London Borough of Islington

Report to 31st March 2024

7 June 2024

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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 £5.45 billion at end March 2024.
Schroders (multi-asset diversified growth)	There were no new joiners during Q1 2024. There was one departure of a Portfolio Manager from the Multi-Asset team.	Fund made a return of +4.65% during the quarter and delivered a return of +1.63% p.a. over 3 years, -12.24% p.a. behind the target return.	Total AUM stood at £750.6 billion as at end December 2023, (latest data available) up from £724.3 billion as at end September 2023.
Polen Capital (active emerging equities)	Not reported by Polen	Underperformed the benchmark by -0.19% in the quarter to March 2024. The fund is behind over three years by -0.45% p.a.	Total AUM stood at approximately $61bn as at end March 2023 (most recent data available).

LCIV Global Equity Fund (Newton) (active global equities)	Following the LCIV Executive Investment Committee Meeting during the quarter, the sub-funds process/strategy has been upgraded from "Amber" to "Green", and Resourcing and Business Risk upgraded from "Red" to "Amber". However, the overall monitoring status remains "enhanced".	The LCIV Global Equity Fund outperformed its benchmark during Q1 2024 by +2.68%. Over three years the portfolio outperformed the benchmark by +0.80% p.a. but was behind the performance target of benchmark +1.5% p.a. Over five years it remains ahead of the benchmark by +0.92% p.a.	At the end of Q1 2024, the London CIV sub-fund's assets under management were £605.4 million. London Borough of Islington owns 49.28% of the sub-fund.
LCIV Sustainable Equity Fund (RBC)	LCIV have downgraded their rating of the manager to "enhanced monitoring", mainly due to concerns about meeting long term performance targets.	Over Q1 2024, the fund made a return of +11.01%, and this outperformed the benchmark return of +9.88%. The one-year return was +15.83%, positive in absolute terms but behind the benchmark by -6.63%. The three-year return underperformed the benchmark by -6.57% p.a.	As at end March 2024 the sub-fund's value was £1,411 million. London Borough of Islington owns 13.66% of the sub-fund.

M&G Alpha Opportunities Fund	Not reported by the manager.	The Fund made a return of +3.22% over Q1 2024, ahead of the target return by +1.11%. Over three years, the fund returned +4.86% which was behind the target return by -1.07% p.a.	The fund size was £6.51 billion as at end March. London Borough of Islington's investment amounts to 1.33% of the fund.
Standard Life (corporate bonds)	There were 4 joiners and 12 leavers during the quarter. There were two leavers from the fixed income group, including an Investment Director, and the Head of EU Consumer ABS & CLO Research.	The portfolio outperformed the benchmark return during the quarter by +0.37%, delivering an absolute return of +0.43%. Over three years, the fund was behind the benchmark return (by -0.08% p.a.) and behind the performance target of +0.80% p.a.	As at end March the fund's value was £2,036 million, up from £2,125 million as at end December. London Borough of Islington's holding of £73.0m stood at 3.6% of the total fund value.
Aviva (UK Property)	There were no joiners or leavers during the quarter	Outperformed against the gilt benchmark by +3.18% for the quarter to March 2024 and outperformed the benchmark over three years by +8.31% p.a., delivering a return of -1.46% p.a., net of fees.	The fund was valued at £2.55 billion as at end Q1 2024. London Borough of Islington owns 7.0% of the fund.

Columbia Threadneedle	The previous Assistant Fund Manager has been promoted and moved away from the TPEN fund. James Brook has been appointed from Knight Frank to replace her.	The fund outperformed the benchmark in Q1 2024, with a quarterly return of +0.96% compared with +0.51% for the benchmark. Over three years, the fund is outperforming the benchmark by +1.23% p.a.	Pooled fund has assets of £1.44 billion. London Borough of Islington owns 8.4% of the fund. This compares with 2018 when the pension fund owned just 4% of the fund.
Franklin Templeton (global property)	There were no joiners or leavers in Q1 2024.	The portfolio return over three years was +4.38% p.a., and so behind the target of 10% p.a. Over 5 years the fund is behind the benchmark by -5.26% p.a.	£1,460 billion of assets under management for the Franklin Templeton Group as at end December 2023 (most recent data available).
Hearthstone (UK residential property)	Not reported.	The fund underperformed the IPD UK All Property Index by -3.15% p.a. for the three years to end March 2024 although is now being redeemed.	Fund was valued at £56.4m at end Q1 2024. London Borough of Islington owns 39.8% of the fund which is now in a redemption process.
Quinbrook (renewable energy infrastructure)	There were 2 joiners and 3 leavers during the quarter. The former COO departed following the completion of her year-long sabbatical.	For the three years to Q1 2024 the fund returned +10.45% p.a., and therefore was behind the annual target return of +12.00% p.a.	Net Assets were £602 million as at June 2023 (latest figures available).

Pantheon (Private Equity and Infrastructure Funds)	Not reported.	The private equity fund returned +5.00% p.a. over three years, and +2.53% p.a. over five years. The infrastructure fund returned +15.30% p.a. over three years to end March relative to the target of 10% p.a.	$62.3bn of assets under management as at September 2023 (latest figures available).
Churchill (Middle Market Senior Loan Fund)	Not reported.	Over 1-year, the fund is outperforming the absolute return target of 5% by +4.11%, delivering a return of +9.11%.	$50bn of committed capital for parent Nuveen as at 31 March 2024.
Crescent (Credit Solutions Fund)	Not reported.	The fund returned +3.99% for the year to March 2024, underperforming the target return of +10%.	$41 billion of assets under management as at March 2023. (latest figures available)
Permira	Not reported.	The fund returned +8.43% over 1 year, ahead of the target return of +6.0%	€80 billion of committed capital.

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 Reduced Carbon Pathway 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 Q1 2024.

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 an LGIM customised reduced carbon pathway 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 +10.11%, compared with +9.95% for the MSCI World Low Carbon Index and +10.19% for the Solactive Paris Aligned World Index.

TABLE 2:

	Q1 2024 Fund	Q1 2024 Index	Tracking
FTSE – RAFI Emerging Markets	+2.79%	+2.81%	-0.02%
MSCI World Low Carbon Target	+9.92%	+9.95%	-0.03%
ESG Paris Aligned World Equity Fund	+10.21%	+10.19%	+0.01%

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 49.89% to the MSCI World Low Carbon Target index fund, 41.72% to the ESG Paris Aligned World Equity Fund, and 8.39% allocated to the FTSE RAFI Emerging Markets Reduced Carbon Pathway index fund.

Staff Turnover/Organisation: Not reported by LGIM.

Schroders – Diversified Growth Fund (DGF)

Headline Comments: The DGF made a return of +4.65% in Q1 2024, and in relative terms it outperformed the RPI + 5% target by +2.43% (as reported in the BNY performance report) and outperformed the cash + 4.5% target by +2.3% (this being the manager's preferred target since March

2022). Over three years, the fund is behind the RPI + 5% target return by -12.23% p.a. and behind the manager's own target by -7.9% 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 return of +4.65% in Q1 2024 while global equities (MSCI All Country World Index hedged to sterling) made a return of +9.6%. Over three years, the DGF delivered a return of +1.63% p.a.

In Q1 2024, equity positions contributed +3.2% to the total return, alternatives contributed +0.5%, cash and currency contributed +0.7%, while credit and government debt detracted -0.3% (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 6.8% compared to the three-year volatility of 15.0% in global equities (i.e., 45.0% of the volatility) which is in line with target.

Portfolio Characteristics: The fund had 72% in internally managed funds (up 1% from last quarter), 0% in active bespoke solutions (same as last quarter), 1% in externally managed funds (same as last quarter), and 23% in passive funds (up 3% last quarter) with a residual balance in cash, 4% (down 4% from last quarter), as at end March 2024. In terms of asset class exposure, 46.7% was in equities, 19.1% was in alternatives, 30.6% in fixed income, 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.

Following the Managers change in stance in Q2 from gearing up for an imminent recession to an economic slowdown further in the future, the Manager remains positioned for a soft-landing. However, given improvements in economic data, the Manager states that it has now upgraded growth forecasts and edges closer to a "no landing" scenario.

Schroders reported that the carbon intensity of the fund (scopes 1, 2 and 3) was 83% as at end Q1 2024 of the comparator (a mix of equities, bonds, and alternative indices), although the manager notes that coverage is only at 74% of the portfolio (compared with 93% for the comparator). Using a Science Based Targets Initiative methodology, the portfolio temperature alignment stood at 2.51 degrees as at end March over a medium term horizon.

Organisation: There was one leaver during the quarter, a Portfolio Manager who worked predominantly in Multi-Asset Growth and Income. There were no new joiners.

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

Headline Comments: The portfolio made a return of +3.19% in Q1 2024, compared with the benchmark return of +3.38%, an underperformance of -0.19%. Over one year the fund is behind the benchmark by -4.94%, and over three years it is trailing by -0.45% per annum (this is still a big improvement from last year 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 China 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 Tencent Music Entertainment (+1.06% and the joint largest holding in the portfolio at 6.8%), Netease Inc (+0.45%), and Fpt Corp (+0.44%). Companies which detracted most from performance included Dlocal Ltd (-1.10%), Hdfc Bank Limited (-0.82%), and Dino Polska Sa (-0.81%). *(Return contributions in US dollar terms).*

Portfolio Risk: Within the emerging markets portfolio there is a 16.9% allocation to non-benchmark countries (excluding the holding in Cash & Equivalents). The largest overweight country allocation in the emerging markets portfolio was Uruguay (+6.4% overweight). The most underweight country allocation was Taiwan (-8.1%). The manager also held 13.6% of the portfolio in three developed countries, compared with the benchmark's 1.3% in Hong Kong and 0.3% in United States.

Portfolio Characteristics: The largest absolute stock positions were Tencent Music Entertainment Group and Taiwain Semiconductor Manufacturing Co Ltd, both at 6.8% of the portfolio, while the largest absolute country position was China/HK and accounted for 30.1% of the portfolio.

As at end March, the portfolio had a 19.6% allocation to financials, below the benchmark allocation of 22.4%. 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.

Staff Turnover/Organisation: Not reported by Polen.

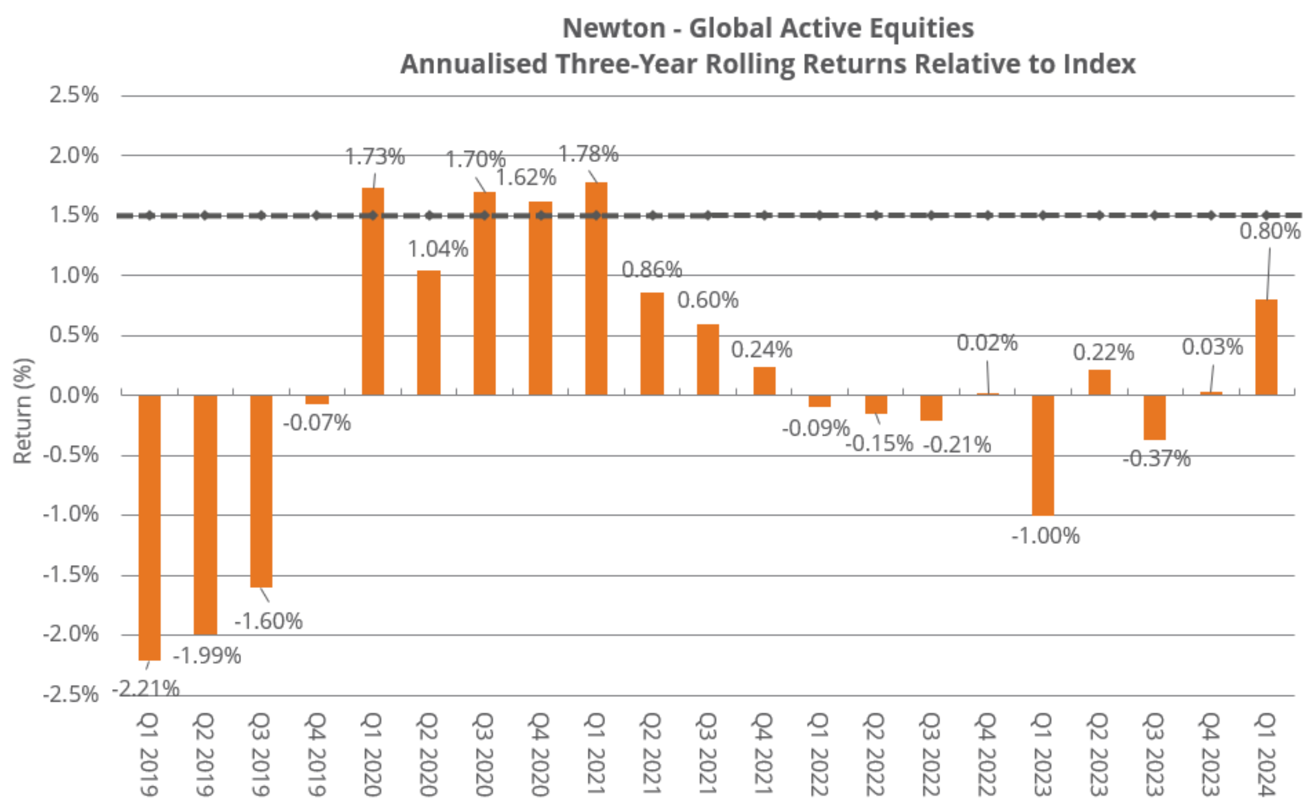
LCIV Global Equity Fund (Newton) – Global Active Equities

Headline Comments: The LCIV Global Equity Fund outperformed its benchmark during Q1 2024 by +2.68%. Over three years the portfolio outperformed the benchmark by +0.80% p.a. Over five years the manager is ahead of the benchmark return by +0.92% 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 fund was outperforming the benchmark over three years by +0.80% p.a. to end Q1 2024, and as such is underperforming the performance objective by -0.7% p.a. (the performance objective is shown by the dotted line).

Positive contributions to the total return came from holdings such as Nvidia (+2.31%), Microsoft (+0.76%), and Amazon (+0.75%). Negative contributions came from positioning in Apple (-0.48%), AIA GRP (-0.42%), and HDFC Bank (-0.22%).

In its peer group analysis, the London CIV reported that Newton is now delivering returns in line with the median over 3 years and 5-years, and is in the second quartile over the longer term (7 years+). Over the past three years the risk has been low relative to peers.

Portfolio Risk: The active risk on the portfolio stood at 3.07% as at quarter end, slightly lower than as at end December when it stood at 3.15%. The portfolio remains defensive, with the beta on the portfolio at end March standing at 0.94 (if the market falls by -10% the portfolio can be expected to fall -9.4%).

At the end of Q1 2024, the London CIV sub-fund's assets under management were £605.4m, compared with £561.4m last quarter. London Borough of Islington now owns 49.28% of the sub-fund.

Portfolio Characteristics: The number of stocks in the portfolio stood at 59 as at quarter-end (up 2 from last quarter). The fund added seven positions, and made five sales.

The portfolio continues to be heavily weighted to Technology (an allocation of 25.6%), and remains overweight against the Benchmark. That being said, this is a reduction in exposure since last quarter, and while only a small one (-0.8%), reflects a significant amount of activity in stock selection. The Manager has stated that it is repositioning the portfolio to create more balance in return drivers and sources of risk, based on the view that some of the big drivers for strong performance in 2023 have now passed, and that the portfolio will need to be positioned for resilience to economic and corporate news flow. Hence, the Manager has reduced exposure to relatively highly valued stocks and sectors, and turns its focus onto companies which are perceived to be well positioned to thrive in a volatile environment.

This ties in with Newton's new 'brand proposition' in which they announce their intention to focus more on the future than relying on what has worked well in the past. This is a response to the increased complexity in the world today.

Healthcare is the second largest allocation (16.7%) and is also overweight against the benchmark.

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 Q1 2024, LCIV reported that the Newton sub fund had a weighted average carbon intensity of 65% that of the benchmark index (the MSCI World Index). The highest contributor was Linde PLC (23.44% contribution to the weighted average carbon intensity) followed by Smurfit Kappa Group PLC (8.94% contribution).

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.

During Q3 2023, London CIV had announced that the Global Equity Fund has been downgraded to "Enhanced Monitoring" following the departure of the lead portfolio Manager. There are concerns that the new management team may introduce significant changes to the investment process. The new team took full responsibility for the portfolio in September 2023. LCIV Executive Investment Committee discussed the full in-depth review completed during December, and while they have kept the sub fund on "enhanced" status, they have upgraded the monitoring framework score for Process/Strategy to "Green" and the scores for Resourcing and Business risk back to "amber" from "red", stating that the outlook for the strategy is positive. Another in-depth review is currently scheduled for July 2024.

Staff Turnover: No staff changes reported by London CIV.

LCIV Sustainable Equity Fund (RBC) – global equities

Headline Comments: Over Q1 2024 the fund made a return of +11.01%. This outperformed the benchmark return by +1.14%. The one-year return was +15.83%, positive in absolute terms but behind the benchmark by -6.63%. The three-year underperformance was -6.57% p.a. against the benchmark. Islington's investment makes up 13.66% 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: The fund outperformed the benchmark in Q1 2024, and has made a gain for the quarter in absolute terms. The portfolio has overweight allocations to the Consumer Staples, Communication Services, Industrials, Consumer Discretionary, and Health Care sectors. Over the quarter the largest contributors to return included Nvidia (+2.59), Taiwan Semiconductor Manufacturing (+1.07%), and Amazon (+0.92%). The largest detractors include positioning in MarketAxess Holdings (-0.52%), AIA Group (-0.49%), and Equinor (-0.34%).

The London CIV is now comparing managers against their peer group and reported that RBC is performing well over the long term (7 years +). However, the short- and medium-term has been challenging, ranking in the fourth quartile for all periods that it tracks up to 5-years.

Portfolio Characteristics: As at end of December 2023 the fund had 39 holdings (two up from last quarter) across 13 countries. The active risk of the fund was 3.41%, slightly higher than Newton.

London CIV report that the fund continues to tilt towards quality and growth factors.

In Q4 2023, LCIV reported that the RBC sub fund had a weighted average carbon intensity of 73% that of the benchmark index (the MSCI World Index) which is higher than last quarter (when it was 62%). The highest contributors were InterContinental Hotels Group (excluding this holding from the portfolio would reduce the weighted average carbon intensity by 17.48%), National Grid PLC (5.00%) and Valero Energy Corporation (4.86%)

Towards the end of Q1 2024, London CIV completed a full due diligence review of the manager, and the sub-fund has now been downgraded to an “enhanced” monitoring status due to concerns around long term performance targets being met. ‘Investment Risk’ has now been downgraded to “Amber”, but the ‘Value for Money’ Criteria has been upgraded to “Green”. Performance and Resourcing remain an “Amber” rating.

Following a request by the committee to get more information on the drivers of the poor long term performance, an enquiry to LCIV regarding the manager’s underperformance indicates that this is mostly being driven by weak stock selection rather than style factor positioning. As investors became more optimistic in terms of the outlook, LCIV hoped that the Fund would have recovered some of the lost ground. Unfortunately, this was slow to happen and the previous sharp drop in the stock price of First Quantum erased gains in other parts of the portfolio.

M&G – Alpha Opportunities Fund

Headline Comments: During Q1 2024 the M&G Alpha Opportunities Fund made a return of +3.22%, outperforming the benchmark return of +2.11%. Over one year it is outperforming the benchmark (cash plus 3.5%) by +3.26% but is underperforming the benchmark over 3 years by -1.07% p.a.

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 +3.22% compared to the benchmark return (one month SONIA plus 3.5% being used in Northern Trust's performance analysis) of +2.11%. Exposure to industrial corporate bonds was the top contributor (+1.27%), with financial corporate bonds also performing well (+0.83%). Utility Corporate Bonds marginally detracted from performance over the quarter (-0.09%), but the largest detractor was residual differences due to currency rates and securities pricing (-0.27%). Over one year, the fund is outperforming the target return by +3.26% p.a.

Portfolio Characteristics: The largest allocations in the portfolio were to Financials (26%), Industrials (22%), and Cash & Derivatives (21%). 32% of the portfolio was rated BB* or below. The manager reduced exposure to various real estate hybrids, subordinated debt, and industrial paper during the quarter due to their lower expected risk-adjusted returns. This capital was reallocated to investment grade European banks.

In terms of outlook, the Manager feels that the number of elections scheduled in 2024 could pose a risk in terms of geopolitical events, and predicts an increase to financing cost for corporates, and so continues to follow a patient and highly selective approach.

As at end March, 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).

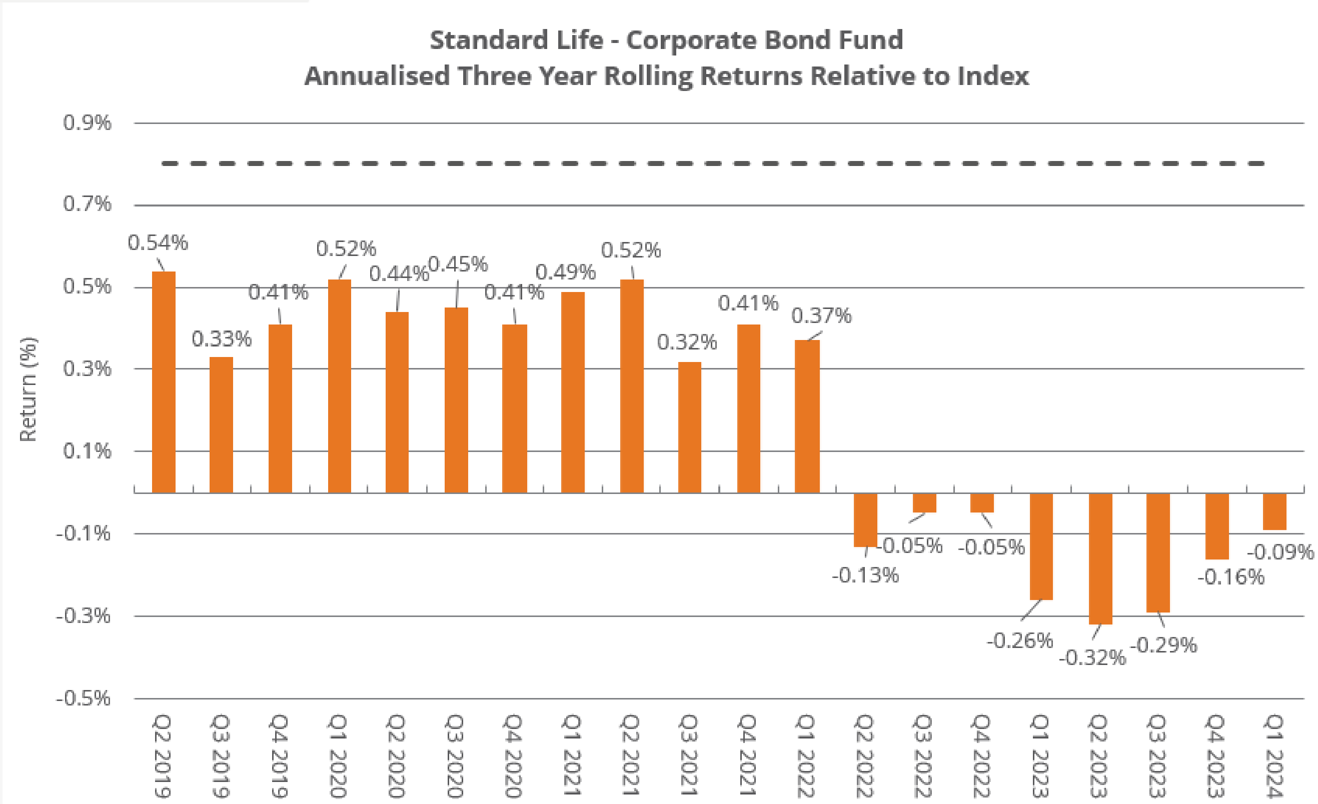
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio outperformed the benchmark return during the quarter by +0.37% and made an absolute return of +0.43%. Over three years, the fund was behind the benchmark return (by -0.08% p.a.) for the eighth 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 -3.41% p.a. net of fees, compared to the benchmark return of -3.32% p.a.

Portfolio Risk: The largest holding in the portfolio at quarter-end was UK Gilts at 5.8% of the portfolio.

Portfolio Characteristics: The value of Standard Life's total pooled fund at end March 2024 stood at £2,036 million. London Borough of Islington's holding of £73.0m stood at 3.6% of the total fund value. This allocation is being gradually drawn down to fund the infrastructure investments.

Staff Turnover: There were 4 joiners and 12 leavers during the quarter. There were no new joiners to the fixed income group, but in terms of leavers, UK departures include an investment director, and the Head of EU Consumer ABS & CLO Research.

Aviva Investors – Property – Lime Property Fund

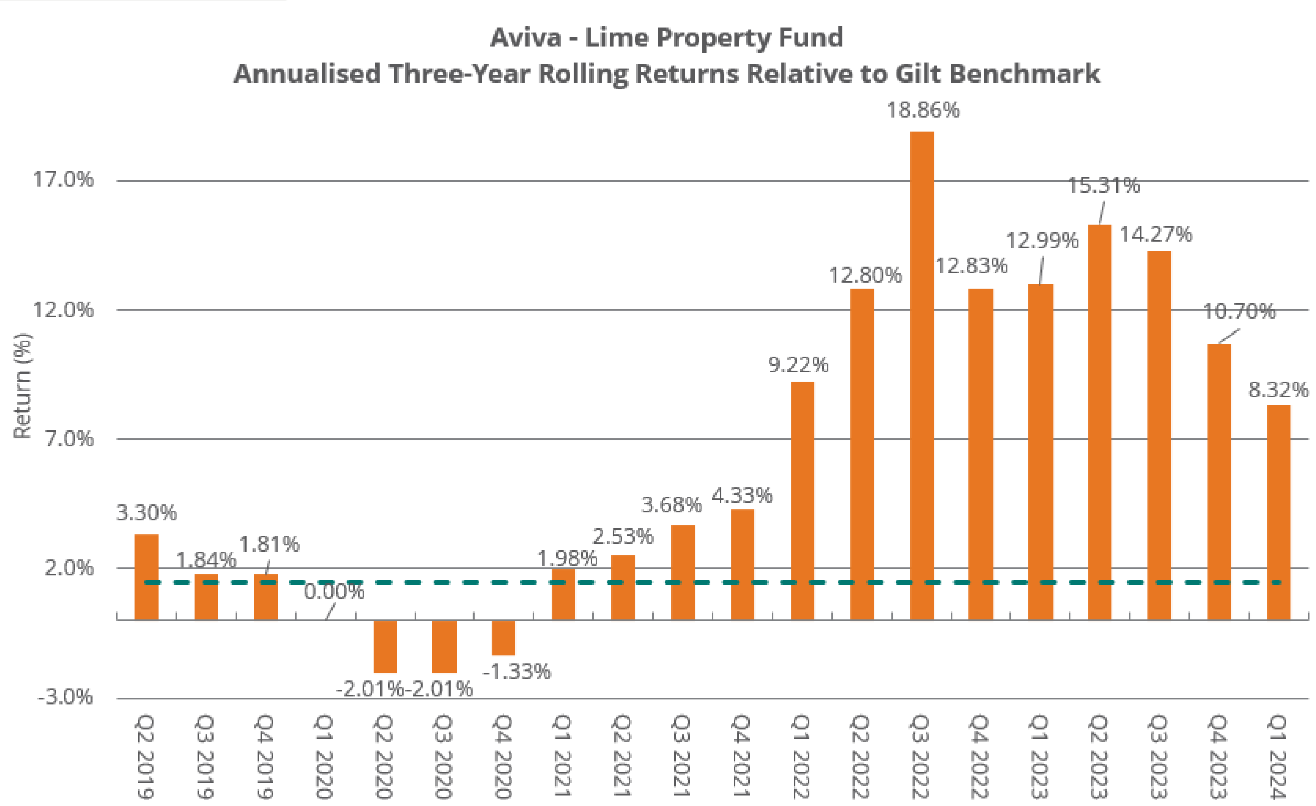
Headline Comments: The Lime Fund made a return of +0.64%. It outperformed the benchmark return by +3.81% in Q1. Over three years, the fund is ahead of the benchmark return by +8.31% p.a., but over one-year underperformed by -1.74%. It is ahead of the benchmark since inception in October 2004, by +1.47% 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 Q1 2024 return was attributed by Aviva to -0.35% capital return and +0.94% income return.

Over three years, the fund has returned -1.46% p.a., ahead of the gilt benchmark of -9.78% 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 of -1.46% is much lower than was seen a year ago (when it was +8.7%).

CHART 3:



Source: Apex; BNY Mellon

Portfolio Risk: within the MSCI quarterly index of UK real estate funds, the Lime Fund is the least volatile fund over ten years. There were no sales or acquisitions over the quarter, however the manager has agreed terms to sell six investments amounting to approximately £60 million. It is worth noting that, as at 30th June 2023, redemption requests amounted to £470 million, (or 18.4% of the value of the fund). As of the end of March, the Manager has paid out c.85% of these redemptions, and is in the process of raising the remaining 15% (£70 million).

The average unexpired lease term was 20.45 years as at end March 2024. 12.0% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 22.79% (proportion of current rent), and the number of assets in the portfolio is 77. The weighted average tenant credit quality rating of the Lime Fund remained at BBB+ this quarter.

Portfolio Characteristics: As at March 2024, the Lime Fund had £2.55 billion of assets under management, a decrease of -£402 million from the previous quarter end reflecting the redemption requests met during the quarter. London Borough of Islington's investment represents 7.0% of the total fund.

Staff Turnover/Organisation: There were no joiners or leavers during Q1 2024.

Columbia Threadneedle – Pooled Property Fund

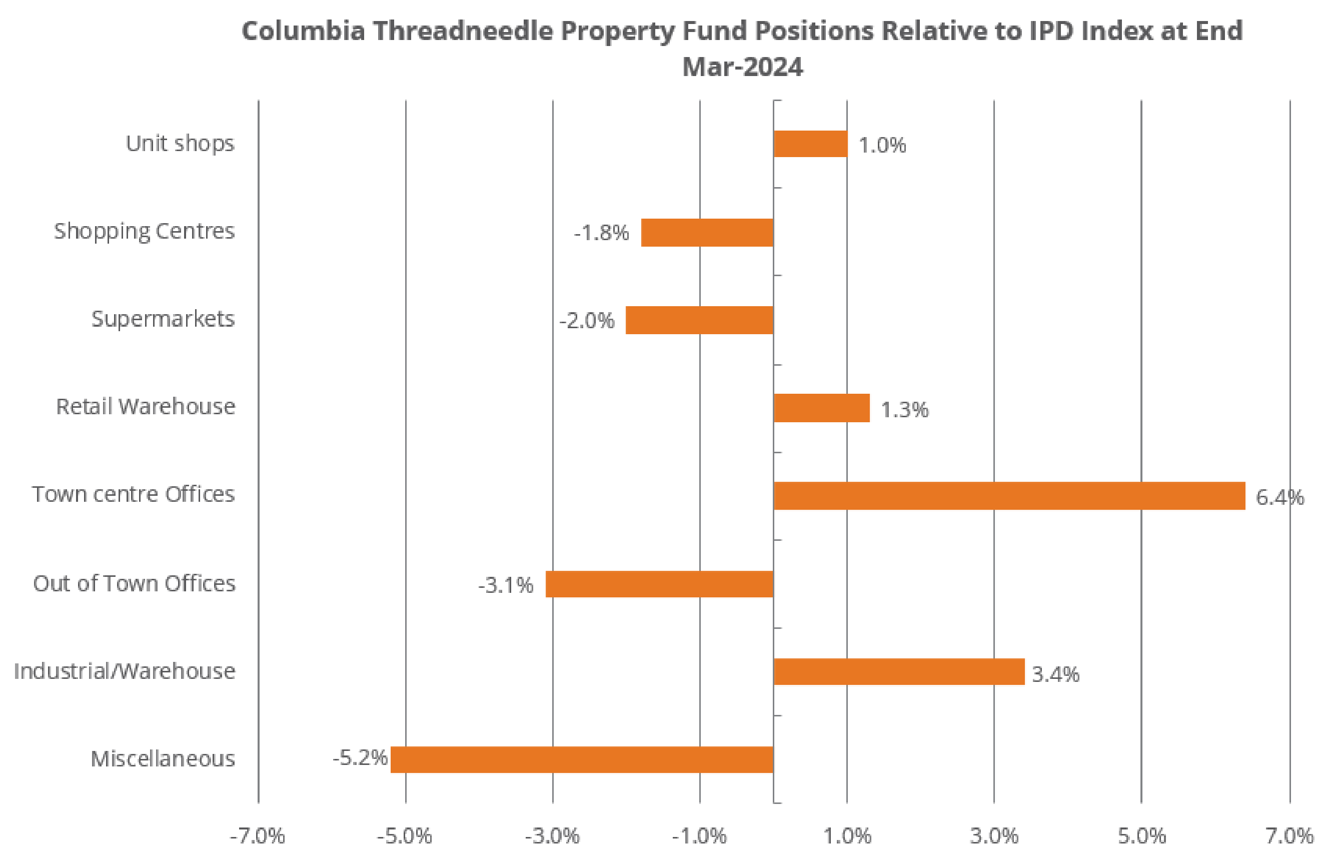
Headline Comments: The fund delivered a positive absolute return and outperformed the benchmark in Q1 2024, with a quarterly return of +0.96% compared to the benchmark return of +0.51%. Over three years, the fund outperformed the benchmark by +1.23% p.a.

The Manager wrote to investors during the quarter to notify that it is making a change to the investment universe of the fund, to allow investment into residential property assets. This is likely to include Student Accommodation, Senior Living, and Conversions from lower value use, but in the immediate future they did not plan to invest in “Buy to Let” homes. The Manager stated that it believes this investment will provide additional diversification benefits and potentially enhances performance for the fund. They also reported that the benchmark index now has a 3% allocation to residential property.

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, during Q2 2023 the manager 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 three sales. The cash balance at end March was 4.9%, compared with an average cash allocation of 6.0% 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. All redemption requests made in 2023 have now been paid, but a gate is still in place to manage further outflows. In 2024 they have seen one further outflow from a DC Mastertrust that was switching into affordable housing.

Voids should be monitored in coming months. During the pandemic, they had on average 3 months of voids and needed to offer approximately 3 months of rental incentives to fill properties. The Manager reported that this has risen to an average of 12 months of voids and 12 months of rental incentives to attract new tenants.

Performance Attribution: The fund outperformed the benchmark in Q1 2024, with a quarterly return of +0.96% compared to +0.51%. Over 1-year the fund outperformed the benchmark by +1.68%. The fund is now outperforming the benchmark over three years by +1.23% p.a.

Portfolio Characteristics: As at end March 2024, the fund was valued at £1.44bn, the same as the fund's value in December 2023. London Borough of Islington's investment represented 8.40% of the fund.

Staff Turnover: During the quarter there were 9 joiners and 14 leavers. Of these, 4 leavers and 2 joiners were from real estate. None of these related to TPEN, the fund in which London Borough of Islington invests.

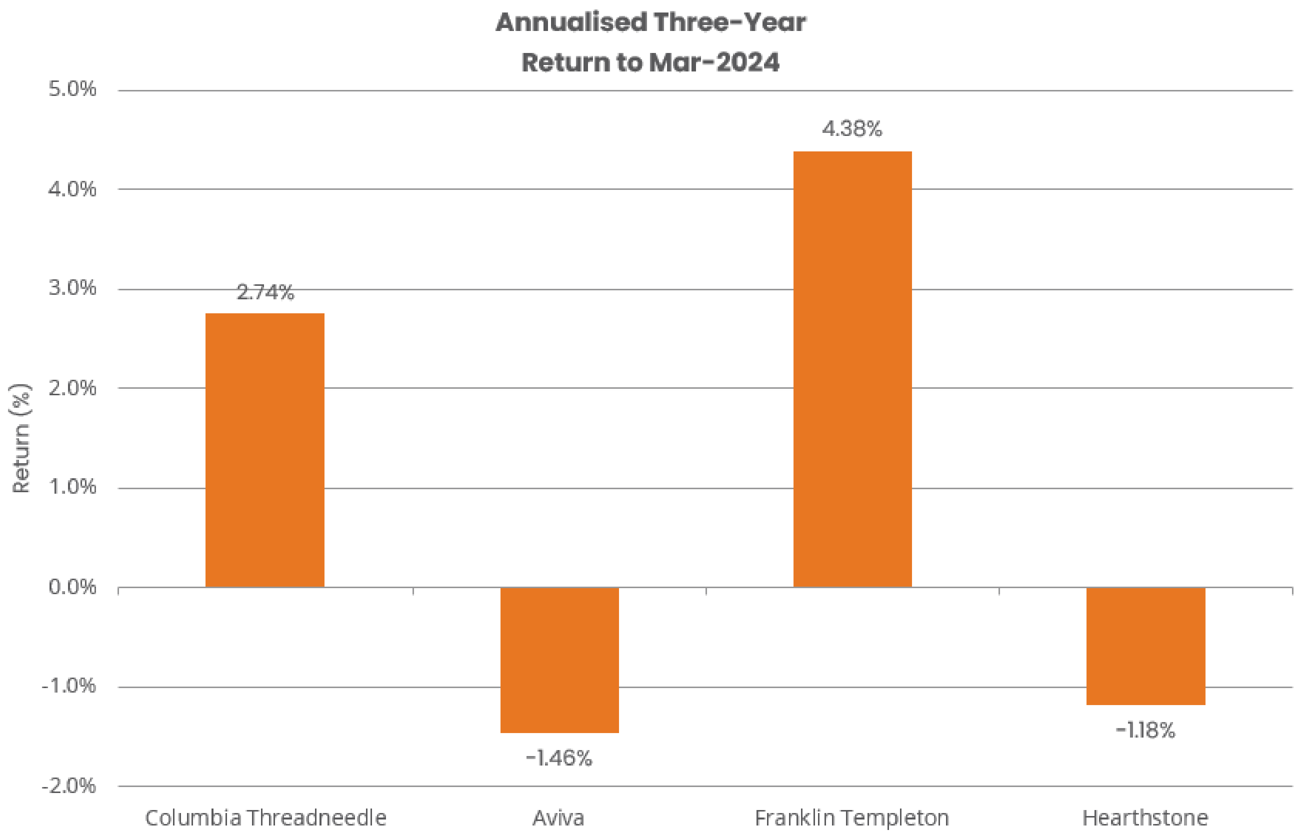
Franklin Templeton – Global Property Fund

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 -5.62% 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: Notwithstanding the poor relative performance, over the three years to March 2024, Franklin Templeton ranks the highest out of the property managers for absolute 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 three in various stages of liquidating their investments, and one remaining with two assets still to sell. Total distributions to date have been US$503.6 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 (80% of funds invested), followed by Europe (20%). 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, industrial and retail uses. As at end March 2024, 86.0% of committed capital had been distributed and there now remain six active underlying holdings. Leverage remains at 53% for the quarter to March 2023. The manager notes that the pandemic followed by the dramatic increase in interest rates has led to some delays in implementing business plans for the residual portfolio. However, the return has exceeded the original return target, to date.

The largest geographic allocation in Fund II is to Europe (70% of funds invested), followed by the US (21%), and Asia (9%).

Fund III is invested mainly in the residential and retail sectors. The portfolio consists of seven investments, two of the original seven having already been realised, and two further investments made in Q1 2024. These new investments consist of a distribution warehouse in California and a U.S portfolio of 27 office, retail and industrial properties. There was no change to the total distributions made over the period, and no new realisations. The portfolio is allocated 51% to Europe and 49% to the US.

Staff Turnover/Organisation: There were no new joiners or leavers during Q1 2024.

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio underperformed the benchmark over three years by -3.15% p.a. A phased redemption of this fund was negotiated with the manager during Q2 2023.

During Q4, the Manager obtained approval from the FCA to terminate and liquidate the fund. This termination was effective from 1st December 2023, and an initial distribution of £5.7 million to investors was made on 12th December 2023, equivalent to approximately 9% of the funds value. After quarter end, the Manager wrote to confirm that the next capital distribution was to take place on 31st May 2024.

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 December 2023 by -3.15% p.a., returning -1.18% p.a. versus the index return of +1.96% p.a. The manager has underperformed over 5 years by -1.76% p.a. The gross yield on the portfolio as at end March 2024 was 5.2%. Adjusting for voids and property management/maintenance costs, however, the yield on the portfolio falls to 2.6%. It is important to note that as the fund goes through its redemption process, yield figures will likely be unreflective due to increasing number of voids, no reletting of vacant properties, and ending of rent reviews.

Portfolio Risk: The cash and liquid instruments on the fund stood at 5.41% (£3.1 million), which is 4.06% higher than at the end of December 2023.

Portfolio Characteristics: By value, the fund has an 8% allocation to detached houses, 33% allocated to flats, 31% in terraced accommodation and 28% in semi-detached.

As at end March there were 208 properties in the portfolio and the fund stood at £56.4 million. London Borough of Islington's investment represents 39.8% of the fund. This compares with 72% at the start of this mandate in 2013.

Organisation and Staff Turnover: There were no joiners or leavers during the quarter to March 2024. Hearthstone have indicated that the Q1 2024 standard report is the last they will be issuing for the fund as it winds down. Consequently, from next quarter, only the redemption process will be reported on in this quarterly update.

Quinbrook – Low Carbon Power Fund and Net Zero Power Fund

Headline Comments: Performance for the three years to March 2024 for the fund was +10.45% p.a. and therefore was behind the target of 12% p.a. by -1.55% p.a.

Mandate Summary: The Low Carbon Power 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. Islington subsequently committed $100m to Quinbrook's Net Zero Power Fund on 25 August 2023. This fund also invests in the UK, US and Australia with an emphasis on net zero transition and a target net return of 12% p.a. over a 5-8 year holding period.

Portfolio Characteristics: Low Carbon Power Fund: as at Q1 2024, on an unaudited basis, the fund had net investment of USD 406.8 million 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 358 MW (including those with minority stakeholders) as at 31 March 2024. There was also an exit during Q1 2024, whereby the remaining Gemini and Valley of Fire assets were sold to a continuation vehicle.

Net Zero Power Fund: as at Q1 2024, on an unaudited basis, the fund had invested USD 562.2 million into projects ranging from solar power plants, battery storage and powered land facilities. As at 31st March 2024 the total operational generating capacity of operational power generating projects which the Fund is invested in is 20 MW (including those with minority stakeholders).

Organisation: During the Quarter, Quinbrook had two leavers, the former COO who left the company following a year-long sabbatical, and a Managing Director in the Capital Formation and Investor engagement department. There were three new joiners, a Marketing and Communications Director, a Senior Financial Controller in Australia, and an Analyst in the UK investment team.

Pantheon – Infrastructure and Private Equity Funds

Headline Comments: Over three years the return on the private equity fund was +5.00% per annum. This compares with a three-year return on listed global equities of +13.53% per annum. The three-year return on the infrastructure fund was +15.30% versus the absolute return target of 10%.

Mandate Summary: As at 31st December 2023, London Borough of Islington have made total commitments of £187.7m across six Pantheon strategies including two US primary funds, two global secondary funds and two global infrastructure funds.

Portfolio Characteristics: The net internal rate of return (IRR) at 31st March 2024 across all strategies was 10.9%, with a net multiple of 1.37x. Over the quarter, there was one capital call for PGIF IV totalling £2.4 million, and two distributions from the 2018 fund and from PUSA VII Ltd for £2.2 million and £0.6 million, respectively.

Overall, the programme's rolled for cash valuation at Q1 2024 was £118.4m, up 0.9% from Q4 2023. It is worth noting that this increase in NAV was caused by the in-period foreign exchange movement and does not reflect any movement in underlying asset value.

Permira – Credit Solutions Senior Fund

Headline Comments: The Permira Credit Solutions V ("PCS5") is part of the pension fund's private debt allocation. To end March 2024 (latest data available) the Fund had a total of 16 investments remaining in the portfolio, and has made one sale. No defaults have been reported. The one year return to end March 2024 stood at 8.43% versus the target absolute return of 6% net of fees.

Churchill – Middle Market Senior Loan Fund

Headline Comments: The Churchill Middle Market Senior Loan Fund IV is part of the private debt allocation. For the quarter to March 2024, it has made 5 new investments and 3 add-ons totalling £48.7 million ($61.6 m). The portfolio has a weighted average net total leverage of 5.3x and a weighted average company EBITDA of USD 79 million. The fund has achieved a return of +9.11% for the year to 31 March 2024, outperforming the absolute target return of +5.00% by -+4.11%, 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 private debt allocation. The fund achieved a return of +3.99% for the year to 31 March 2024, underperforming the target return of +10.0% by -6.01%, although like other private markets investments, performance should normally be assessed over a longer (3-year) time-period. Two new fund investments were closed during the quarter. These contributed towards the invested capital reaching $5.5 billion across 49 portfolio companies as at quarter end. These companies are performing well and the manager expects them to generate strong returns, alongside early signs of a pick-up in buyout activity and emerging junior credit investment opportunities.

Karen Shackleton
Senior Advisor, Apex

6th June 2024