London Borough of Islington

Report to 30th September 2022

MJ Hudson

NOVEMBER 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 return of -0.54% over Q3 2022, behind the target return by –0.70%. Over one year, the fund returned -4.23% which was behind the target return by -8.46%.	The fund size was £10.08 billion as at end September. London Borough of Islington's investment amounts to 0.72% of the fund.
LCIV Global Equity Fund (Newton) (active global equities)	None reported by LCIV.	The LCIV Global Equity Fund underperformed its benchmark during Q3 2022 by -0.19%. Over three years the portfolio underperformed the benchmark by -0.21% and is under the performance target of benchmark +1.5% p.a. Over five years it remains ahead of the benchmark by +0.32% p.a., however.	At the end of Q3 2022, the London CIV sub-fund's assets under management were £544.1 million. London Borough of Islington owns 54.7% of the sub-fund.
MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT

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LCIV Sustainable Equity Fund (RBC) (active global equities)	None reported by LCIV.	Over Q3 2022 the fund made a return of +1.53%, although this underperformed the benchmark return of +2.06%. The one-year return was -9.65%, weak in absolute terms and behind the benchmark by -6.72%. The three-year return outperformed the benchmark by +1.06% p.a.	As at end September the sub- fund's value was £1,244 million. London Borough of Islington owns 13.42% of the sub-fund.
Columbia Threadneedle (BMO/LGM) (active emerging equities)	No staff changes reported by BMO. BMO Global Asset Management became part of Columbia Threadneedle Investments in November 2021 and changed its name in July 2022. Towards the end of the year the emerging markets team is being sold to Polen Capital.	Underperformed the benchmark by -0.31% in the quarter to September 2022. The fund is behind over three years by -4.26% p.a.	Not reported.
Standard Life (corporate bonds)	There were 8 joiners and 38 leavers during the quarter. One joiner was to the fixed income group, and ten leavers were from the Fixed Income Group.	The portfolio outperformed the benchmark return during the quarter by +0.33%, delivering an absolute loss of -10.68%. Over three years, the fund was behind the benchmark return (by -0.05% p.a.) and behind the performance target of +0.80% p.a.	As at end September the fund's value was £1,826 million, down from £2,328 million as at end June, likely due to poor performance in bonds and increased need for liquidity amongst LDI Investors. London Borough of Islington's holding of £62.9m stood at 3.4% of the total fund value.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Aviva (UK property)	There were no team changes during Q3 2022.	Outperformed against the gilt benchmark by +13.51% for the quarter to September 2022 and outperformed the benchmark over three years by +18.86% p.a., delivering a return of +7.03% p.a., net of fees.	The fund was valued at £3.61 billion as at end Q3 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 outperformed the benchmark in Q3 2022, with a quarterly return of +5.0% compared with +4.0%. Over three years, the fund is underperforming the benchmark by -2.4% p.a. (source: Columbia Threadneedle).	Pooled fund has assets of £2.06 billion. London Borough of Islington owns 5.05% 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 +9.27% p.a., and so behind the target of 10% p.a. although over 5 years the fund is still +6.30% 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 no leavers or joiners in Q3 2022.	The fund underperformed the IPD UK All Property Index by -4.78% in Q3. It is also trailing the IPD benchmark over three years by -4.87% p.a. to end September 2022.	Fund was valued at £72.7m at end Q3 2022. London Borough of Islington owns 40.2% of the fund.
Schroders (multi-asset diversified growth)	There were no team changes during Q3 2022.	Fund made a loss of -3.83% during the quarter and delivered a return of +2.90% p.a. over 3 years, -9.02% p.a. behind 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)	One joiner and one leaver from the London office.	For the three years to Q3 2022 the fund returned +18.18%, 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 +6.48% p.a. over three years, and +17.56% p.a. over five years. The infrastructure fund returned +15.36% p.a. over three years to end September	

Source: MJ Hudson

Minor Concern

Major Concern

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Individual Manager Reviews

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

Headline Comments: Apart from a small residual balance of £1.8 million, this fund has now transitioned to the LGIM ESG Paris Aligned World Equity Fund.

M&G – Alpha Opportunities Fund

Headline Comments: During Q3 2022 the M&G Alpha Opportunities Fund made a return of +0.54%, underperforming the benchmark return of +1.24%.

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 return of +0.54% compared to the benchmark return (one month Libor plus 3.5% being used in Northern Trust's performance analysis) of +1.24%. Exposure to industrial corporate bonds was the top contributor, with leveraged loans also performing well. Yield Curve and FX hedging was the top detractor. Over one year, the fund is trailing the target return by -8.46% p.a.

Portfolio Characteristics: The largest allocations in the portfolio were to industrials (35%), Financials (19%) and cash and derivatives (17%). 31% of the portfolio was rated BB* or below. The manager selectively added risk to the portfolio over the quarter, after a period of continued focus on reducing the level of risk in the fund. Having believed in previous quarters that credit markets were overvalued, the manager now sees opportunities to add selected credits into portfolios at levels where pricing and fundamental risks have become out of alignment.

As at end September, the weighted average carbon intensity (WACI) of the portfolio was 42% of the WACI of a benchmark index, with 62% of the portfolio being measured where data was available (compared with 88% for the benchmark).

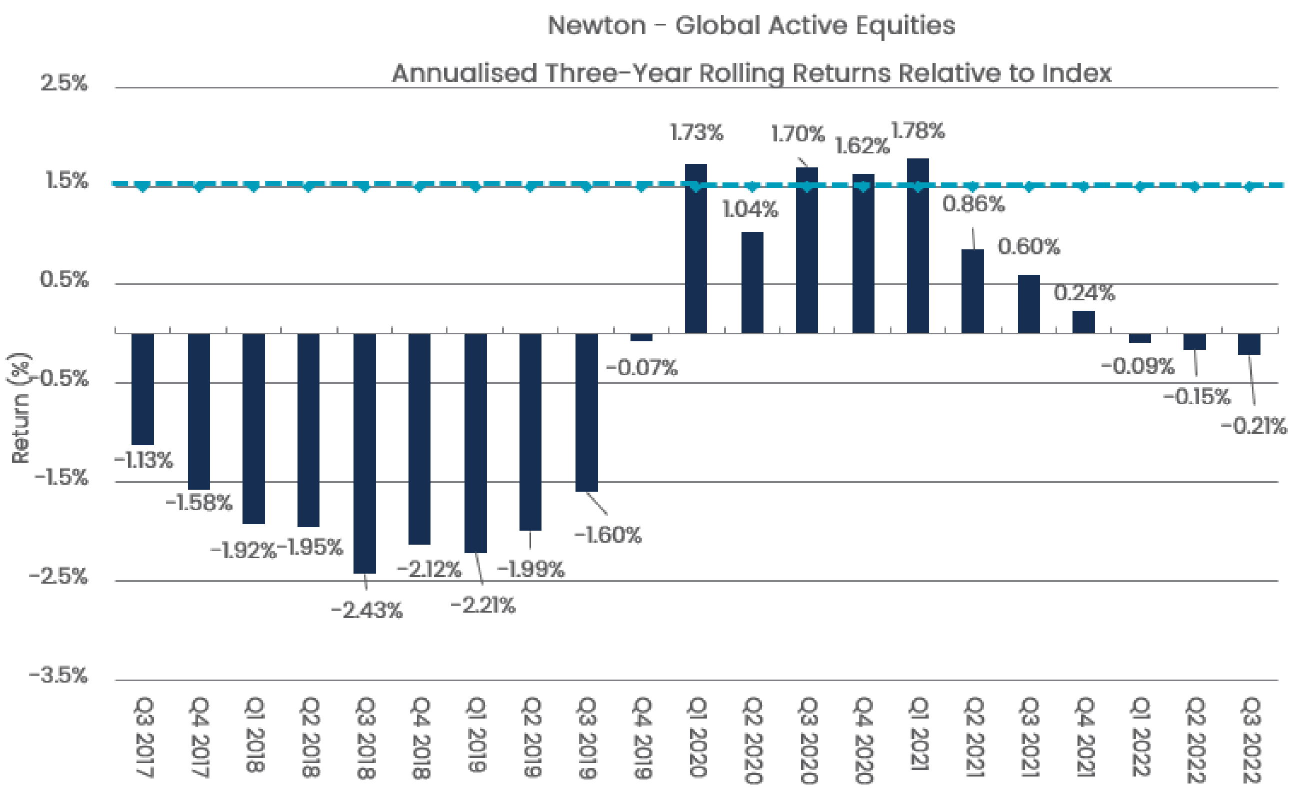
LCIV Global Equity Fund (Newton) – Global Active Equities

Headline Comments: The LCIV Global Equity Fund underperformed its benchmark during Q3 2022 by -0.19%. Over three years the portfolio underperformed the benchmark by -0.21% p.a. Over five years the manager is ahead of the benchmark return by +0.32% 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. The London CIV monitors this manager.

Performance Attribution: Chart 1 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 1:



Source: MJH; BNY Mellon

Chart 1 shows that the level of outperformance over three years has been falling since Q1 2021, when the fund was ahead of the benchmark by +1.78% p.a. By Q3 2022 the fund has underperformed the benchmark over three years by -0.21% p.a. This means it underperformed the performance objective by -1.71% p.a. (the performance objective is shown by the dotted line).

Positive contributions to the total return came from holdings such as Apple (+0.70%), Albemarle (+0.51%), and Amazon (+0.46%). Negative contributions came from holdings including AIA Group (-0.38%), Sanofi (-0.33%), and Alibaba Group (-0.32%).

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 low relative to peers.

London CIV will be conducting an in-depth review of this manager in November.

Portfolio Risk: The active risk on the portfolio stood at 3.38% as at quarter end, slightly lower than as at end June when it stood at 3.65%. The portfolio remains defensive, with the beta on the portfolio at end September standing at 0.92, up by 0.01 from previous quarter (if the market falls by -10% the portfolio can be expected to fall -9.2%).

At the end of Q3 2022, the London CIV sub-fund's assets under management were £544.1m, compared with £683.5m last quarter, mainly due to a large investor reducing its allocation to the fund in favour of the LCIV Sustainable Equity Exclusion Fund. London Borough of Islington now owns 54.79% of the sub-fund.

Portfolio Characteristics: The number of stocks in the portfolio stood at 57 as at quarter-end (2 more than last quarter). The fund added three positions; Eli Lilly & Company, Nestle, and SSE. Newton completed one sale: Informa Plc.

The portfolio continues to be heavily weighted to Technology (an allocation of 23%) and Healthcare (15%). The Manager has reduced its overweight position in Technology but continues to look for opportunities in the healthcare space (which now has the largest overweighting of +2.6%). Exposure to consumer-facing companies has been reduced as the manager looks for companies that are expected to be less exposed to cyclicality in consumer spending.

In Q3 2022, LCIV 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 contributor was Shell (9.83% contribution to the weighted average carbon intensity), with whom the manager has engaged.

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.

Staff Turnover: None reported by LCIV for Q3 2022.

LCIV Sustainable Equity Fund (RBC) – global equities

Headline Comments: Over Q3 2022 the fund made a return of +1.53%. This underperformed the benchmark return by -0.53%. The one-year return was -9.65%, weak in absolute terms and behind the benchmark by -6.72%. As of this quarter, the fund has a three-year track record, which shows an outperformance of +1.06% p.a. against the benchmark. Islington's investment makes up 13.42% of the total fund.

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: With continued market uncertainty fuelled by macroeconomic worries, the fund has underperformed the benchmark in Q3, though has made a gain for the quarter in absolute terms. The portfolio has overweight allocations to the Financial, Healthcare, Consumer Staples, Industrials, Communication Services and Energy sectors. The Manager has stated that sector positioning had contributed positively to performance, while currency effects due to the overweight exposure to underperforming European currencies detracted from performance. Over the quarter the largest contributors to return included Charles Schwabscholastic (+0.62%), Amazon (+0.58%), and Fortive (+0.57%). The largest detractors include AIA Group (-0.46%), Taiwan Semiconductor Manufactor ADR (-0.27%), and Anheuser-Busch Inbev (-0.26%).

The London CIV is now comparing managers against their peer group and reported that RBC is performing 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 in the fourth quartile for its peer group for the year to date and one-year periods.

Portfolio Characteristics: As at end of September 2022 the fund had 36 holdings across 14 countries. The active risk of the fund was 3.69%, slightly higher than Newton.

London CIV report that the fund continues to favour quality companies with low gearing.

In Q3 2022, LCIV reported that the RBC sub fund had a weighted average carbon intensity of 69% that of the benchmark index (the MSCI World Index) which is a slight improvement from last quarter (when it was 70%). The highest contributors were Equinor ASA (excluding this holding from the portfolio would reduce the weighted average carbon intensity by 13.22%), InterContinental Hotels Group plc (10.26%) and First Quantum Minerals Ltd (6.11%).

Columbia Threadneedle (BMO/LGM) – Global Emerging Market Growth and Income Fund

Headline Comments: The portfolio made a loss of -3.94% in Q3 2022, compared with the benchmark loss of -3.63%, an underperformance of -0.31%. Over one year the fund is behind the benchmark by -2.36%, over three years it is trailing by -4.26% per annum. The manager has announced that the emerging markets business is being sold to Polen Capital and this is now likely to take place in 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 slightly improved investor sentiment in August curtailing in September with interest rates dominating headlines once again. This meant there was a significant drawdown in the Emerging Market space. Brazil was the strongest of the larger emerging markets with a gain of 9%, but China was once again the weakest with a loss of -22.5%, following a positive Q2. BMO has a low exposure to Brazil and no exposure to other higher performing Middle Eastern markets. It also has a high exposure to China/Hong Kong which contributed to the poor relative performance. On the other hand, not owning Alibaba was a positive contributor as the stock price fell 30% in Q3.

During the quarter, the largest positive contributors to the quarterly relative return came from Bank Central Asia (+1.2%), HDFC Bank Ltd (+0.8%), and Epam Systems Inc (+0.7%). Companies which detracted most from performance included Hong Kong Exchanges and Clearing (-1.0%), AIA Group Ltd (-0.6%), and Naver Corp (-0.5%).

Over one year, the fund has underperformed the benchmark by -2.36%.

Portfolio Risk: Within the emerging markets portfolio there is a 15.0% allocation to non-benchmark countries (excluding the holding in Cash & Equivalents). The largest overweight country allocation in the emerging markets portfolio remained India (+11.4% overweight). The most underweight country allocation was South Korea (-7.9%).

Portfolio Characteristics: The portfolio held 40 stocks as at end September compared with the benchmark which had 1,387. The largest absolute stock position was TSMC at 6.6% of the portfolio, while the largest absolute country position was China/HK and accounted for 32.5% 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 switched to sit under the Columbia Threadneedle banner. There were no staff changes reported for Q3 2022.

As previously reported, the manager has announced that the emerging markets team is being sold to a US firm, Polen Capital. As of Q3 2022 the work on progressing the transfer was ongoing although Columbia Threadneedle have recently announced that the original target date for the transfer of the LGM business to Polen of 30th November has now been extended to 31 January 2023. This because of a delay in receiving regulatory approval from the Hong Kong regulator.

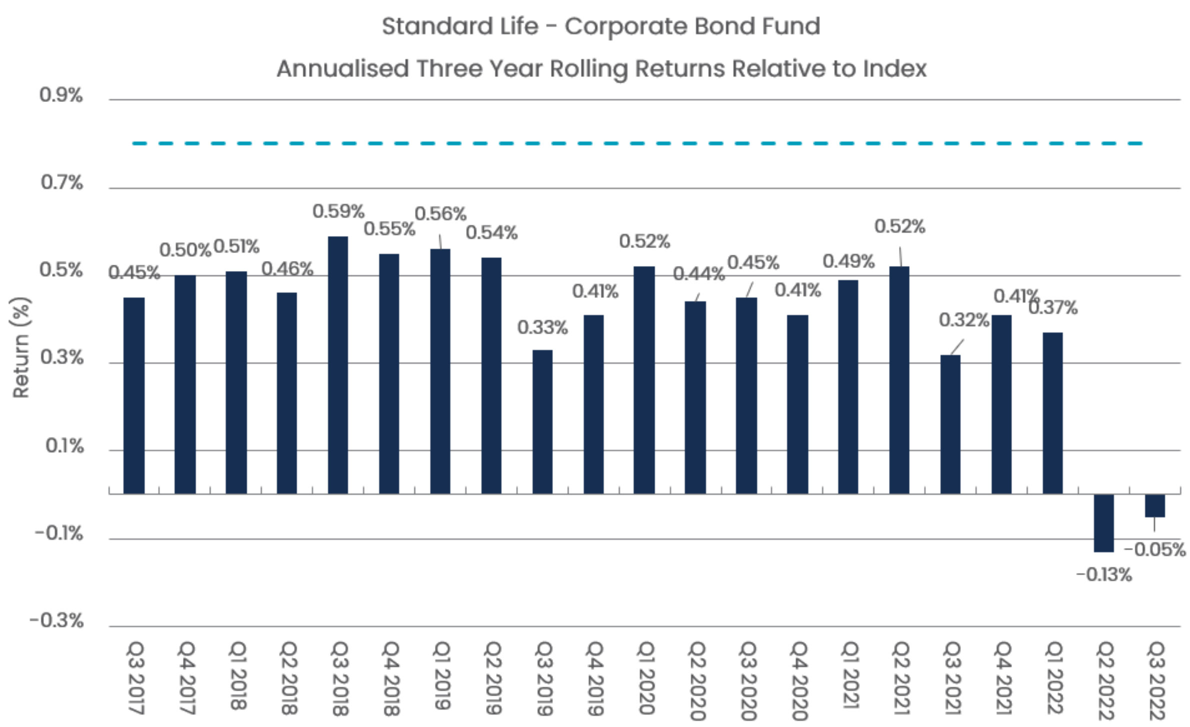
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio outperformed the benchmark return during the quarter by +0.33% but made an absolute loss of -10.68%. Over three years, the fund was behind the benchmark return (by -0.05% p.a.) for the second consecutive quarter 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 2 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 2).

CHART 2:



Source: MJH; BNY Mellon

Over three years, the portfolio has returned -6.93% p.a. net of fees, compared to the benchmark return of -6.88% p.a. Over the past three years, asset allocation has detracted -0.04% value, meanwhile stock selection has contributed +0.11%.

Portfolio Risk: The largest holding in the portfolio at quarter-end was the Government of Sweden at 0.9% of the portfolio.

Portfolio Characteristics: The value of Standard Life's total pooled fund at end September 2022 stood at £1,826 million. London Borough of Islington's holding of £62.9m stood at 3.4% of the total fund value.

Staff Turnover: There were 8 joiners and 38 leavers during the quarter. There was one new joiner into the Fixed Income Group, Structuring Adviser Alexander Quinn. Ten of the leavers were from the fixed income group; four Investment Directors, one Investment Manager, two Credit Analysts, one investment Analyst, the head of Global High Yield, Erlend Lochen, and the Head of Corporate Debt (Asia Pacific), Paul Lukaszewski.

Aviva Investors – Property – Lime Property Fund

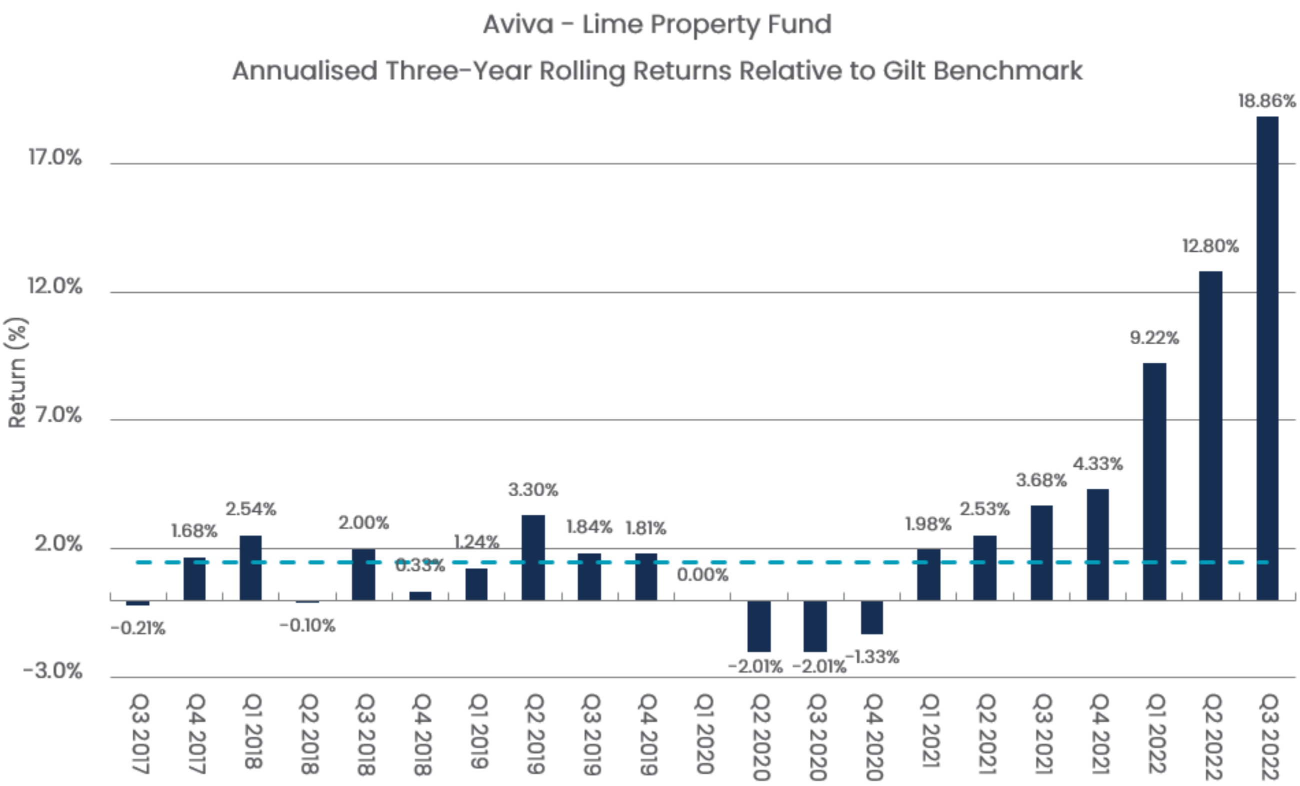
Headline Comments: The Lime Fund made a loss, for the first quarter since 2018, of -2.57%. However it outperformed the fund benchmark return, with an overperformance of +13.51% in Q3. Over three years, the fund is ahead of the benchmark return by +18.86% p.a., with a particularly strong one-year outperformance of +33.62%.

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

Performance Attribution: The fund's Q3 2022 return was attributed by Aviva to -3.33% capital return and +0.76% income return.

Over three years, the fund has returned +7.03% p.a., considerably ahead of the gilt benchmark of -11.83% p.a., and ahead of its outperformance target of +1.5% p.a., as can be seen in Chart 3.

CHART 3:



Source: MJH; BNY Mellon

Over three years, 49% of the return came from income and 51% 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 which was the sale of an office investment located in Glasgow. The sale proceeds were £22 million.

The average unexpired lease term was 20.9 years as at end September 2022. 10.2% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 25.80% (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 September 2022, the Lime Fund had £3.61 billion of assets under management, an increase of £74 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 leavers or joiners in Q3 2022.

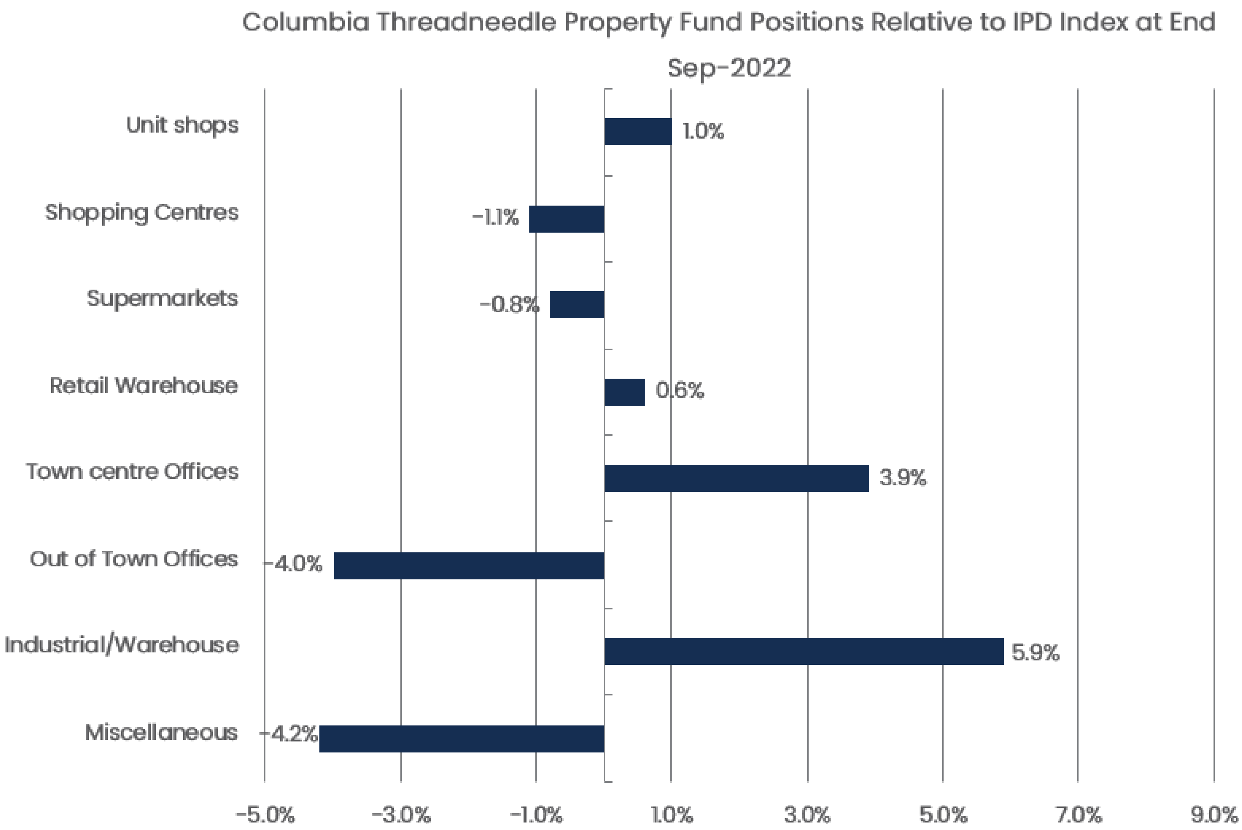
Columbia Threadneedle – Pooled Property Fund

Headline Comments: The fund underperformed the benchmark in Q3 2022, with a quarterly return of -5.0% compared to -4.0%. Over three years, the fund underperformed the benchmark by -2.4% and as such is behind 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 4 shows the relative positioning of the fund compared with the benchmark.[1]

CHART 4:



Source: MJH; Columbia Threadneedle

[1] These are draft figures provided to us by Columbia Threadneedle ahead of the usual quarterly reporting being available and therefore may be subject to change.

During the quarter, the fund made one acquisitions and twenty sales.

The cash balance at end June was 4.2%, which is in line with the target liquidity parameters.

Performance Attribution: The fund underperformed the benchmark in Q3 2022, with a quarterly return of -5.0% compared to -4.0% (source: Columbia Threadneedle). The manager attributes this to an accelerated sales program to meet investor redemptions. Over three years, the fund underperformed the benchmark by -2.4% and as such is behind the performance target of +1.0% p.a. above benchmark (source: Columbia Threadneedle).

Portfolio Characteristics: As at end September 2022, the fund was valued at £2.06bn, a decrease of £248m from the fund's value in June 2022. London Borough of Islington's investment represented 5.05% of the fund.

Staff Turnover: There were no changes to the TPEN property team or the wider property team in Q3 2022.

Legal and General Investment Management (LGIM) – Overseas Equity Index Funds

Headline Comments: The three passive index funds were within the expected tracking range when compared with their respective benchmarks. FTSE-RAFI Emerging Markets fund, MSCI World Low Carbon Target index fund, and the new ESG Paris Aligned World Equity Fund performed in line with their benchmarks in Q3.

Mandate Summary: The London Borough of Islington has invested in two of LGIM's index funds since 2017: 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. In August 2022, the fund's passive UK equity mandate was transitioned into the ESG Paris Aligned World Equity Fund. This fund is designed to match the total return on the Solactive Paris Aligned Index, It differs to the Low Carbon passive fund because it has a more ambitious goal of targeting net zero by 2050 in line with the Paris Agreement.

Performance Attribution: The three index funds tracked their respective benchmarks as expected, as shown in Table 2.

TABLE 2:

	Q3 2022 FUND	Q3 2022 INDEX	TRACKING
FTSE-RAFI Emerging Markets	-0.06%	-0.11%	+0.05%
MSCI World Low Carbon Target	+2.01%	+2.03%	-0.02%
ESG Paris Aligned World Equity Fund	-5.49%	-5.54%	+0.06%

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 49.65% to the MSCI World Low Carbon Target index fund, 40.72% to the ESG Paris Aligned World Equity Fund, and 9.63% allocated to the FTSE RAFI Emerging Markets index fund.

Staff Turnover/Organisation: Not reported by LGIM.

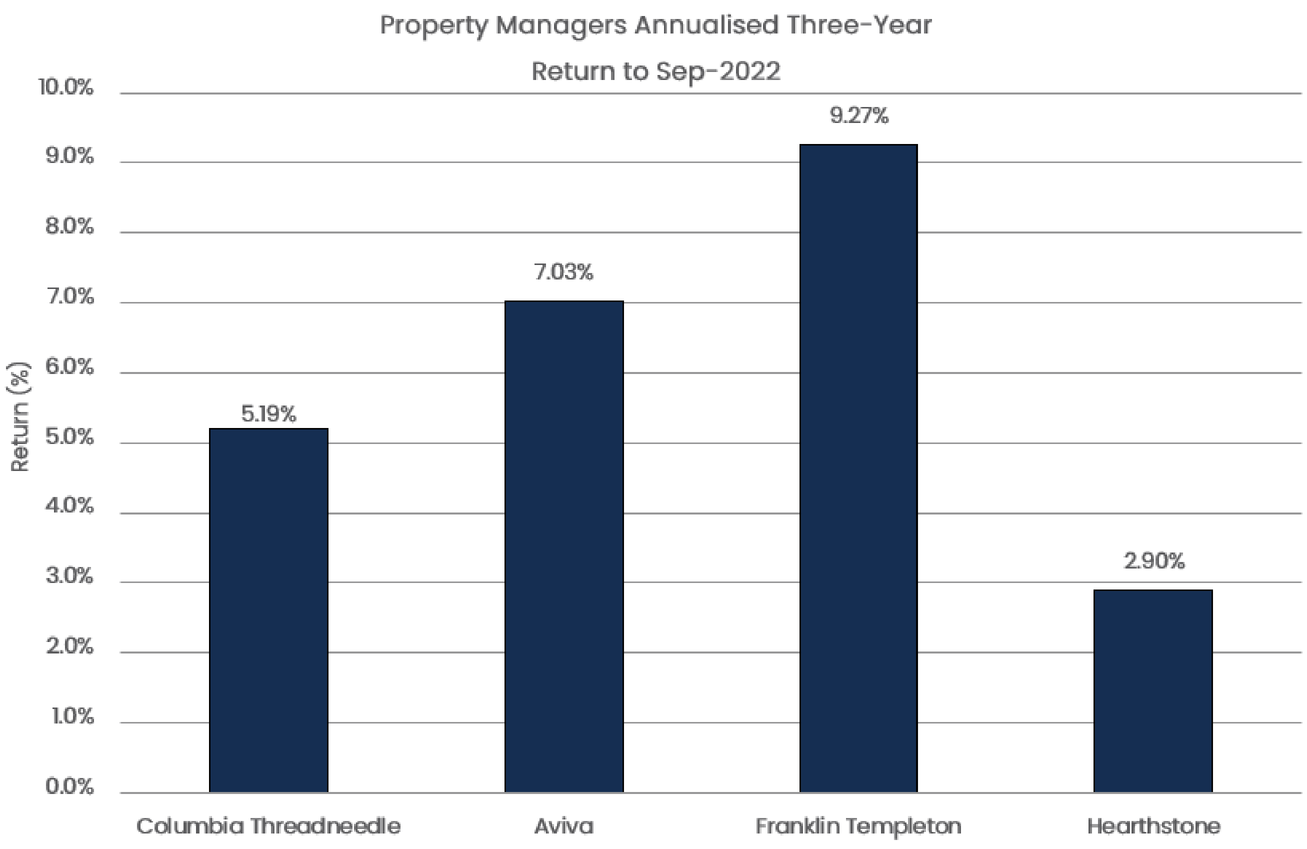
Franklin Templeton – Global Property Fund

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 slightly underperformed the absolute return benchmark of 10% p.a. over three years by -0.73% 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 September 2022, Franklin Templeton is the best performing fund across all four property managers. Chart 5 compares their annualised three-year performance, net of fees.

CHART 5:



Source: MJH;

Portfolio Risk: report was not received at the time of going to print.

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

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio outperformed the benchmark for the quarter ending September 2022 by +4.78%, but is underperforming over three years by -4.87% 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 September 2022 by -4.87% p.a., returning +2.90% p.a. versus the index return of +7.77% p.a. The manager has also underperformed over 5 years by -4.22% 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 2.91%.

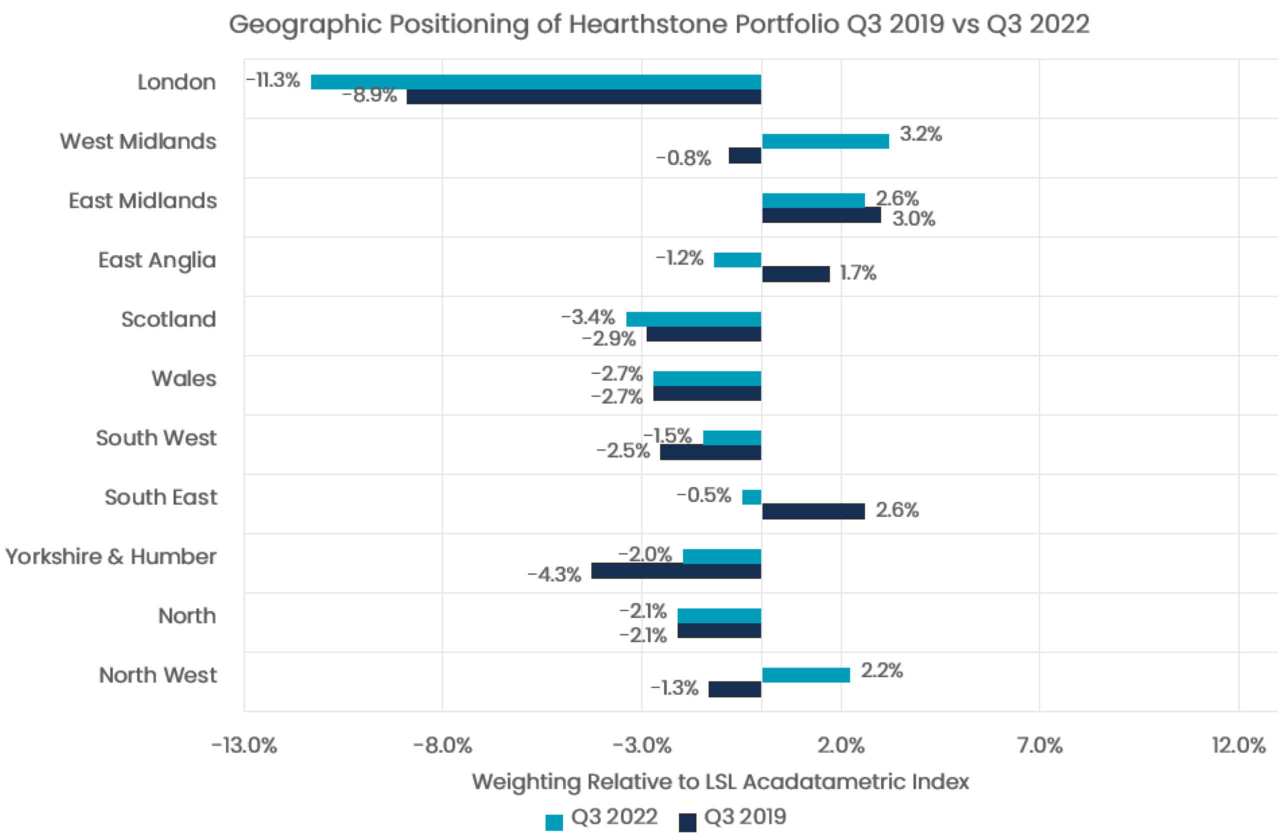
Portfolio Risk: The cash and liquid instruments on the fund stood at 16.69% (£12.1 million), which is 0.69% lower than at the end of June 2022.

At a recent meeting with the manager, the different exit options were discussed. Hearthstone have presented three options:

- Continue to reduce the fund's investment through receipt of income, passing across excess cash and crossing trades with any investors coming into the fund. The manager is targeting a 10-15% cash balance but could transfer excess cash immediately. The advantage of this option is that there is no cost of transaction and there is unlikely to be a swing in the pricing of the pooled fund. The disadvantage is that it is the slowest exit route.
- Accelerate by redeeming larger amounts. In current market conditions, this would result in a swing in the unit price of approximately 2.5%. There would also be a fair value adjustment to protect the other investors in the fund so the value of the properties being sold could be heavily discounted. However, it would be a speedier exit route. Hearthstone advised against exiting in one go because this would be the most costly solution.
- Transition the fund towards a more institutional client base. This would make it more aligned with London Borough of Islington. At present the fund has 15% cash which is a drag on performance. If Hearthstone repositioned the fund and tilted it instead to institutional investors, they wouldn't need to offer daily dealing. From this, they could then start a programme of redemptions. This option is an uncertain exit route. Hearthstone have tried unsuccessfully to attract institutional funds into the unit trust, although they have launched other vehicles successfully in the institutional space.

Chart 6 compares the regional bets in the portfolio in Q3 2022 (turquoise bars) with the regional bets three years ago, in Q3 2019 (navy bars).

CHART 6:



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 40.2% of the fund. This compares with 72% at the start of this mandate in 2013.

Organisation and Staff Turnover: There were no leavers or joiners during the quarter.

Schroders – Diversified Growth Fund (DGF)

Headline Comments: The DGF made a loss of -3.83% in Q3 2022, and in relative terms it underperformed its target by -7.22%. Over three years, the fund is behind the target return by -9.02% p.a.

Mandate Summary: The fund invests in a broad mix of growth assets and uses dynamic asset allocation over the full market cycle, with underlying investments in active, passive and external investment, as appropriate. 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 -3.83% in Q3 2022 while global equities fell by -5.3%. Over three years, the DGF delivered a return of +2.09% p.a.

In Q3 2022, 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% (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 9.1% compared to the three-year volatility of 18.0% in global equities (i.e., 50.6% of the volatility) which is in line with target.

Portfolio Characteristics: The fund had 55% in internally managed funds (down from last quarter), 26% in active bespoke solutions (up from last quarter), 8% in externally managed funds (the same as last quarter), and 7% in passive funds (the same as last quarter) with a residual balance in cash, 4% (the same as last quarter), as at end September 2022. In terms of asset class exposure, 31.8% was in equities, 36.6% was in alternatives and 27.7% in credit and government debt.

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

The manager remains defensively positioned, anticipating a stagflationary environment over the coming months.

Schroder reported that the carbon intensity of the fund was 44% lower than a comparator (a mix of equities, bonds, and alternative indices).

Organisation: There were no team changes during Q3 2022.

Quinbrook – Low Carbon Power Fund

Headline Comments: Performance for the year to 30th September 2022 was positive at +45.99%, thus outperforming the target return of +12.0%. Over three years, the fund returned +18.18% p.a. and therefore ahead of the target by +6.18%.

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 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 and has now reached the end of its investment phase.

Portfolio Characteristics: As at Q2 2022, on an unaudited, provisional basis, the fund had invested USD 728.4 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 1,574 MW (including those with minority stakeholders), as at 30 September 2022. Having reached the end of the investment period, the manager is now focusing on exits, and reported making good progress with two sales processes (Scout and Lockyer Energy) for the quarter to end June.

Organisation: Daniel Feeney joined as a Senior Analyst in the London office, and Associate, Ingrid Roberts left the London office.

Pantheon – Infrastructure and Private Equity Funds

Headline Comments: Over three years the return on the private equity fund was +6.48% per annum. This compares with a three-year return on listed global equities of 11.1% per annum. The three-year return on the infrastructure fund was +15.36% versus the absolute return target of 10%.

Mandate Summary: London Borough of Islington have made total commitments of £108.6m across five Pantheon strategies including two US primary funds, two global secondary funds and one global infrastructure fund. This infrastructure fund, Pantheon Global Infrastructure Fund III "PGIF III", was the most recent commitment from Islington in 2018 totalling £78.8m.

Portfolio Characteristics: Over the period Q1 2022 – Q2 2022, a total of £5.2m was drawn down, wholly to PGIF III. Distributions were received across two strategies, Pantheon USA Fund VII and PGIF III, totalling £1.5m.

Permira – Credit Solutions Senior Fund

Headline Comments: The Permira Credit Solutions V ("PCS5") is a new allocation for the London Borough of Islington and part of the private debt allocation. To 30th June 2022 the fund had closed commitments of £2.3 billion (€2.7 bn) and had made a total of eight investments equalling 37.5% invested (most recent data available). No defaults have been reported at such an early stage of investment.

Churchill – Middle Market Senior Loan Fund

Headline Comments: The Churchill Middle Market Senior Loan Fund IV is part of the new private debt allocation. It had closed commitments of £39.6 million to June 2022, equalling 42% of committed capital (most recent data available). The fund has achieved a return of 8.76% for the quarter to 30 September 2022, outperforming the benchmark return of +1.23 by +7.53%, although like other private markets investments, performance should normally be assessed over a longer (3-year) time-period. No defaults have been reported.

Karen Shackleton
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