI- In House - transition</b></p>
3.8.1	<p>Since 1992, the UK equities portfolio of the fund has been managed in-house by officers in the Loans and Investment section by passive tracking of the FTSE 350 Index. The mandate was amended as part of the investment strategy review to now track the FTSE All Share Index within a +/- 0.5% range per annum effective from March 2008. After a review of the Fund's equities' carbon footprint Members agreed to track the FTSE UK All Share Carbon Optimised Index and this became effective in September 2017.</p>
3.8.2	<p>The In-House fund transition to the Paris Aligned index with Legal and General began on 13<sup>th</sup> August value at £164m with completion for over 99% of the portfolio by 1 September.</p>
3.8.3	<p><u>Transition Details</u>  The transition saw overall physical turnover of £314.6m, comprised of £157.3m of buys and £157.3 of sells. Trading was completed after six days and primary target funding was achieved on schedule on the 1 September pooled fund dealing date. The residual illiquid stocks were finally traded on 7 September to close the transition at a cost £0.154m.</p>
3.8.4	<p><u>The New Paris Aligned Index</u>  The Paris Aligned Index one month performance to end of September was -5.5% mostly due to zero allocation to energy and utilities and higher exposure to technology. The next quarter will reflect a full quarters performance.</p>
3.9	<p><b>Legal and General</b></p>

<p>3.9.1</p>	<p>This is the fund's passive overseas equity index manager. The fund inception date was 8 June 2011, with an initial investment of £67million funded from transfer of assets from AllianzGI (RCM). The funds were managed passively against regional indices to formulate a total FTSE All World Index series.</p> <p>Member agreed restructuring in 2016, and the funding of BMO (our emerging market manager and restructuring of the fund to the MSCI World Low Carbon was completed on 3rd July 2017.</p>
<p>3.9.2</p>	<p>The components of the new mandate as at the end of June inception, was £138m and benchmarked against MSCI World Low Carbon Index and £34m benchmarked against RAFI emerging markets. For this quarter, the fund totalled £219(216m) with a performance of 1.7% against a benchmark of 1.84%.</p>
<p>3.10</p>	<p><b>BMO Global Assets Mgt</b></p> <p>This is the emerging and frontier equity manager seeded in July 2017 with a total £74.4m withdrawn from LGIM. The mandate details as follows:</p> <ul style="list-style-type: none"> <li>• A blended portfolio with 85% invested in emerging market and 15% in frontier markets</li> <li>• Target performance MSCI Emerging Markets Index +3.0% (for the global emerging markets strategy)</li> <li>• Expected target tracking error 4-8% p.a</li> <li>• The strategy is likely to have a persistent bias towards profitability and invests in high quality companies that pay dividends.</li> </ul> <p>The mandate was amended in March'21 when the frontier element was liquidated and \$11.3m was returned.</p>
<p>3.10.1</p>	<p>The September quarter saw an under performance of -0.3%. The main drag to performance was not owning as much of the energy stocks in Brazil, Saudi Arabia and Qatar and stock selection in China/Hong Kong.</p>
<p>3.10.2</p>	<p>Exempt Appendix 3 is attached to give an update on the purchase of LGM Asia to a US investment manager subject to regulatory approval now extended to 31 January 2023. The transfer will include personnel and assets including our mandate. Members are asked to consider and note the update.</p>
<p>3.11</p>	<p><b>Aviva</b></p>
<p>3.11.1</p>	<p>Aviva manages the fund's UK High Lease to Value property portfolio. They were appointed in 2004 and the target of the mandate is to outperform their customised gilts benchmark by 1.5% (net of fees) over the long term. The portfolio is High Lease to Value Property managed under the Lime Property Unit Trust Fund.</p>
<p>3.11.2</p>	<p>The fund for this quarter delivered a return of -2.6% against a gilt benchmark of -16.1%. The All Property IPD benchmark returned -4.1% for this quarter. Since inception, the fund has delivered an absolute return of 6.1%</p>
<p>3.11.3</p>	<p>As at the end of this September quarter the fund's unexpired average lease term is 20.9 years. The Fund holds 89 assets with 53 tenants and a sale of office in Glasgow. The</p>

3.11.4	<p>manager continues to de-risk the portfolio and secure opportunities that will improve the portfolio in terms of distributions, returns and key metrics such as duration, inflation linkage and diversification</p> <p>One of Aviva's objectives in its transition strategy to net zero by 2040 is to reduce real estate carbon intensity by 30% and energy intensity by 10%. In 2021, the energy intensity across the portfolio reached 226kWh/m<sup>2</sup>. To further this progress and achieve the 2025 target of 213kWh/m<sup>2</sup>, asset managers allocated £29 million towards Environmental, Social, and Governance (ESG) improvements across the portfolio. The most significant savings will be made through:</p> <ul style="list-style-type: none"> <li>- LED lighting (expected reduction of 7kWh/m<sup>2</sup>)</li> <li>- Smart buildings – Electricity and Gas (expected reduction of 8kWh/m<sup>2</sup>)</li> <li>- Solar panels (expected reduction of 10kWh/m<sup>2</sup>)</li> </ul>
3.12	<p><b>Columbia Threadneedle Property Pension Limited (TPEN)</b></p> <p>3.12.1 This is the fund's UK commercial pooled property portfolio that was fully funded on 14 January 2010 with an initial investment of £45 million. The net asset value at the end of September was £103million.</p> <p>The agreed mandate guidelines are as listed below:</p> <ul style="list-style-type: none"> <li>• Benchmark: AREF/IPD All Balanced Property Fund Index (Weighted Average) since 1 April 2014.</li> <li>• Target Performance: 1.0% p.a. above the benchmark (net of fees) over three year rolling periods.</li> <li>• Portfolio focus is on income generation with c. 75% of portfolio returns expected to come from income over the long term.</li> <li>• Income yield on the portfolio at investment of c.8.5% p.a.</li> <li>• Focus of portfolio is biased towards secondary property markets with high footfall rather than on prime markets such as Central London. The portfolio may therefore lag in speculative/bubble markets or when the property market is driven by capital growth in prime markets.</li> </ul> <p>3.12.2 The fund returned a performance of -4.9% against its benchmark -3.9% for the September quarter. Since inception it has delivered an absolute return of 7.2% per annum.</p> <p>3.12.3 The cash balance now stands at 4.2%. During the quarter, one acquisitions and twenty strategic disposals, were made to increase the liquidity of the fund to meet DB pensions margin calls. There is a strong asset diversification at portfolio level with a total of 242 properties and 1,152 tenancies. Rent collection is improving at 95% and tenants are being dealt with on a case-by-case basis to enable their viability on the short to medium term.</p> <p>3.12.4 The Fund has set net zero target to neutralise carbon emissions within portfolios by 2050. An income distribution share class is now available for investors who want to draw down income. A Redemption Deferral Policy (the Policy) for TPEN PF was enacted effective for investor dealings from 3 October 2022 to protect all Investors' interests as a result of the volatility in the investment market since 23 September 2022.</p>

<p>3.13</p> <p>3.13.1</p>	<p><b>Franklin Templeton</b></p> <p>This is the fund’s global property manager appointed in 2010 with an initial investment commitment of £25million. Members agreed in September 2014 to re-commit another \$40million to Fund II to keep our investments at the same level following return of capital through distributions from Fund I. The agreed mandate guidelines are listed below:</p> <ul style="list-style-type: none"> <li>• Benchmark: Absolute return</li> <li>• Target Performance: Net of fees internal rate of return of 15%. Preferred rate of return of 10% p.a. with performance fee only applicable to returns above this point.</li> <li>• Bulk of capital expected to be invested between 2 – 4 years following fund close.</li> <li>• Distributions expected from years 6 – 8, with 100% of capital expected to be returned approximately by year 7.</li> </ul>												
<p>3.13.2</p>	<p>Fund I is now fully committed and drawdown. \$3.5m remains undrawn. The final portfolio is comprised of nine funds and five co-investments. The funds are well diversified as shown in table below:</p> <table border="1" data-bbox="225 925 1177 1086"> <thead> <tr> <th>Commitments</th> <th>Region</th> <th>% of Total Fund</th> </tr> </thead> <tbody> <tr> <td>5</td> <td>Americas</td> <td>36</td> </tr> <tr> <td>4</td> <td>Europe</td> <td>26</td> </tr> <tr> <td>5</td> <td>Asia</td> <td>38</td> </tr> </tbody> </table> <p>The total distribution received to the end of the September quarter is \$61.8m. The NAV is \$0.8m</p>	Commitments	Region	% of Total Fund	5	Americas	36	4	Europe	26	5	Asia	38
Commitments	Region	% of Total Fund											
5	Americas	36											
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<p>3.13.3</p>	<p>The Fund is in the harvesting phase of its life cycle and continues to benefit from the realization of investments. The COVID-19 pandemic has interrupted progress on real estate business plans across the globe. Our expectation is that the primary effect upon the Fund will be a delay in execution of asset sales.</p>												
<p>3.13.4</p>	<p>Fund II is fully invested and the completed portfolio of 10 holdings consist of a diverse mix of property sectors including office, retail and industrial uses and the invested geographic exposure is 6% Asia, US 26% and 68% Europe. The admission period to accept new commitments from investors was extended with our consent through to June 2017 when it finally closed. The total capital call is \$40m and total distribution of \$33.8m. The NAV is \$19.2m</p>												
<p>3.13.5</p>	<p>Members agreed to commit \$50m to Fund III at the December 2020 meeting and the documentation was finalised in December to meet the final close date. Fund III made its final close on 30<sup>th</sup> December with total equity commitment of \$218m.</p> <p>Current portfolio consist of 5 holdings over a geographic exposure of 77% in Europe and 23% in USA with a 95% vintage in 2019 and 5% in 2021.</p>												

3.13.6	As at the quarter end \$7.8m has been drawdown and a distribution of \$4.6m had been received.
3.14.	<b>Hearthstone</b>
3.14.1	<p>This is the fund’s residential UK property manager. The fund inception date was 23 April 2013, with an initial investment of £20million funded by withdrawals from our equity’s portfolios. The agreed mandate guidelines are as follows:</p> <ul style="list-style-type: none"> <li>• Target performance: UK HPI + 3.75% net income.</li> <li>• Target modern housing with low maintenance characteristics, less than 10 years old.</li> <li>• Assets subject to development risk less than 5% of portfolio.</li> <li>• Regional allocation seeks to replicate distribution of UK housing stock based on data from Academics. Approximately 45% London and Southeast.</li> <li>• 5-6 locations per region are targeted based on qualitative and quantitative assessments and data from Touchstone and Connells.</li> <li>• Preference is for stock, which can be let on Assured Shorthold Tenancies (ASTs) or to companies.</li> <li>• Total returns expected to be between 6.75% and 8.75% p.a., with returns split equally between income and capital growth. Net yields after fund costs of 3.75% p.a.</li> <li>• The fund benchmark is the LSL Acadometrics House Price Index</li> </ul> <p>3.14.2 For the September quarter, the value of the fund investment was £29million and total funds under management is £73m. Performance net of fees was 0.6% compared to the IPD UK All Property benchmark of -4.1%.</p> <p>3.14.3 A meeting was held in October to explore further options to speed up reduction of Islington’s share of the fund. A full briefing will be covered by MJ Hudson in Appendix 1, to agree the options proposed. A £500k redemption has been agreed in November and the proposal is to firm up a plan to cross with new investors to reduce redemption charges.</p>
3.15	<b>Quinbrook Infrastructure</b>
3.15.1	<p>This one of the infrastructure managers appointed in November 2018. The total fund allocation infrastructure was 10% circa £130m. 40% of the allocation equivalent to \$67m was allocated to low carbon strategy. Merits of Quinbrook include:</p> <ul style="list-style-type: none"> <li>• Low carbon strategy, in line with LB Islington’s stated agenda</li> <li>• Very strong wider ESG credentials</li> <li>• 100% drawn in 12-18 months</li> <li>• Minimal blind pool risk</li> <li>• Estimated returns 7%cash yield and 5% capital growth</li> </ul> <p><b>Risks:</b> Key Man risk</p> <p>Drawdown to December 2021 is \$67.0m – this is 100% of our commitment</p>
3.15.2	Islington completed documentation and onboarding to The Net Zero Power Fund on 25 August with a commitment of \$100m. The terms and conditions were negotiated and

	agreed with a side letter. There was an equalisation capital call of \$42m during the quarter.
3.16.1	<p><b>Pantheon Access-</b> is the other infrastructure manager also appointed in November 2018. Total allocation was \$100m and merits of allocation included:</p> <ul style="list-style-type: none"> <li>• 25% invested with drawdown on day 1</li> <li>• Expect fully drawn within 2-3 years</li> <li>• Good vintage diversification between secondaries and co-investments</li> <li>• Exposure to 150 investments</li> <li>• Estimated return 5% cash yield and 6% capital growth</li> </ul> <p><b>Risks:</b> No primary fund exposure.</p> <p>Drawdown to September 2022 is \$79.65m and distribution of \$14.5m</p>
3.17	<p><b>Schroders</b> This is the Fund's diversified growth fund manager. The fund inception date was 1 July 2015, with an initial investment of £100million funded by withdrawals from our equity's portfolios. The agreed mandate guidelines are as follows:</p>
3.17.1	<ul style="list-style-type: none"> <li>• Target performance: UK RPI+ 5.0% p.a.,</li> <li>• Target volatility: two thirds of the volatility of global equities, over a full market cycle (typically 5 years).</li> <li>• Aims to invest in a broad range of assets and varies the asset allocation over a market cycle.</li> <li>• The portfolio holds internally managed funds, a selection of externally managed products and some derivatives.</li> <li>• <b>Permissible asset class ranges (%):</b> <ul style="list-style-type: none"> <li>• 25-75: Equity</li> <li>• 0- 30: Absolute Return</li> <li>• 0- 25: Sovereign Fixed Income, Corporate Bonds, Emerging Market Debt, High Yield Debt, Index-Linked Government Bonds, Cash</li> <li>• 0-20: Commodities, Convertible Bonds</li> <li>• 0- 10: Property, Infrastructure</li> <li>• 0-5: Insurance-Linked Securities, Leveraged Loans, Private Equity.</li> </ul> </li> </ul>
3.17.2	The value of the portfolio is now £104.m. The aim is to participate in equity market rallies, while outperforming in falling equity markets. The September quarter performance before fees was -3.8% against the benchmark of 3.4% (inflation+5%). The performance since inception is 3.0% against benchmark of 9.1% before fees.
3.17.3	Equity positions detracted -3.9% from the total return, alternatives detracted -0.9%, credit and government debt detracted -1.5%, and cash and currency contributed +2.0%. There was a redemption of £20m to cover private debt drawdowns in September.
3.17.4	The new benchmark effective from 1 April 2022 is ICE BofA Sterling 3-Month Government Bill Index plus 4.5% per annum.
3.18	<b>Standard Life</b>

3.18.1	Standard Life has been the fund's corporate bond manager since November 2009. Their objective is to outperform the Merrill Lynch UK Non Gilt All Stock Index by 0.8% per annum over a 3 -year rolling period. During the September quarter, the fund returned -10.7% against a benchmark of -11.0% and an absolute return of 3.5% per annum since inception.
3.18.2	The fund outperformed the index largely by being underweight UK duration versus the benchmark. Asset allocation delivered a small negative contribution, while stock selection was a small positive.
3.18.3	The agreed infrastructure mandates are being funded from this portfolio and to date £80m has been drawn down.
3.19	<p><b>Passive Hedge</b></p> <p>The fund currently targets to hedge 50% of its overseas equities to the major currencies dollar, euro and yen. The passive hedge is run by BNY Mellon our custodian. At the end of the September quarter, the hedged overseas equities had a negative cash value of £18.4m</p>
3.19.1	The hedge has now been in place since 25 November 2020 for quarterly hedge rolls
3.20	<p><b>M&amp;G Alpha Opportunities</b></p> <p>This is the multi asset credit manager appointed and funded on 1<sup>st</sup> March 2021. The total allocation is approximately 5% funded mostly from profit made from equity protection in March 2020.</p> <p><u>The mandate guidelines of M&amp;G include</u></p> <ul style="list-style-type: none"> <li>• Fund can invest across the full spectrum of developed market corporate credit (IG, HY, Loans) as well as securitised credit (ABS, MBS), some illiquid opportunities and defensive holdings (e.g. cash).</li> <li>• Investment process is predominantly bottom up, with a defensive value style that seeks to buy cheap mispriced securities.</li> <li>• Targets a return of 1 month LIBOR +3% - 5% (gross of fees) over an investment cycle (3-5 years)</li> <li>• No local currency EM debt is permitted</li> <li>• Low level of interest rate duration</li> <li>• Maximum exposure to sub-investment grade credit of 50% of assets,</li> <li>• Focus is primarily on Europe, although there is some exposure to the US (c. 15%).</li> </ul> <p><u>Risk and triggers for review:</u></p> <ul style="list-style-type: none"> <li>• Key man - risk</li> <li>• Issues at the firm level</li> <li>• Change in investment process/ structure or risk/return profile of the mandate.</li> <li>• Failure to deliver target return over 3 Year period of Cash +3% - 5% (gross of fees), unless there is a compelling market-based reason for underperformance</li> <li>• Downgrade of Mercer rating lower than B+</li> <li>• Downgrade of Mercer ESG rating lower than ESG3.</li> <li>• Long term trend of staff turnover and changes within the investment team.</li> </ul>
3.20.1	The September quarter performance was 0.5% against a benchmark of 1.2% and a one year out performance of -8.4%. The primary contributors to performance were

	exposures to corporate bonds in the Industrial sector and leveraged loans, whilst exposure to the financial sector was a detractor.
<b>4.</b>	<b>Implications</b>
4.1	<p><b>Financial implications:</b> The fund actuary takes investment performance into account when assessing the employer contributions payable, at the triennial valuation.</p> <p>Fund management and administration fees and related cost are charged to the pension fund.</p>
4.2	<p><b>Legal Implications:</b> As the administering authority for the Fund, the Council must review the performance of the Fund investments at regular intervals and review the investments made by Fund Managers quarterly.</p>
4.3	<p><b>Equality Impact Assessment:</b> The Council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The Council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The Council must have due regard to the need to tackle prejudice and promote understanding".</p> <p>An equalities impact assessment has not been conducted because this report is an update on performance of existing fund managers and there are no equalities issues arising.</p>
4.4	<p><b>Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:</b> Environmental implications will be included in each report to the Pensions-sub committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is: <a href="https://www.islington.gov.uk/~media/sharepoint-lists/public-records/finance/financialmanagement/advicelandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf">https://www.islington.gov.uk/~media/sharepoint-lists/public-records/finance/financialmanagement/advicelandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf</a></p>
<b>5.</b>	<b>Conclusion and reasons for recommendations</b>
5.1	<p>Members are asked to note the performance of the fund for the quarter ending September 2022 as part of the regular monitoring of fund performance and Appendix 1-MJ Hudson commentary on managers. A briefing note from BMO (emerging market manager) is attached as Exempt Appendix 3.</p>

**Appendices:** Appendix 1 – MJ Hudson Fund Mgr monitoring report  
Exempt Appendix 3- Briefing note by BMO

**Background papers:**

1. Quarterly management reports from the Fund Managers to the Pension Fund.
2. Quarterly performance monitoring statistics for the Pension Fund – BNY Mellon

Final report clearance:

**Signed by:** David Hodgkinson

Corporate Director of Resources

Date: 23 November 2022

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legal implications author : n/a