



**Finance Department  
7 Newington Barrow Way  
London N7  
7EP**

Report of: Corporate Director of Resources

Meeting of: Pension Board

Date: 6<sup>th</sup> December 2023

Ward(s): n/a

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## **Subject: Pension Fund Performance 1 July to 30 September 2023**

<b>1.</b>	<b>Synopsis</b>
1.1	This is a quarterly report to the Pensions 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 2023 as per BNY Mellon interactive performance report
2.2	To receive the presentation by Apex, our independent investment advisers, on our fund managers' quarterly performance attached as Appendix 1.
<b>3.</b>	<b>Fund Managers Performance for 1 July to 30 September 2023</b>

3.1 Fund Managers	Asset Allocation	Mandate	*Mercer ESG Rating	Latest Quarter Performance (July-Sept'23) Gross of fees		12 Months to September 2023 Performance Gross of fees	
				Portfolio	Benchmark	Portfolio	Benchmark
LCIV Sustainable EQ- RBC	9.3%	Global equities	1	-0.9%	0.5%	-1.3%	11.5%
LCIV -Newton	14.1%	Global equities	2	-0.6%	0.7%	13.5%	11.0%
Legal & General	13.8%	Global equities	1	0.9%	0.9%	11.0%	11.3%
Legal & General-Paris Aligned	9.6%	Global equities	1	-0.3%	-0.6%	12.7%	12.9%
Polen Capital (previously BMO)	3.6%	Emerging equities	2	0.1%	1.2%	-0.4%	2.6%
Quinbrook	6.2%	Renewable Infrastructure		3.3%	2.8%	-7.9%	12.0%
Pantheon	4.3%	Infrastructure	1	5.0%	2.4%	1.9%	10.0%
Aviva (1)	10%	UK property	2	-2.3%	-2.2% -0.2%	-14.9%	-5.5% -13.6%
Columbia Threadneedle Investments (TPEN)	6.8%	UK commercial property	3	0.2%	-0.4%	-12.1%	-14.3%
Hearthstone	1.4%	UK residential property	N	-2.8%	-0.2%	-1.4%	-13.6%
Standard Life	3.8%	Corporate bonds	2	2.1%	2.2%	6.9%	6.9%
M&G Alpha Opportunities	4.6%	Multi Asset Credit	2	2.7%	2.1%	11.8%	7.5%
Schroders	2.5%	Diversified Growth Fund	2	-0.6%	1.7%	1.4%	13.8%
Churchill Senior loan Fund IV	3.5%	Private Debt	2	6.9%	1.2%	-1.8%	5%
Permira Credit Solution	1.1%	Private Debt	3	1.5%	1.4%	n/a	n/a
Crescent Capital	1.8%	Private Debt	N	7.2%	2.4%	n/a	n/a
Cash	1.4%	cash		n/a	n/a	n/a	n/a
Market value of total fund	<b>£1,766m</b>						

-2.2% & -5.5% = original Gilts benchmark; -0.2% and -13.6% are the IPD All property index; for information

3.1	BNY Mellon our performance monitoring service provider now provides our quarterly interactive performance report. Performance attributions can be generated via their portal if required. Copies of the latest quarter fund manager’s reports are available to members for information if required.																														
3.2	<p>The combined fund performance and benchmark for the last quarter ending September 2023 is shown in the table below.</p> <table border="1" data-bbox="225 461 1426 696"> <thead> <tr> <th data-bbox="225 461 523 577"></th> <th colspan="2" data-bbox="528 461 948 577">Latest Quarter Performance <b>Gross</b> of fees</th> <th colspan="2" data-bbox="952 461 1426 577">12 Months to Sept’23 Performance Gross of fees</th> </tr> <tr> <th data-bbox="225 577 523 656">Combined Fund Performance</th> <th data-bbox="528 577 735 656">Portfolio %</th> <th data-bbox="740 577 948 656">Benchmark %</th> <th data-bbox="952 577 1160 656">Portfolio %</th> <th data-bbox="1165 577 1426 656">Benchmark %</th> </tr> </thead> <tbody> <tr> <td data-bbox="225 656 523 696"></td> <td data-bbox="528 656 735 696">0.5</td> <td data-bbox="740 656 948 696">0.07</td> <td data-bbox="952 656 1160 696">4.8</td> <td data-bbox="1165 656 1426 696">8.9</td> </tr> </tbody> </table>		Latest Quarter Performance <b>Gross</b> of fees		12 Months to Sept’23 Performance Gross of fees		Combined Fund Performance	Portfolio %	Benchmark %	Portfolio %	Benchmark %		0.5	0.07	4.8	8.9															
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3.3	<p><b>Total Fund Position</b></p> <p>The Islington combined fund absolute performance with the hedge over the 1,3- and 5-year periods to September’23 is shown in the table below.</p> <table border="1" data-bbox="225 931 1369 1126"> <thead> <tr> <th data-bbox="225 931 724 1010">Period</th> <th data-bbox="729 931 911 1010">1 year per annum</th> <th data-bbox="916 931 1118 1010">3 years per annum</th> <th data-bbox="1123 931 1369 1010">5 years per annum</th> </tr> </thead> <tbody> <tr> <td data-bbox="225 1010 724 1088">Combined LBI fund performance hedged</td> <td data-bbox="729 1010 911 1088">4.8%</td> <td data-bbox="916 1010 1118 1088">5.5%</td> <td data-bbox="1123 1010 1369 1088">5.4%</td> </tr> <tr> <td data-bbox="225 1088 724 1126">Customised benchmark</td> <td data-bbox="729 1088 911 1126">8.9%</td> <td data-bbox="916 1088 1118 1126">5.1%</td> <td data-bbox="1123 1088 1369 1126">4.9%</td> </tr> </tbody> </table>	Period	1 year per annum	3 years per annum	5 years per annum	Combined LBI fund performance hedged	4.8%	5.5%	5.4%	Customised benchmark	8.9%	5.1%	4.9%																		
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3.4	<p>The strategic allocation and actual position as at 30<sup>th</sup> September is shown in the table below. Cash held is mostly distributions from private assets and used to fund drawdowns.</p> <table border="1" data-bbox="264 1357 1329 1798"> <thead> <tr> <th data-bbox="264 1357 639 1435"><b>Asset Class</b></th> <th data-bbox="644 1357 986 1435"><b>Strategic Allocation</b></th> <th data-bbox="991 1357 1329 1435"><b>Current Allocation</b></th> </tr> </thead> <tbody> <tr> <td data-bbox="264 1435 639 1480">Equities</td> <td data-bbox="644 1435 986 1480">45</td> <td data-bbox="991 1435 1329 1480">50.4</td> </tr> <tr> <td data-bbox="264 1480 639 1525">Property</td> <td data-bbox="644 1480 986 1525">20</td> <td data-bbox="991 1480 1329 1525">20</td> </tr> <tr> <td data-bbox="264 1525 639 1570">Private debt</td> <td data-bbox="644 1525 986 1570">10</td> <td data-bbox="991 1525 1329 1570">6.3</td> </tr> <tr> <td data-bbox="264 1570 639 1615">Infrastructure</td> <td data-bbox="644 1570 986 1615">12.5</td> <td data-bbox="991 1570 1329 1615">10.5</td> </tr> <tr> <td data-bbox="264 1615 639 1659">Impact investment</td> <td data-bbox="644 1615 986 1659">5</td> <td data-bbox="991 1615 1329 1659">0</td> </tr> <tr> <td data-bbox="264 1659 639 1704">Multi asset credit</td> <td data-bbox="644 1659 986 1704">7.5</td> <td data-bbox="991 1659 1329 1704">4.6</td> </tr> <tr> <td data-bbox="264 1704 639 1749">Investment grade credit</td> <td data-bbox="644 1704 986 1749">0</td> <td data-bbox="991 1704 1329 1749">3.8</td> </tr> <tr> <td data-bbox="264 1749 639 1794">Diversified growth fund</td> <td data-bbox="644 1749 986 1794">0</td> <td data-bbox="991 1749 1329 1794">2.6</td> </tr> <tr> <td data-bbox="264 1794 639 1872">Cash</td> <td data-bbox="644 1794 986 1872">0</td> <td data-bbox="991 1794 1329 1872">1.8</td> </tr> </tbody> </table>	<b>Asset Class</b>	<b>Strategic Allocation</b>	<b>Current Allocation</b>	Equities	45	50.4	Property	20	20	Private debt	10	6.3	Infrastructure	12.5	10.5	Impact investment	5	0	Multi asset credit	7.5	4.6	Investment grade credit	0	3.8	Diversified growth fund	0	2.6	Cash	0	1.8
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3.5 3.5.1	<p><b>LCIV RBC Sustainability Fund</b></p> <p>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>																														

3.5.2	<p>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>
3.5.3	<p>The fund underperformed its quarterly benchmark to September by -1.5% and a twelve-month under performance of -12.9%. This was primarily due to stock selection, underperformance was wide across the portfolio as several high conviction positions are currently not favoured by the market. These effects were mainly determined by broader market forces, namely uncertainty about the path of interest rates, shorter time horizons of mainstream investors and an 'ESG intangibles' headwind.</p>
3.6	<p><b>LCIV Newton Investment Management</b></p>
3.6.1	<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>
3.6.2	<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>
3.6.3	<p>The fund returned -0.5% against a benchmark of 0.7% for the September quarter and a 12month outperformance of 2.5% against a benchmark of 11.0%. The only observable theme attributed to underperformance was profit-taking in a selection of stocks which had outperformed in the first half of the year.</p>
3.6.4	<p>Islington now owns 47.3% (54.8 %) of the fund with 2 other local authorities on the LCIV platform after a £90m withdrawal to rebalance our property allocation.</p>
3.7	<p><b>The Legal and General Paris Aligned ESG Passive Index</b></p>
3.7.1	<p>The Paris Aligned Index was set up by transitioning the Internal UK index fund in August 2022. The original mandate was valued at £154m and now stands at £170m.</p>
3.7.2	<p>The quarter performance to September was -0.3% against a benchmark of -0.7%. As mentioned last quarter discussions with London CIV about an oversight recharge invoice received by the Fund in April in addition to the normal investment management fees continues.</p>
3.8	<p><b>Legal and General</b></p>
3.8.1	<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</p>

3.8.2	<p>AllianzGI (RCM). The funds were managed passively against regional indices to formulate a total FTSE All World Index series. 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>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 £243m(241m) with a performance of 0.9% against a benchmark of 0.9%.</p>
3.9	<p><b>Polen Capital (BMO Global Assets Mgt)</b> 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>
3.9.1	<p>The September quarter saw an under performance of -1.1%, and this was mainly due to stock selection.</p>
3.9.2	<p>The manager investment thesis prefers bottom-up stock selection and believing that it can reduce risk by only holding the highest conviction positions for up to 5years.</p>
3.10	<p><b>Aviva</b></p> <p>3.10.1 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>3.10.2 The fund for this quarter delivered a return of -2.4% against a gilt benchmark of -2.2%. The All Property IPD benchmark returned -0.18% for this quarter. Since inception, the fund has delivered an absolute return of 4.8%</p> <p>3.10.3 As at the end of this September quarter the fund's unexpired average lease term is 20.8 years. The Fund holds 82assets with 50 tenants. This year the strategy has been to sell investments with weaker tenant credit ratings and shorter lease terms than the portfolio average with the aim to de-risk the portfolio and continue to provide secure cashflows for investors. This quarter three sales were completed: a manufacturing facility, a car showroom and a concert hall investment. The fund has 7.7% cash and has been notified of redemptions of around 15.7% till year end in December.</p>

<p>3.11</p> <p>3.11.1</p> <p>3.11.2</p> <p>3.11.3</p> <p>3.11.4</p>	<p><b>Columbia Threadneedle Property Pension Limited (TPEN)</b></p> <p>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 £121m includes purchase of additional units of £30m.</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>The fund returned a performance of 0.2% against its benchmark -0.4% for the September quarter. Since inception it has delivered an absolute return of 5.5% per annum.</p> <p>The cash balance now stands at 3.2%. During the quarter, one strategic sale was made and there were no acquisitions. Vacancy rate stands at 9.4% and the number of properties are 171 with 961 tenancies.</p> <p>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>3.12</p> <p>3.12.1</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>

3.12.2	<p>Fund I is now fully committed and drawn down. \$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="225 271 1177 427"> <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 \$62.1m. The NAV is \$0.2m</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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3.12.3	<p>The Fund is in the harvesting phase of its life cycle and continues to benefit from the realization of investments.</p>												
3.12.4	<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 \$30.7m. The NAV is \$17.6m</p>												
3.12.5	<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>												
3.12.6	<p>As at the quarter end \$18.8m has been drawdown and a distribution of \$8.6m had been received.</p>												
3.13.	<p><b>Hearthstone</b></p> <p>3.13.1 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> </ul>												

<p>3.13.2</p> <p>3.13.3</p>	<ul style="list-style-type: none"> <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 Academetrics House Price Index</li> </ul> <p>For the September quarter, the value of the fund investment was £25million and total funds under management is £62.5m. Performance net of fees was -2.8% compared to the IPD UK All Property benchmark of -0.2%. The £2m redemption requested in July was received in October.</p> <p>FCA have agreed for the Fund to be terminated and liquidated effective from 1<sup>st</sup> December 2023. The initial cash held of £5m will be distributed on a pro rata basis with Islington receiving 40% share. The programme of disposal will continue as properties become vacant and protection of shareholder value is paramount.</p>
<p>3.14</p> <p>3.14.1</p> <p>3.14.2</p>	<p><b>Quinbrook Infrastructure</b></p> <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 and total distribution is \$31.4m to date with a NAV of \$63m.</p> <p>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. Total capital call to the end of September was \$62.7m.</p>
<p>3.15</p> <p>3.15.1</p> <p>3.15.2</p>	<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 '23 is \$90.95m and distribution of \$27.05m nearing its harvesting period.</p> <p>Members agreed to re-commit to Pantheon IV infrastructure fund at the September meeting and the on- boarding was completed on 3<sup>rd</sup> October with a \$100m commitment.</p>



3.16	<p><b>Schroders</b></p> <p>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.</p>
3.16.1	<p>The agreed mandate guidelines are as follows:</p> <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>
3.16.2	<p>The value of the portfolio is now £45.4m. The aim is to participate in equity market rallies, while outperforming in falling equity markets. The September quarter performance before fees was -0.6% against the benchmark of 1.7% (inflation+5%). The performance since inception is 2.0% against benchmark of 10% before fees.</p>
3.16.3	<p>The new benchmark effective from 1 April 2022 is ICE BofA Sterling 3-Month Government Bill Index plus 4.5% per annum. A drawdown of £25m was made in October to fund new infrastructure capital call.</p>
3.17	<p><b>Standard Life</b></p>
3.17.1	<p>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 2.1% against a benchmark of 2.2% and an absolute return of 3.8% per annum since inception.</p>
3.17.2	<p>Stock selection was a small positive and duration was added to the portfolio as gilt yields rose.</p>
3.17.3	<p>The agreed infrastructure mandates are being funded from this portfolio and to date £80m has been drawn down.</p>
3.18	<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 June quarter, the hedged overseas equities had a loss negative cash value of £4m.</p>

3.18.1	The hedge has now been in place since 25 November 2020 for quarterly hedge rolls																				
3.19	<p><b>M&amp;G Alpha Opportunities</b> 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 person - 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>																				
3.19.1	<p>The September quarter performance was 2.7% against a benchmark of 2.1% and a one year over performance of 4.3%. The primary contributors to performance were exposures to bonds in the Industrial, Financial and Leveraged Loan sectors. The agreed change of mandate to Sustainable Alpha Opportunity Fund was transitioned on 1<sup>st</sup> November. The full cost of transition will be reported at the next meeting.</p>																				
3.20.	<p><b>Private Debt Mandates</b></p> <table border="1" data-bbox="220 1653 1326 1895"> <thead> <tr> <th>Fund and year</th> <th>Commitment</th> <th>Capital call</th> <th>Distribution</th> </tr> </thead> <tbody> <tr> <td>Churchill Fund IV-2021</td> <td>\$95m</td> <td>\$85.08m</td> <td>\$14.19m</td> </tr> <tr> <td>Permira V-2021</td> <td>£50m</td> <td>£18.815m</td> <td>£1.16m</td> </tr> <tr> <td>Crescent VIII-2022</td> <td>\$87m</td> <td>\$40.7m</td> <td>\$3.9m</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Fund and year	Commitment	Capital call	Distribution	Churchill Fund IV-2021	\$95m	\$85.08m	\$14.19m	Permira V-2021	£50m	£18.815m	£1.16m	Crescent VIII-2022	\$87m	\$40.7m	\$3.9m				
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4.	<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/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf">https://www.islington.gov.uk/~media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf</a></p>
<b>5.</b>	<b>Conclusion and reasons for recommendations</b>
5.1	Members are asked to note the performance of the fund for the quarter ending September 2023 as part of the regular monitoring of fund performance and Appendix 1- Apex Advisors commentary on managers.

**Appendices:** Appendix 1 – Apex- Fund Mgr monitoring report

**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

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