London Borough of Islington

Report to 30th June 2023

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apexgroup.com

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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
Legal and General (passive equities)	Not reported by LGIM.	Funds are tracking as expected.	The pooled funds in which Islington pension fund invests have a combined assets under management of £4.78 billion at end June 2023.
Schroders (multi-asset diversified growth)	There were no team changes during Q2 2023.	Fund made a loss of -0.65% during the quarter and delivered a return of +2.74% p.a. over 3 years, -11.01% p.a. behind the target return.	Total AUM stood at £726.5 billion as at end June 2023, down from £776.3 billion as at end December2022.
Polen Capital (active emerging equities)	No staff changes reported. During Q1 2023 the Columbia Threadneedle emerging markets team was sold to Polen Capital.	Underperformed the benchmark by -3.49% in the quarter to June 2023. The fund is behind over three years by -1.00% p.a.	Total AUM stood at approximately $55bn as at end December 2022 (most recent data available).

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
LCIV Global Equity Fund (Newton) (active global equities)	None reported by LCIV.	The LCIV Global Equity Fund outperformed its benchmark during Q2 2023 by +2.15%. Over three years the portfolio outperformed the benchmark by +0.22% but is under the performance target of benchmark +1.5% p.a. Over five years it remains ahead of the benchmark by +1.00% p.a.	At the end of Q2 2023, the London CIV sub-fund's assets under management were £620.8 million. London Borough of Islington owns 54.9% of the sub-fund.
LCIV Sustainable Equity Fund (RBC)	None reported by LCIV.	Over Q2 2023 the fund made a return of +0.12%, and this underperformed the benchmark return of +4.02%. The one-year return was +1.13%, positive in absolute terms but behind the benchmark by -12.08%. The three-year return underperformed the benchmark by -4.92% p.a.	As at end June 2023 the sub-fund's value was £1,239 million. London Borough of Islington owns 13.42% of the sub-fund.

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 +2.50% over Q2 2023, ahead of the target return by +0.59%. Over one year, the fund returned +9.46% which was ahead of the target return by +2.85%.	The fund size was £6.1 billion as at end June. London Borough of Islington's investment amounts to 1.30% of the fund.
Standard Life (corporate bonds)	There were eight joiners and 13 leavers during the quarter. No joiners or leavers related to the fixed income groups.	The portfolio marginally outperformed the benchmark return during the quarter by +0.01%, delivering an absolute return of -3.38%. Over three years, the fund was behind the benchmark return (by -0.33% p.a.) and behind the performance target of +0.80% p.a.	As at end June the fund's value was £2,134 million, down from £2,233 million as at end March. London Borough of Islington's holding of £65.9m stood at 3.1% of the total fund value.
Aviva (UK Property)	Information not available at the time of going to print.	Outperformed against the gilt benchmark by +5.93% for the quarter to June 2023 and outperformed the benchmark over three years by +15.31% p.a., delivering a return of +0.98% p.a., net of fees.	The fund was valued at £3.08 billion as at end Q2 2023. London Borough of Islington owns 4.2% of the fund.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Columbia Threadneedle	Tom Hatfield is a new asset manager on the TPEN Property Fund. He replaces Rob Flavelle and Alex Brouwer who both retired.	The fund outperformed the benchmark in Q2 2023, with a quarterly return of +0.89% compared with +0.38% for the benchmark. Over three years, the fund is outperforming the benchmark by +0.62% p.a.	Pooled fund has assets of £1.56 billion. London Borough of Islington owns 5.84% of the fund.
Franklin Templeton (global property)	There were no joiners or leavers during Q2 2023.	The portfolio return over three years was +2.13% p.a., and so behind the target of 10% p.a. Over 5 years the fund is behind the benchmark by -0.13% p.a.	£1,152 billion of assets under management for the Franklin Templeton Group as at end March 2023 (latest figures reported).
Hearthstone (UK residential property)	Verbal update to be given.	The fund underperformed the IPD UK All Property Index by -0.48% in Q2 2023. It is now behind the IPD benchmark over three years by -0.61% p.a. to end June 2023.	Fund was valued at £67.7m at end Q2 2023. London Borough of Islington owns 41.2% of the fund and is in a phased redemption process.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Quinbrook (renewable energy infrastructure)	There were three new joiners and two leavers during Q2. A new Global Head of Compliance joined after quarter end.	For the three years to Q2 2023 the fund returned +16.55% p.a., and therefore was ahead of the annual target return of +12.00% p.a.	Net Assets were £602 million as at June 2023.
Pantheon (Private Equity and Infrastructure Funds)	Not reported.	The private equity fund returned +9.99% p.a. over three years, and +4.12% p.a. over five years. The infrastructure fund returned +17.38% p.a. over three years to end June.	$60.9bn of assets under management as at March 2023. (latest figures available)
Churchill (Middle Market Senior Loan Fund)	Not reported.	The fund has achieved a return of -0.62% for the quarter to 30 June 2023, underperforming the benchmark return of +1.23. Over 1-year, the fund is underperforming the benchmark by -5.17%	
Crescent (Credit Solutions Fund)	Not reported.	The fund returned -5.55% over Q2 2023, underperforming the benchmark by -7.96%.	$41 billion of assets under management as at March 2023. (latest figures available)

Source: Apex

Minor Concern

Major Concern

Individual Manager Reviews

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

Headline Comments: The three passive index funds (FTSE-RAFI Emerging Markets fund, MSCI World Low Carbon Target index fund, and the ESG Paris Aligned World Equity Fund) were within the expected tracking range, when compared with their respective benchmarks, in Q2 2023.

Mandate Summary: The London Borough of Islington invests in three of LGIM's index funds. The first 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. In August 2022, the fund's passive UK equity mandate was transitioned into the third passive fund: 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. The wider MSCI World Index returned 4%, compared with 4.19% for the MSCI World Low Carbon Index and 4.35% for the Solactive Paris Aligned World Index.

TABLE 2:

	Q2 2023 Fund	Q2 2023 Index	Tracking
FTSE – RAFI Emerging Markets	+0.03%	-0.06%	+0.09%
MSCI World Low Carbon Target	+4.15%	+4.19%	-0.04%
ESG Paris Aligned World Equity Fund	+4.01%	+4.35%	+0.34%

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 49.61% to the MSCI World Low Carbon Target index fund, 41.39% to the ESG Paris Aligned World Equity Fund, and 9.00% allocated to the FTSE RAFI Emerging Markets index fund.

Staff Turnover/Organisation: Not reported by LGIM.

Schroders – Diversified Growth Fund (DGF)

Headline Comments: The DGF made a loss of -0.65% in Q2 2023, and in relative terms it underperformed the CPI + 5% target by -4.32% (as reported in the BONY performance report) and underperformed the cash + 4.5% target by -2.75% (this being the manager's preferred target since March 2022). Over three years, the fund is behind the CPI + 5% target return by -11.01% 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 -0.65% in Q2 2023 while global equities made a return of +6.4%. Over three years, the DGF delivered a return of +2.74% p.a.

In Q2 2023, equity positions contributed +0.9% to the total return, alternatives detracted -0.2%, credit and government debt detracted -0.9%, while cash and currency detracted -0.2% (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 7.0% compared to the three-year volatility of 15.6% in global equities (i.e., 44.9% of the volatility) which is in line with target.

Portfolio Characteristics: The fund had 61% in internally managed funds (up from last quarter), 11% in active bespoke solutions (down from last quarter), 6% in externally managed funds (down from last quarter), and 17% in passive funds (down from last quarter) with a residual balance in cash, 6% (up from last quarter), as at end June 2023. In terms of asset class exposure, 32.6% was in equities, 22.2% was in alternatives and 39.0% in credit and government debt with the balance in cash.

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

The manager had increased government bonds, in preparation for a slowdown in economic activity. It has now changed its positioning to "neutral" on most asset classes, after seeing that the economic slowdown is likely less imminent.

Schroders reported that the carbon intensity of the fund was 65.4% that of the comparator (a mix of equities, bonds, and alternative indices), although the manager notes that coverage is only at 63% of the portfolio (compared with 92% for the comparator). Using a Science Based Targets

Initiative methodology, the portfolio temperature alignment stood at 2.4 degrees as at end June over a medium term horizon.

Organisation: There were no team changes during Q2 2023.

Polen Capital (formerly Columbia Threadneedle/BMO) – Global Emerging Market Growth and Income Fund

Headline Comments: The portfolio made a loss of -5.23% in Q2 2023, compared with the benchmark loss of -1.74%, an underperformance of -3.49%. Over one year the fund is behind the benchmark by -2.11%, and over three years it is trailing by -1.00% per annum (this is still a big improvement on a year ago when the portfolio was trailing the three year benchmark by -4.4% p.a.)

Mandate Summary: The manager 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. Overexposure in comparison to the benchmark to Portugal and Vietnam contributed positively to performance, though overexposure to Uruguay detracted from performance.

During the quarter, the largest positive contributors to the quarterly relative return came from Dino Polska Sa (+0.75%), Rala Drogosil Sa (+0.47%), and Jeronimo Martins (+0.39%). Companies which detracted most from performance included Anta Sports Products Ltd (-1.05%), Momo.com (-0.84%), and Dlocal Ltd (-0.59%).

Portfolio Risk: Within the emerging markets portfolio there is a 17.0% allocation to non-benchmark countries (excluding the holding in Cash & Equivalents). The largest overweight country allocation in the emerging markets portfolio was Uruguay (+5.4% overweight). The most underweight country allocation was Taiwan (-5.1%). The manager also held 16.1% of the portfolio in four developed countries, compared with the benchmark's 1.8% in Hong Kong and 0.3% in United States.

Portfolio Characteristics: The largest absolute stock position was Tencent Holdings at 5.9% of the portfolio, while the largest absolute country position was China/HK and accounted for 32.1% of the portfolio.

As at end June, the portfolio had a 16% allocation to technology, below the benchmark allocation of 21%. The Manager states that its bottom-up stock selection process means it puts less emphasis on sector diversification, believing that it can reduce risk by only holding the highest conviction positions. It also states that the technology sector has a very broad range of underlying sub-industries and verticals.

The Manager looks to hold investments for 5 years, and states that it has a turnover of below 20%.

Staff Turnover/Organisation: not reported.

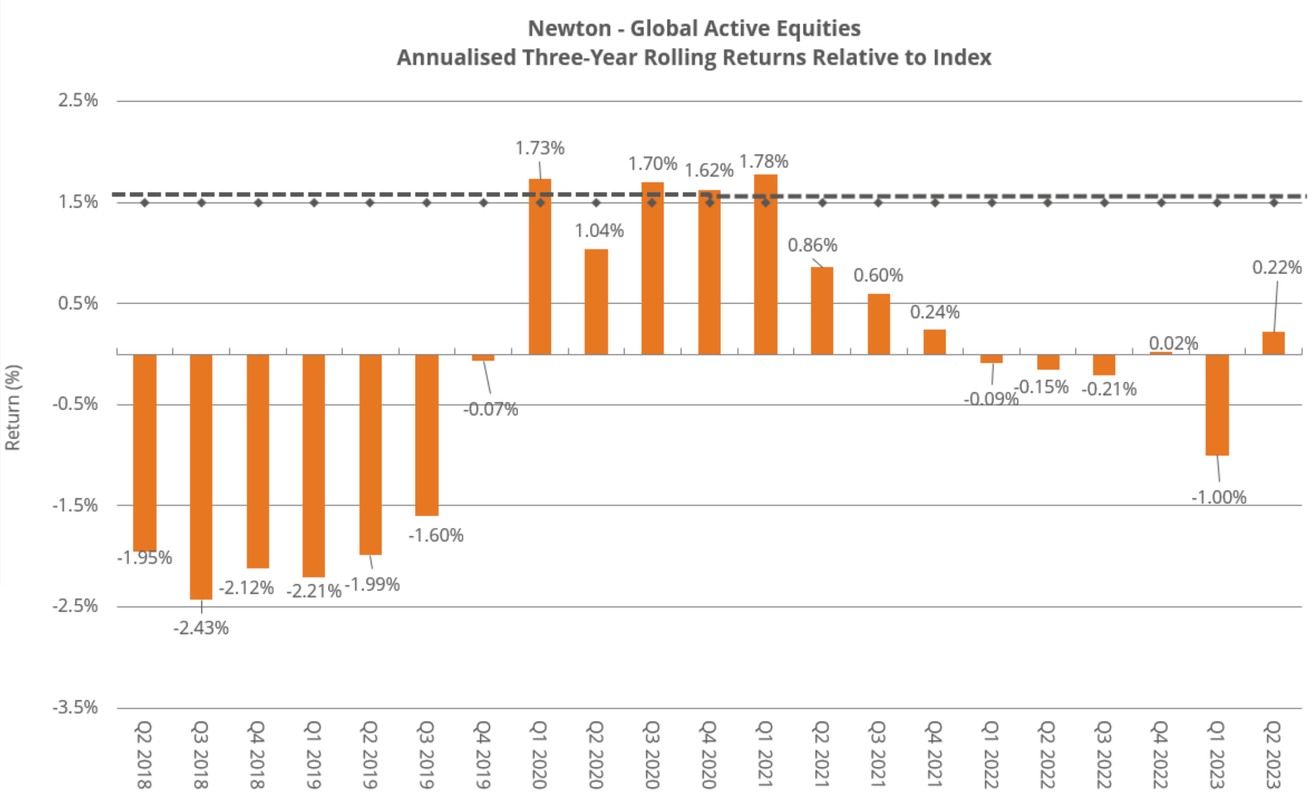
LCIV Global Equity Fund (Newton) – Global Active Equities

Headline Comments: The LCIV Global Equity Fund outperformed its benchmark during Q2 2023 by +2.15%. Over three years the portfolio outperformed the benchmark by +0.22% p.a. Over five years the manager is ahead of the benchmark return by +1.00% 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 overleaf shows the three-year rolling returns of the portfolio relative to the benchmark (the orange bars) and compares this with the performance target, shown by the grey dotted line.

CHART 1:



Source: Apex; BNY Mellon

Chart 1 shows that the level of outperformance over three years had been falling since Q1 2021, when the fund was ahead of the benchmark by +1.78% p.a. By Q2 2023 the fund has now outperformed the benchmark over three years by +0.22% p.a. but is underperforming the performance objective by -1.28% p.a. (the performance objective is shown by the dotted line).

Positive contributions to the total return came from holdings such as Nvidia (+1.18%), Amazon (+0.94%), and Microsoft (+0.82%). Negative contributions came from positioning in Universal Music Group (-0.33%), Samsung (-0.27%), and Alibaba (-0.25%).

In its peer group analysis, the London CIV reported that Newton is now delivering returns below the median over the shorter (3 years) and longer term (7 years+). Over the past three years period the risk has been low relative to peers. The London CIV also noted that turnover on the strategy in 2022 was 34% compared with 14% in 2021, which they consider to be at the high end of expected turnover levels. The manager has incurred higher turnover to respond to volatile and changing markets.

Portfolio Risk: The active risk on the portfolio stood at 3.09% as at quarter end, slightly higher than as at end March when it stood at 3.05%. The portfolio remains defensive, with the beta on the portfolio at end June standing at 0.98, up by 0.01 from previous quarter (if the market falls by -10% the portfolio can be expected to fall -9.8%).

At the end of Q2 2023, the London CIV sub-fund's assets under management were £620.8m, compared with £588.5m last quarter. London Borough of Islington now owns 54.87% of the sub-fund.

Portfolio Characteristics: The number of stocks in the portfolio stood at 58 as at quarter-end (down 1 from last quarter). The fund added two positions; LAM Research and Dassault Systems and completed three sales; Volkswagen, Abbot Laboratories and Darling Ingredients.

The portfolio continues to be heavily weighted to Technology (an allocation of 28.54%), which has increased and is again overweight against the Benchmark.

Financials is the second largest allocation (21.2%) and is overweight against the benchmark. This is due to the Manager continuing to build on existing holdings in a number of insurance companies.

The Manager typically envisages a holding period of between 3 to 5 years, though where long term thematic trends remain very supportive of investment case, a security may be held for a longer period.

In Q2 2023, LCIV reported that the Newton sub fund had a weighted average carbon intensity of 45% that of the benchmark index (the MSCI World Index). The highest contributor was Shell (13.36% 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 (Exelon contributes a further 5.8% to the weighted average carbon intensity).

Staff Turnover: None reported by LCIV for Q2 2023.

LCIV Sustainable Equity Fund (RBC) – global equities

Headline Comments: Over Q2 2023 the fund made a return of -0.12%. This underperformed the benchmark return by -4.02%. The one-year return was +1.13%, positive in absolute terms but behind the benchmark by -12.08%. The three-year underperformance was -4.92% p.a. against the benchmark. Islington's investment makes up 13.42% of the total London CIV sub-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, the fund has underperformed the benchmark in Q2 2023, and has made a loss for the quarter in absolute terms. The portfolio has overweight allocations to the Financial, Consumer Staples, Industrials, Consumer Discretionary, and Health Care sectors. Over the quarter the largest contributors to return included Microsoft (+1.00%), Nvidia (+0.91%), and Amazon (+0.82%). The largest detractors include positioning in MarketAxess (-0.86%), Anheuser-Busch Inbev (-0.77%), and Estee Lauder (-0.59%).

The London CIV is now comparing managers against their peer group and reported that RBC is performing well over the medium and 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 one-year period.

Portfolio Characteristics: As at end of June 2023 the fund had 38 holdings (the same as last quarter) across 13 countries. The active risk of the fund was 3.51%, slightly higher than Newton.

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

In Q2 2023, 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 up from last quarter (when it was 65%). The highest contributors were InterContinental Hotels Group (excluding this holding from the portfolio would reduce the weighted average carbon intensity by 13.61%), Equinor ASA (8.06%) and First Quantum Minerals (6.64%)

In June, London CIV completed a full due diligence review of the manager. 'Resourcing' now has an amber rating and 'Cost transparency/Value for Money' has a red rating, reflecting concerns about the investment team and performance. Somewhat surprisingly, London CIV has kept the overall rating as "normal monitoring" because they believe the manager can reverse the trend and deliver improved returns in future.

M&G – Alpha Opportunities Fund

Headline Comments: During Q2 2023 the M&G Alpha Opportunities Fund made a return of +2.50%, outperforming the benchmark return of +1.91%. Over one year it is outperforming the benchmark (cash plus 3.5%) by +2.85%.

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 SONIA/one-month Euribor plus 3-5% gross of fees p.a. over a market cycle.

Performance Attribution: During the quarter, the fund made a return of +2.50% compared to the benchmark return (one month Libor plus 3.5% being used in Northern Trust's performance analysis) of +1.91%. Exposure to industrial corporate bonds was the top contributor, with financial corporate bonds also performing well. Yield curve hedging/currency hedging was the top detractor (-0.21%). Over one year, the fund is outperforming the target return by +2.85% p.a.

Portfolio Characteristics: The largest allocations in the portfolio were to industrials (32%), Financials (27%), and Securitised debt (12%). 40% of the portfolio was rated BB* or below. The Manager reduced overall exposure to selective high yield names following strong performance. It also retained a preference for EUR denominated bonds over USD debt due to generally wider spreads in Europe.

In terms of outlook, the manager feels a recession is now less likely in the short term which they acknowledge is good news for credit because the risk of defaults decreases.

As at end June, the weighted average carbon intensity (WACI) of the portfolio was 34% of the WACI of a benchmark index, with 78% of the portfolio being measured where data was available (compared with 89% coverage for the benchmark).

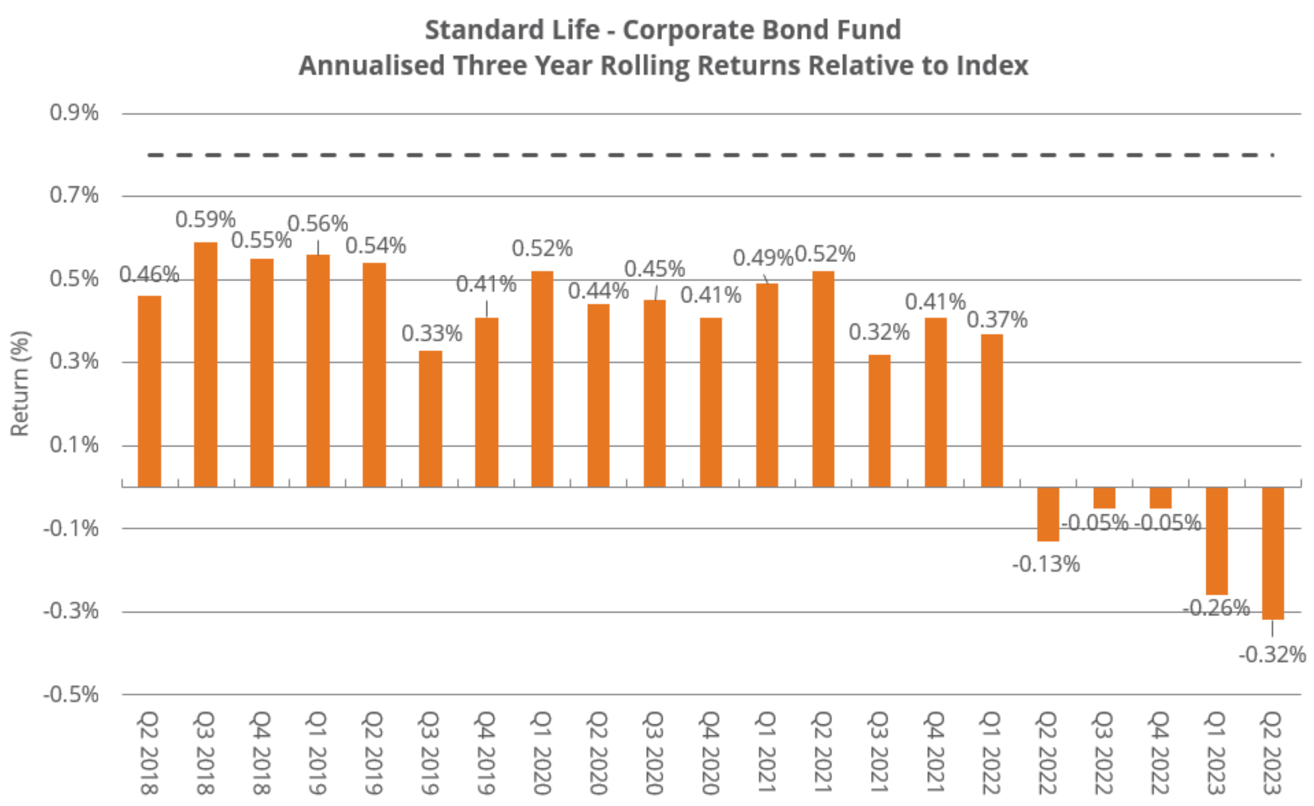
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio marginally outperformed the benchmark return during the quarter by +0.01% and made an absolute return of -3.38%. Over three years, the fund was behind the benchmark return (by -0.33% p.a.) for the fifth 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: Apex; BNY Mellon

Over three years, the portfolio has returned -6.62% p.a. net of fees, compared to the benchmark return of -6.30% p.a.

Portfolio Risk: The largest holdings in the portfolio at quarter-end was Cppib Capital 1.25% and BNG Bank 1.625%, each at 0.8% of the portfolio.

Portfolio Characteristics: The value of Standard Life's total pooled fund at end June 2023 stood at £2,134 million. London Borough of Islington's holding of £65.9m stood at 3.1% of the total fund value. This allocation is being gradually drawn down to fund the infrastructure investments.

Staff Turnover: There were eight joiners and 13 leavers during the quarter. No joiners or leavers related to the fixed income groups.

Aviva Investors – Property – Lime Property Fund

Headline Comments: The Lime Fund made a loss of -1.20%. It outperformed the benchmark return by +5.93% in Q2. Over three years, the fund is ahead of the benchmark return by +15.31%

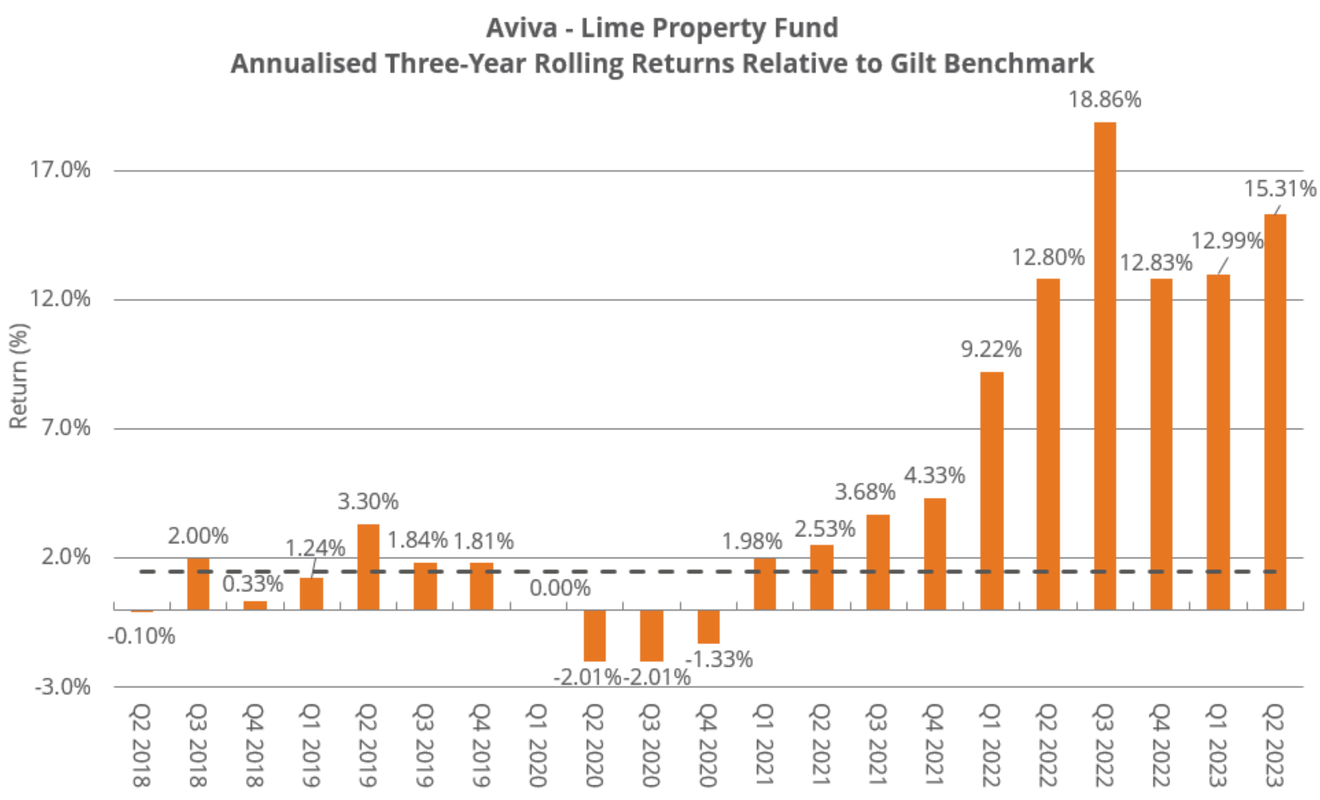
p.a., and over one-year outperformed by +3.73%. It is also ahead of the benchmark since inception in October 2004, by 1.97% p.a.

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 2023 return was attributed by Aviva to -2.16% capital return and +1.09% income return.

Over three years, the fund has returned +0.98% p.a., ahead of the gilt benchmark of -14.33% p.a., and ahead of its outperformance target of +1.5% p.a., as can be seen in Chart 3. However, it is worth noting that the 3-year absolute return is much lower than was seen a year ago (when it was +8.7%).

CHART 3:



Source: Apex; BNY Mellon

Over three years, 251% of the return came from income and -151% 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 were no acquisitions over the quarter and two sales. The manager stated that it received more redemption requests than it expected before its annual redemptions window closed at the end of the quarter, at c.17.5% of NAV (£540 million).

The average unexpired lease term was 20.80 years as at end June 2023. 12.7% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 24.97% (proportion of current rent), and the number of assets in the portfolio is 84. The weighted average tenant credit quality rating of the Lime Fund remained at BBB+ this quarter.

Portfolio Characteristics: As at June 2023, the Lime Fund had £3.08 billion of assets under management, a decrease of -£54 million from the previous quarter end reflecting the fall in capital value. London Borough of Islington's investment represents 4.2% of the total fund.

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

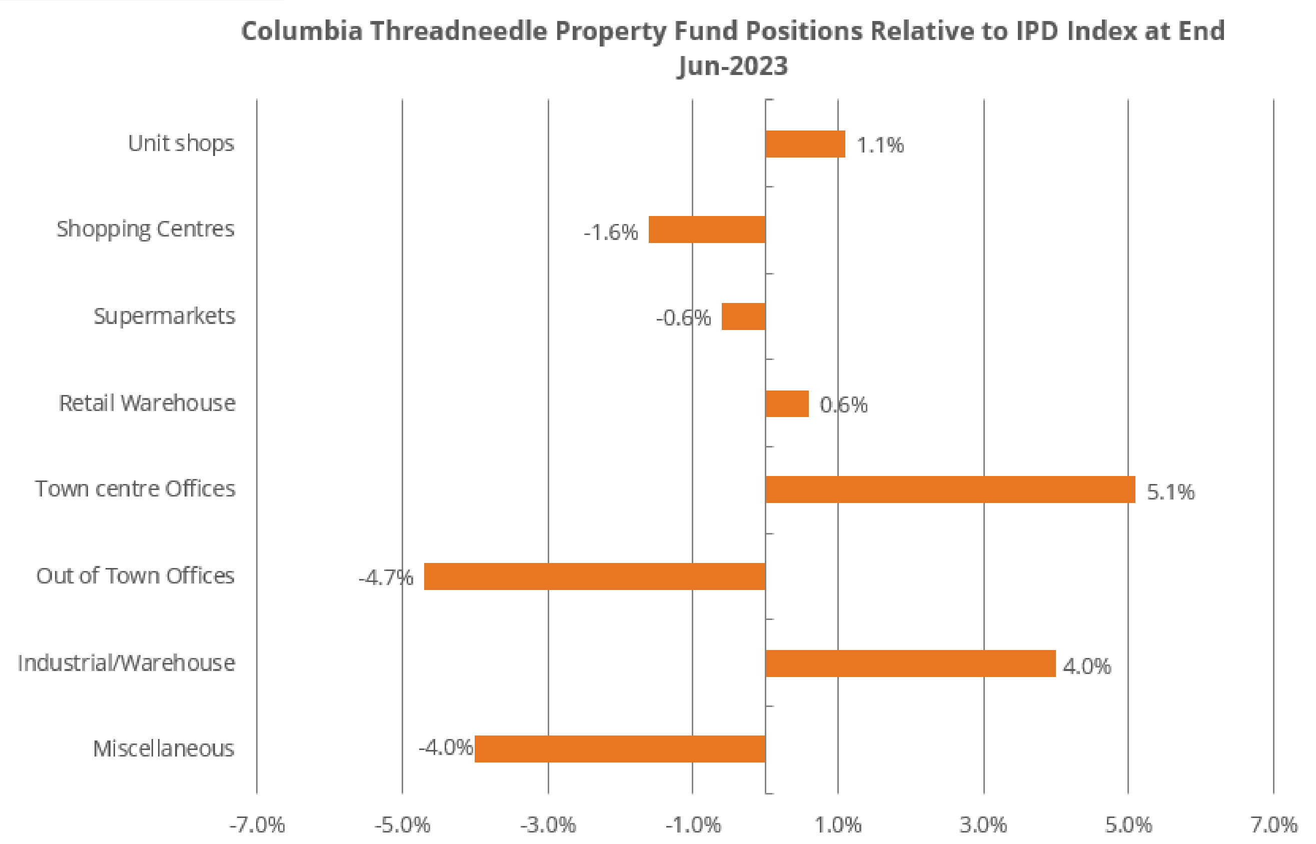
Columbia Threadneedle – Pooled Property Fund

Headline Comments: The fund delivered a positive absolute return and outperformed the benchmark in Q2 2023, with a quarterly return of +0.89% compared to the benchmark return of +0.38%. Over three years, the fund outperformed the benchmark by +0.62% p.a. and as such is behind the performance target of +1.0% p.a. above benchmark.

Mandate Summary: An actively managed UK commercial property portfolio, the Columbia Threadneedle Pooled Property Fund invests in a diversified, multi-sector portfolio of UK property assets. Historically, the performance objective has been 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. However, going forward the manager has amended their performance target to be outperformance on their quarterly benchmark over three years (i.e. losing the 1% per annum outperformance target).

Portfolio Risk: Chart 4 shows the relative positioning of the fund compared with the benchmark.

CHART 4:



Source: Apex; Columbia Threadneedle

During the quarter, the fund made no acquisitions and one sale. The cash balance at end March was 3.6%, compared with an average cash allocation of 5.7% for the peer group benchmark. The Manager states that it continues to monitor liquidity closely as a means of protecting the fund against the prevailing market volatility.

Performance Attribution: The fund outperformed the benchmark in Q2 2023, with a quarterly return of +0.89% compared to +0.38%. Over 1-year the fund outperformed the benchmark by +0.77%. The fund is now outperforming the benchmark over three years by +0.62%.

Portfolio Characteristics: As at end June 2023, the fund was valued at £1.56bn, an increase of £5m from the fund's value in March 2023. London Borough of Islington's investment represented 5.84% of the fund.

Staff Turnover: Tom Hatfield is a new asset manager on the TPEN Property Fund. He replaces Rob Flavelle and Alex Brouwer who both retired. Given the fund now holds fewer properties than historically, the Manager did not feel the need for a second replacement. Robin Jones remains the Fund Manager for the TPEN portfolio.

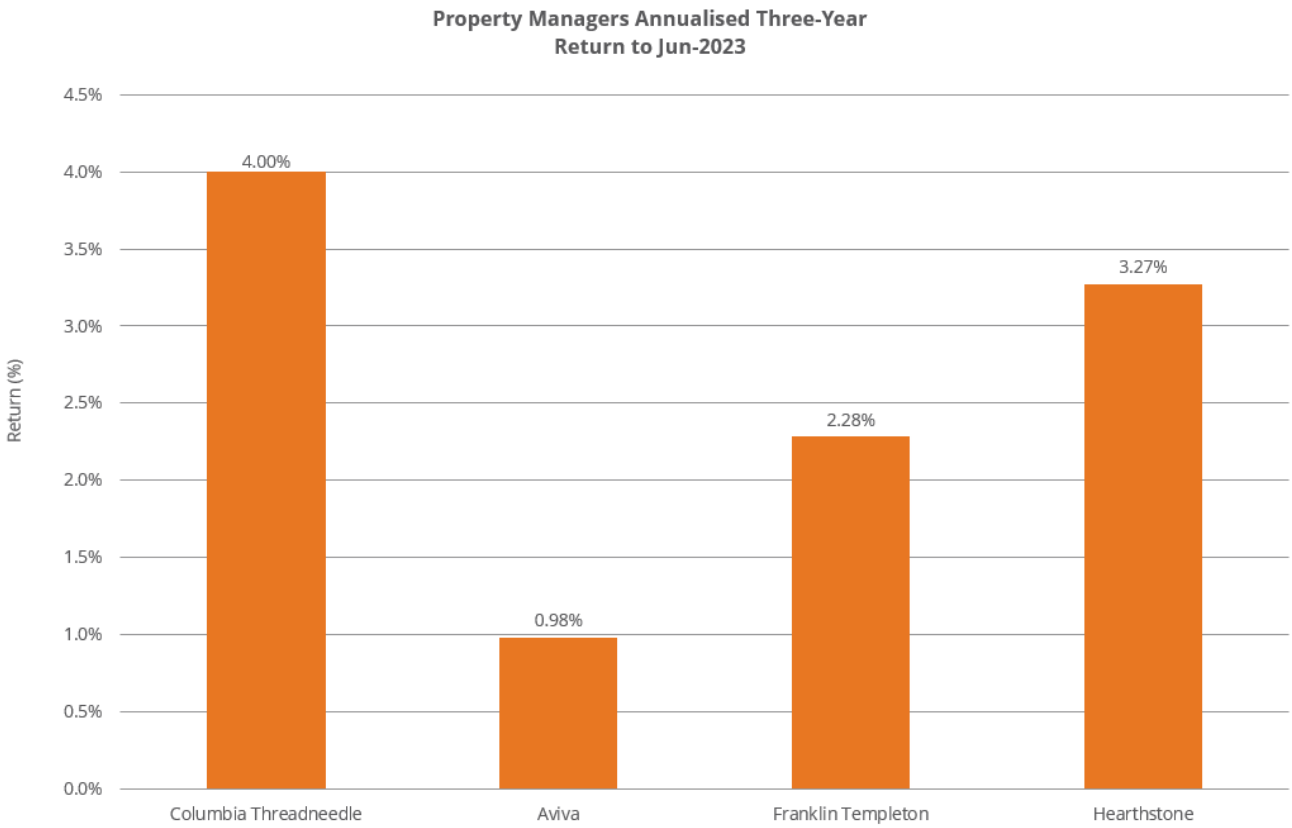
Franklin Templeton – Global Property Fund

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 -7.72% 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 2023, Franklin Templeton ranks third out of the property managers for performance. Chart 5 compares their annualised three-year performance, net of fees.

CHART 5:



Source: Apex

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$503.4 million, or 138% of total Fund equity. Overall, the manager reported that the return on this fund has exceeded the target return, to date.

The largest remaining allocation in Fund I is to the US (73% of funds invested), followed by Europe (27%). As the fund distributes, the geographic exposure is likely to become increasingly concentrated.

Fund II is fully invested in a diverse mix of property sectors including office and retail uses. As at end June 2023, 87.0% of committed capital had been distributed and there now remain six active underlying holdings. Leverage remains at 53% for the quarter to June 2023. The manager notes that the pandemic followed by the dramatic increase in interest rates has led to some delays in implementing business plans. However, the return has exceeded the original return target, to date.

The largest geographic allocation in Fund II is to Europe (62% of funds invested), followed by the US (29%), and Asia (9%).

Fund III continues to invest in a diverse mix of property sectors including residential, retail, industrial and office uses. The portfolio consists of five investments, two having been realised. There was no change to the total distributions made over the period, and no new investments or realisations. The portfolio is allocated 61% to Europe and 39% to the US.

Staff Turnover/Organisation: There were no joiners or leavers during Q2 2023.

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio underperformed the benchmark for the quarter ending June 2023 by -0.48%, and is underperforming over three years by -0.61% p.a. A phased redemption of this fund was negotiated with the manager and a verbal update will be given at the meeting.

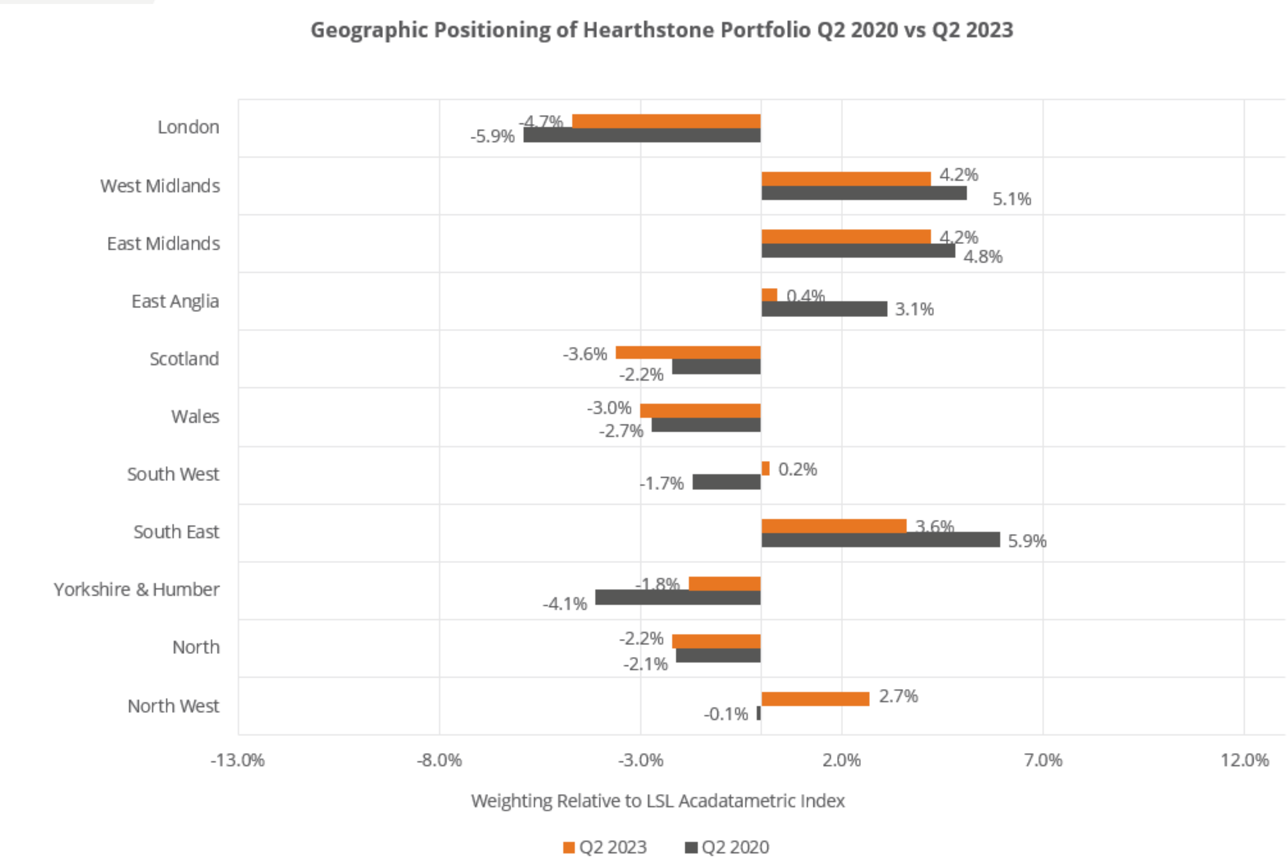
Mandate Summary: The fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

Performance Attribution: The fund underperformed the IPD index over the three years to June 2023 by -0.61% p.a., returning +3.27% p.a. versus the index return of +3.88% p.a. The manager has outperformed over 5 years by +0.34% p.a. The gross yield on the portfolio as at end June 2023 was 5.04%. Adjusting for voids and property management/maintenance costs, however, the yield on the portfolio falls to 3.05%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 11.96% (£8.1 million), which is 1.99% lower than at the end of March 2023. To date the manager has successfully met two redemptions of £500,000 each. After the quarter end, on 3rd July 2023 the manager met a further redemption of £2,000,000.

Chart 6 compares the regional bets in the portfolio in Q2 2023 (orange bars) with the regional bets three years ago, in Q2 2020 (grey bars).

CHART 6:



Source: Apex; Hearthstone

Portfolio Characteristics: By value, the fund has an 8% allocation to detached houses, 34% allocated to flats, 31% in terraced accommodation and 26% in semi-detached.

As at end March there were 224 properties in the portfolio and the fund stood at £67.7 million. London Borough of Islington's investment represents 41.2% of the fund. This compares with 72% at the start of this mandate in 2013.

Organisation and Staff Turnover: There were no joiners or leavers during the quarter to June 2023.

Quinbrook – Low Carbon Power Fund

Headline Comments: Performance for the year to 30th June 2023 was positive at +0.57%, but underperforming the target return of +12.00%. Over three years, the fund returned +16.55% p.a. and therefore was ahead of the target by +4.55% p.a.

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 2023, on an unaudited, provisional basis, the fund had invested USD 478.1 in 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 367MW (including those with minority stakeholders), as at 30 June 2023 (latest data available).

Organisation: During the quarter, Quinbrook had two leavers, both Vice Presidents, and three new joiners, a Senior Director for Investor Relations, a Senior Advisor and a Chief Financial Officer, Stuart Palmer. It is also worth noting that after quarter end, the Manager hired Susanna Seng as Global Head of Compliance.

Pantheon – Infrastructure and Private Equity Funds

Headline Comments: Over three years the return on the private equity fund was +9.99% per annum. This compares with a three-year return on listed global equities of +12.43% per annum. The three-year return on the infrastructure fund was +17.38% versus the absolute return target of 10%.

Mandate Summary: London Borough of Islington have made total commitments of £106.7m 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 £77.4m. (Both the total fund commitment and Islington commitment have been converted to sterling as at Q2 2023, according to the Manager.)

Portfolio Characteristics: Over the period Q1 2023 – Q2 2023, there were no drawdowns but there were distributions of £59,011 from PUSA CII Ltd (£23,604) and PGSF IV Feeder (£35,407).

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 30 June 2023 the fund had closed commitments of £3.6 billion (€4.2 bn) and had made a total of 13 investments equalling 46.1% invested. No defaults have been reported.

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 £70.9 million to June 2023, equalling 75% of committed capital. The fund has achieved a return of -0.17% for the year to 30 June 2023, underperforming the absolute target return of +5.00% by +5.17%, although like other private markets investments, performance should normally be assessed over a longer (3-year) time-period. No defaults have been reported.

Crescent – Credit Solutions Fund

Headline Comments: The Crescent Credit Solutions Fund VIII is part of the new private debt allocation. The fund closed two new investments during the quarter: April Group and Pushpay, bringing invested capital to 64% of commitments. The fund has achieved a return of -5.55% for the quarter to 30 June 2023, underperforming the benchmark return of +2.41% by -7.96%, although like other private markets investments, performance should normally be assessed over a longer (3-year) time-period.

Karen Shackleton
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11th September 2023