



# London Borough of Islington

Report to 30<sup>th</sup> June 2024

3 September 2024

## Table of Contents

Table of Contents .....	2
Contacts .....	3
Fund Manager Overview .....	4
Individual Manager Reviews .....	10
Legal and General Investment Management (LGIM) – Overseas Equity Index Funds.....	10
Schroders – Diversified Growth Fund (DGF) .....	11
Polen Capital (formerly Columbia Threadneedle/BMO) – Global Emerging Market Growth and Income Fund 12	
LCIV Global Equity Fund (Newton) – Global Active Equities .....	13
LCIV Sustainable Equity Fund (RBC) – global equities .....	15
M&G – Alpha Opportunities Fund .....	16
Standard Life – Corporate Bond Fund .....	17
Aviva Investors – Property – Lime Property Fund .....	19
Columbia Threadneedle – Pooled Property Fund .....	21
Franklin Templeton – Global Property Fund.....	23
Hearthstone – UK Residential Property Fund.....	25
Quinbrook – Low Carbon Power Fund and Net Zero Power Fund .....	26
Pantheon – Infrastructure and Private Equity Funds.....	26
Permira – Credit Solutions Senior Fund .....	27
Churchill – Middle Market Senior Loan Fund .....	27
Crescent – Credit Solutions Fund.....	27

## Contacts

Karen Shackleton  
Senior Adviser  
+44 20 7079 1000

[karen.shackleton@apexgroup-fs.com](mailto:karen.shackleton@apexgroup-fs.com)

Whilst care has been taken in compiling this document, no representation, warranty or undertaking (expressed or implied) is given and neither responsibility nor liability is accepted by Apex Group plc or any of its affiliates, their respective directors, consultants, employees and/or agents (together, "Protected Persons") as to the accuracy, efficacy or application of the information contained herein. The Protected Persons shall not be held liable for any use and / or reliance upon the results, opinions, estimates and/or findings contained herein which may be changed at any time without notice. Any prospective investor should take appropriate separate advice prior to making any investment. Nothing herein constitutes an invitation to make any type of investment. This document is intended for the person or company named and access by anyone else is unauthorised.

Apex's Investment Advisory business comprises the following companies: Apex Investment Advisers Limited (no. 4533331) and Apex Trustee Services Limited (no. 12799619), which are limited companies registered in England & Wales. Registered Office: 6th Floor, 125 London Wall, London, EC2Y 5AS. Apex Investment Advisers Limited (FRN 539747) is an Appointed Representatives of Khepri Advisers Limited (FRN 692447) which is Authorised and Regulated by the Financial Conduct Authority



## 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
<b>Legal and General (passive equities)</b>	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 £4.73 billion at end June 2024.
<b>Schroders (multi-asset diversified growth)</b>	There were no team changes during Q2 2024.	Fund made a return of +1.35% during the quarter and delivered a return of +0.48% p.a. over 3 years, -12.93% p.a. behind the target return.	Total AUM stood at £773.7 billion as at end June 2024, up from £750.6 billion as at end December 2023.
<b>Polen Capital (active emerging equities)</b>	Not reported by Polen	Underperformed the benchmark by -4.85% in the quarter to June 2024. The fund is behind over three years by -1.59% p.a. and by -4.3% p.a. over five years.	Total AUM stood at approximately \$66bn as at end December 2023 (most recent data available).

<p><b>LCIV Global Equity Fund (Newton) (active global equities)</b></p>	<p>The monitoring status of the Sub-fund was downgraded to 'Enhanced' in September 2023 following the departure of the lead portfolio manager. This was confirmed in February 2024, but with a positive outlook. LCIV will update the monitoring status again in Q3 2024.</p>	<p>The LCIV Global Equity Fund underperformed its benchmark during Q2 2024 by -0.48%. Over three years the portfolio outperformed the benchmark by +1.05% p.a. but was behind the performance target of benchmark +1.5% p.a. Over five years it remains ahead of the benchmark by +0.80% p.a.</p>	<p>At the end of Q2 2024, the London CIV sub-fund's assets under management were £619.8 million. London Borough of Islington owns 49.29% of the sub-fund.</p>
<p><b>LCIV Sustainable Equity Fund (RBC)</b></p>	<p>Given the Sub-fund's 'Enhanced' monitoring status, LCIV continue to monitor 'Resourcing', 'Process' and 'Investment Risk', where LCIV have identified weaknesses and assigned an 'Amber' score in their last in-depth review.</p>	<p>Over Q2 2024, the fund made a return of +2.25%, and this underperformed the benchmark return of +2.56%. The one-year return was +18.57%, positive in absolute terms but behind the benchmark by -2.31%. The three-year return underperformed the benchmark by -6.99% p.a.</p>	<p>As at end June 2024 the sub-fund's value was £1,443 million. London Borough of Islington owns 13.66% of the sub-fund.</p>

<b>M&amp;G Alpha Opportunities Fund</b>	<p>Not reported by the manager.</p>	<p>The Fund made a return of +1.83% over Q2 2024, underperforming the target return by -0.28%. Over three years, the fund returned +5.15% which was behind the target return by -1.22% p.a.</p>	<p>The fund size was £5.47 billion as at end June. London Borough of Islington's investment amounts to 1.61% of the fund.</p>
<b>Standard Life (corporate bonds)</b>	<p>There were 5 joiners and 15 leavers during the quarter. There were two leavers from the fixed income group, including an Investment Director in the UK, and a Credit Research Analyst in the US.</p>	<p>The portfolio outperformed the benchmark return during the quarter by +0.21%, delivering an absolute return of +0.08%. Over three years, the fund was behind the benchmark return (by -0.05% p.a.) and behind the performance target of +0.80% p.a.</p>	<p>As at end June the fund's value was £1,975 million, down from £2,036 million as at end March. London Borough of Islington's holding of £73.1m stood at 3.7% of the total fund value.</p>
<b>Aviva (UK Property)</b>	<p>There were no joiners or leavers during the quarter.</p>	<p>Outperformed against the gilt benchmark by +2.96% for the quarter to June 2024 and outperformed the benchmark over three years by +8.85% p.a., delivering a return of -2.12% p.a., net of fees.</p>	<p>The fund was valued at £2.56 billion as at end Q2 2024. London Borough of Islington owns 7.1% of the fund.</p>

<b>Columbia Threadneedle</b>	<p>There were some real estate departures, but none relating to the TPEN Property team.</p>	<p>The fund outperformed the benchmark in Q2 2024, with a quarterly return of +1.29% compared with +1.15% for the benchmark. Over three years, the fund is outperforming the benchmark by +1.09% p.a.</p>	<p>Pooled fund has assets of £1.47 billion. London Borough of Islington owns 8.3% of the fund. This compares with 2018 when the pension fund owned just 4% of the fund.</p>
<b>Franklin Templeton (global property)</b>	<p>Not reported.</p>	<p>The portfolio return over three years was -1.63% p.a., and so behind the target of 10% p.a. Over 5 years the fund is behind the benchmark by -11.22% p.a.</p>	<p>£1,640 billion of assets under management for the Franklin Templeton Group as at end May 2024 (most recent data available).</p>
<b>Hearthstone (UK residential property)</b>	<p>Not reported.</p>	<p>The fund underperformed the IPD UK All Property Index by -1.13% p.a. for the three years to end June 2024 although is now being redeemed.</p>	<p>Fund was valued at £52.9m at end Q2 2024. London Borough of Islington owns 39.9% of the fund which is now in a redemption process.</p>
<b>Quinbrook (renewable energy infrastructure)</b>	<p>There were 5 joiners and no leavers during the quarter.</p>	<p>For the three years to Q2 2024 the fund returned +10.94% p.a., and therefore was behind the annual target return of +12.00% p.a.</p>	<p>Net Assets were £602 million as at June 2023 (latest figures available).</p>



<b>Pantheon (Private Equity and Infrastructure Funds)</b>	Not reported.	The private equity fund returned +4.87% p.a. over three years, and +2.46% p.a. over five years, behind the benchmark. The infrastructure fund returned +15.31% p.a. over three years to end June relative to the target of 10% p.a.	\$65bn of assets under management as at December 2023 (latest figures available).
<b>Churchill (Middle Market Senior Loan Fund)</b>	Not reported.	Over 1-year, the fund is outperforming the absolute return target of 5% by +7.52%, delivering a return of +12.52%.	\$50bn of committed capital for parent Nuveen as at 31 March 2024.
<b>Crescent (Credit Solutions Fund)</b>	Not reported.	The fund returned +14.32% for the year to March 2024, outperforming the target return of +10%.	\$40 billion of assets under management as at March 2024. (latest figures available)
<b>Permira</b>	Not reported.	The fund returned +9.44% 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 FTSE-RAFI Emerging Markets Reduced Carbon Pathway fund had a higher-than-expected tracking error this quarter. The MSCI World Low Carbon Target index fund, and the ESG Paris Aligned World Equity Fund were within the expected ranges, however, when compared with their respective benchmarks, in Q2 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 two World index funds tracked their respective benchmarks as expected, as shown in Table 2. The wider MSCI World Index returned +6.32%, compared with +2.94% for the MSCI World Low Carbon Index and +3.81 % for the Solactive Paris Aligned World Index. The RAFI Emerging markets index fund had an unusually high tracking error in the quarter. The manager has been asked for a comment to explain this.

**TABLE 2:**

	Q2 2024 Fund	Q2 2024 Index	Tracking
FTSE – RAFI Emerging Markets	+4.85%	+6.32%	-1.47%
MSCI World Low Carbon Target	+2.79%	+2.94%	-0.15%
ESG Paris Aligned World Equity Fund	+3.97%	+3.81%	+0.15%

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 49.57% to the MSCI World Low Carbon Target index fund, 41.93% to the ESG Paris Aligned World Equity Fund, and 8.50% 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 +1.35% in Q2 2024, and in relative terms it underperformed the RPI + 5% target by -0.99% (as reported in the BNY performance report) but

outperformed the cash + 4.5% target by 1.05% (this being the manager's preferred target since March 2022). Over three years, the fund is behind the RPI + 5% target return by -12.93% p.a. and behind the manager's own target by -8.72% 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 +1.35% in Q2 2024 while global equities (MSCI All Country World Index hedged to sterling) made a return of +3.4%. Over three years, the DGF delivered a return of +0.48% p.a.

In Q2 2024, equity positions contributed +1.3% to the total return, alternatives contributed +0.3%, cash and currency contributed +0.3%, while credit and government debt detracted -0.5% (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 15.2% in global equities (i.e., 45.0% of the volatility) which is in line with target.

**Portfolio Characteristics:** The fund had 87.1% in internally managed funds (up 15.1% from last quarter), 0% in active bespoke solutions (same as last quarter), 0.8% in externally managed funds (1% last quarter), and 7.5% in passive funds (down 15.5% last quarter) with a residual balance in cash, 4.6% (up 0.6% from last quarter), as at end June 2024. In terms of asset class exposure, 49.9% was in equities, 22.6% was in alternatives, 22.8% 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.

The baseline forecast from the Manager predicts a soft landing for the global economy, highlighting solid growth and steady disinflation, which supports a positive outlook for equities while adopting a neutral stance on government bonds. A robust US economy is expected to drive global growth, although inflation remains slightly stickier than anticipated. Geopolitical risks and potential inflationary pressures pose challenges, emphasizing the need for diversification in investment strategies amid an evolving political landscape.

As at end Q2 2024, Schroders reported that the carbon intensity of the fund (scopes 1, 2 and 3) was 69% of the comparator (a mix of equities, bonds, and alternative indices), although the manager notes that coverage is only at 68% of the portfolio (compared with 93% for the comparator).

**Organisation:** There was no team change during the quarter.

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

**Headline Comments:** The portfolio made a return of +0.19% in Q2 2024, compared with the benchmark return of +5.05%, an underperformance of -4.86%. Over one year the fund is behind the benchmark by -6.47%, and over three years it is trailing by -1.59% per annum.

**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 Vietnam contributed positively to performance (+1.27%), though overexposure to Uruguay detracted from performance (-2.14%).

During the quarter, the largest positive contributors to the quarterly relative return came from Tencent Music Entertainment (+1.53% and the largest holding in the portfolio at 7.7%), Fpt Corp (+0.84%), and Hdfc Bank (+0.48%). Companies which detracted most from performance included Dlocal Ltd (-2.15%), Epam Systems Inc. (-0.93%), and Fomento Economico Mexica-Ubd (-0.73%). *(Return contributions in US dollar terms).*

**Portfolio Risk:** Within the emerging markets portfolio there is a 20.1% allocation to non-benchmark countries (excluding the holding in Cash & Equivalents). The largest overweight country allocation in the emerging markets portfolio was Vietnam (+7.6% overweight – the benchmark has a zero allocation). The most underweight country allocation was Taiwan (-8.2%). The manager also held 19.4% of the portfolio in three developed countries, compared with the benchmark which had just 1.2% in Hong Kong, 1.1% in Ireland, and 0.3% in United States.

**Portfolio Characteristics:** The largest absolute stock positions were Taiwan Semiconductor Manufacturing Co Ltd at 7.4% and Tencent Music Entertainment Group at 6.7% of the portfolio, while the largest absolute country position was China/HK and accounted for 32.62% of the portfolio.

**Staff Turnover/Organisation:** Not reported by Polen.

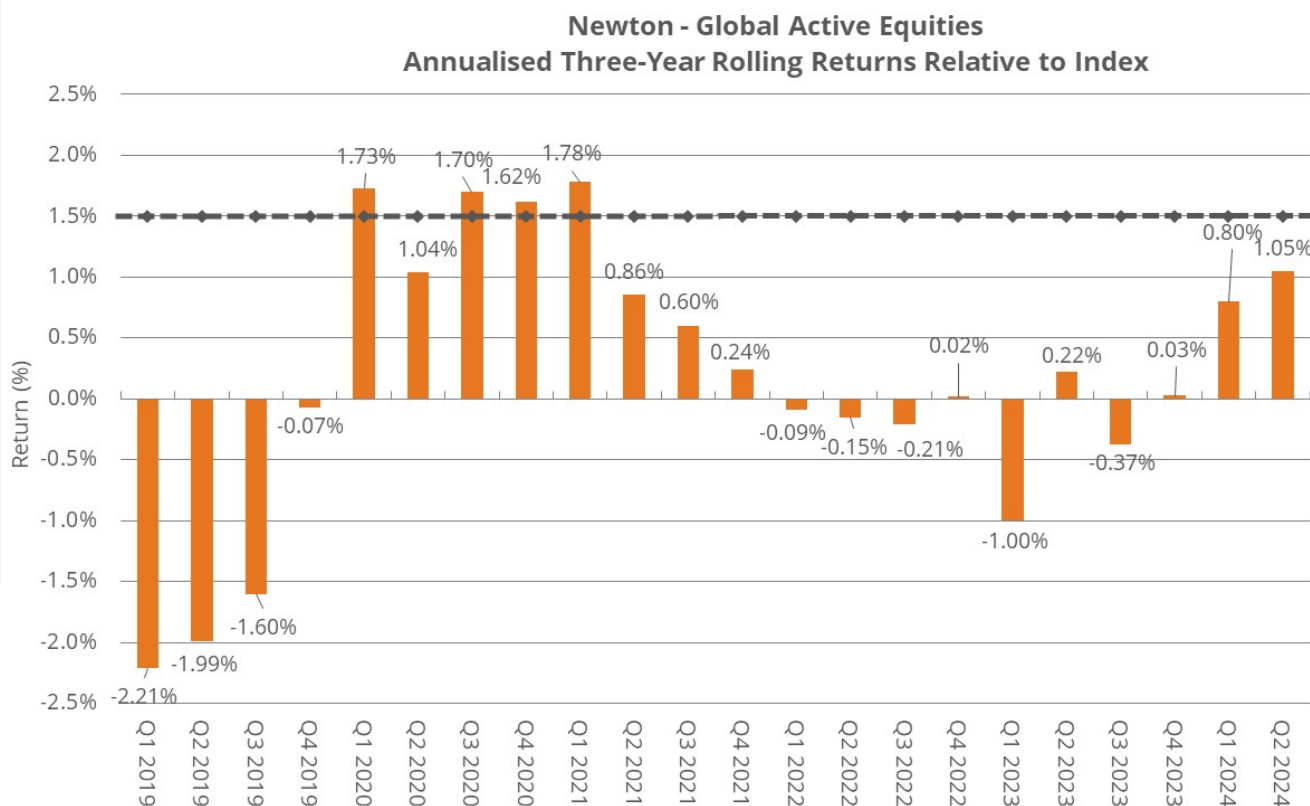
## LCIV Global Equity Fund (Newton) – Global Active Equities

**Headline Comments:** The LCIV Global Equity Fund underperformed its benchmark during Q2 2024 by -0.48%. Over three years the portfolio outperformed the benchmark by +1.05% p.a. Over five years the manager is ahead of the benchmark return by +0.80% 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 +1.05% p.a. to end Q2 2024, and as such is underperforming the performance objective by -0.45% p.a. (the performance objective is shown by the dotted line), but the picture is continuing to improve.

Positive contributions to the total return came from holdings such as Nvidia (+1.08%), Apple (+0.80%), and Taiwan Semiconductor Manufacturing (+0.64%). Negative contributions came from positioning in XP Inc. (-0.39%), Accenture (-0.26%), and LVMH Moet (-0.26%).

In its peer group analysis, the London CIV reported that Newton is now delivering returns above the median over 3 years and 5-years, as well as over the longer time horizons (seven and ten years). Over the past three years the risk has been low relative to peers.

**Portfolio Risk:** The active risk on the portfolio stood at 2.97% as at quarter end, slightly lower than as at end March when it stood at 3.07%. The portfolio remains defensive, with the beta on the portfolio at end June standing at 0.93 (if the market falls by -10% the portfolio can be expected to fall -9.3%).

At the end of Q2 2024, the London CIV sub-fund's assets under management were £619.8m, compared with £605.4m last quarter. London Borough of Islington now owns 49.34% of the sub-fund.

**Portfolio Characteristics:** The number of stocks in the portfolio stood at 58 as at quarter-end (same as last quarter). The fund added seven positions, and made seven sales.

The portfolio continues to be heavily weighted to Technology (an allocation of 23.4%), but the portfolio is underweight (-2.5%) to the sector. That being said, this is a reduction in exposure since last quarter. The Manager has actively adjusted the portfolio to maintain balanced exposure to company performance drivers. While optimistic about high-profile companies, there are concerns about ambitious expectations and lofty valuations, prompting the trimming of favoured positions.

This ties in with Newton's new 'brand proposition' in which they announced 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 (15.7%) 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 Q2 2024, LCIV reported that the Newton sub fund had a weighted average carbon intensity of 70% that of the benchmark index (the MSCI World Index). The highest contributor was CRH (15.83% contribution to the weighted average carbon intensity) followed by Linde plc (12.96% contribution).

The Manager has a generally cautious view about companies in the oil and gas sector and, 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. This was confirmed in February 2024, but with a positive outlook. LCIV will update the monitoring status again in Q3 2024.

**Staff Turnover:** No staff changes reported by London CIV.

## LCIV Sustainable Equity Fund (RBC) – global equities

**Headline Comments:** Over Q2 2024 the fund made a return of +2.25%. This underperformed the benchmark return by -0.31%. The one-year return was +18.57%, positive in absolute terms but behind the benchmark by -2.31%. The three-year underperformance was -6.99% 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 underperformed the benchmark in Q2 2024 but has made a gain for the quarter in absolute terms. The portfolio has overweight allocations to the Consumer Staples, Materials, Industrials, Consumer Discretionary, and Health Care sectors. Over the quarter the largest contributors to return included Nvidia (+1.65), Taiwan Semiconductor Manufacturing (+0.92%), and Alphabet (+0.72%). The largest detractors include positioning in Fortive Holdings (-0.55%), MarkAxess Holdings (-0.52%), and Salesforce (-0.40%).

The London CIV compares managers against their peer group and reported that RBC is performing well over the long term (7 to 10 years). However, medium term (1 year to 5 years) has been poor, with the account ranking in the bottom two quartiles. There has been an improvement, however and for the year

to date, the return is on the cusp of the first/second quartile. Absolute risk and maximum drawdown are higher than the median.

**Portfolio Characteristics:** As at end of June 2024 the fund had 39 holdings (remain same from last quarter) across 13 countries. The active risk of the fund was 3.56%, slightly higher than Newton the other active global equity manager.

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

The London CIV reported that the RBC sub fund had a weighted average carbon intensity of 94% of the benchmark index (the MSCI World Index) as at end June 2024. This is an increase of 21% from last quarter, which is a concern given that this is a sustainable mandate. Whilst the carbon footprint is still lower than the benchmark, it would be reasonable to expect the WACI to be somewhat lower than 94% of the benchmark WACI. Two holdings contribute to a third of the portfolio's carbon intensity: CRH Plc (20.6%) and Intercontinental Hotels (12.9%)

The London CIV performed an in-depth review of this fund in February 2024 and have moved the overall rating for this manager from "normal" to "enhanced monitoring". They downgraded their ratings for resourcing (in light of high junior staff turnover), financial processes, investment processes (loss of confidence in the ability of the team to execute the process effectively) and risk management. LCIV will undertake another deep dive review in September 2024.



## M&G – Alpha Opportunities Fund

**Headline Comments:** During Q2 2024 the M&G Alpha Opportunities Fund made a return of +1.83%, underperforming the benchmark return of +2.11%. Over one year it is outperforming the benchmark (cash plus 3.5%) by +2.31% but is underperforming the benchmark over 3 years by -1.21% 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 +1.83% 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 (+0.52%), with financial corporate bonds also performing well (+0.28%). Utility Corporate Bonds marginally detracted from performance over the quarter (-0.04%), but the largest detractor was residual differences due to currency rates and securities pricing (-0.31%). Over one year, the fund is outperforming the target return by +2.31% p.a.

**Portfolio Characteristics:** The largest allocations in the portfolio were to Net cash and derivatives (25%), Financials (23%), and Industrials (19%). 30% of the portfolio was rated BB\* or below. During the second quarter, the Manager focused on taking profits and reducing exposure to various REITs, high-yield issuers, and subordinated financials, directing proceeds toward liquid, defensive assets like cash and high-quality supranationals. The Manager capitalized on idiosyncratic opportunities, purchasing bonds from high-quality insurers and investment-grade European banks, while executing several relative value transactions by switching between different bond maturities.

In terms of outlook, the Manager feels that the credit markets are performing strongly, with spreads nearing historically tight levels, but recent unexpected events, like the snap French legislative elections, highlight the market's sensitivity to surprises. As upcoming global elections and high financing costs loom, the manager is taking a patient and selective approach to fixed income investment, to capitalize on potential opportunities amid possible market volatility.

As at end June, the weighted average carbon intensity (WACI) of the portfolio was 25% of the WACI of a benchmark index, with 64% of the portfolio being measured where data was available (compared with 89% coverage for the benchmark).

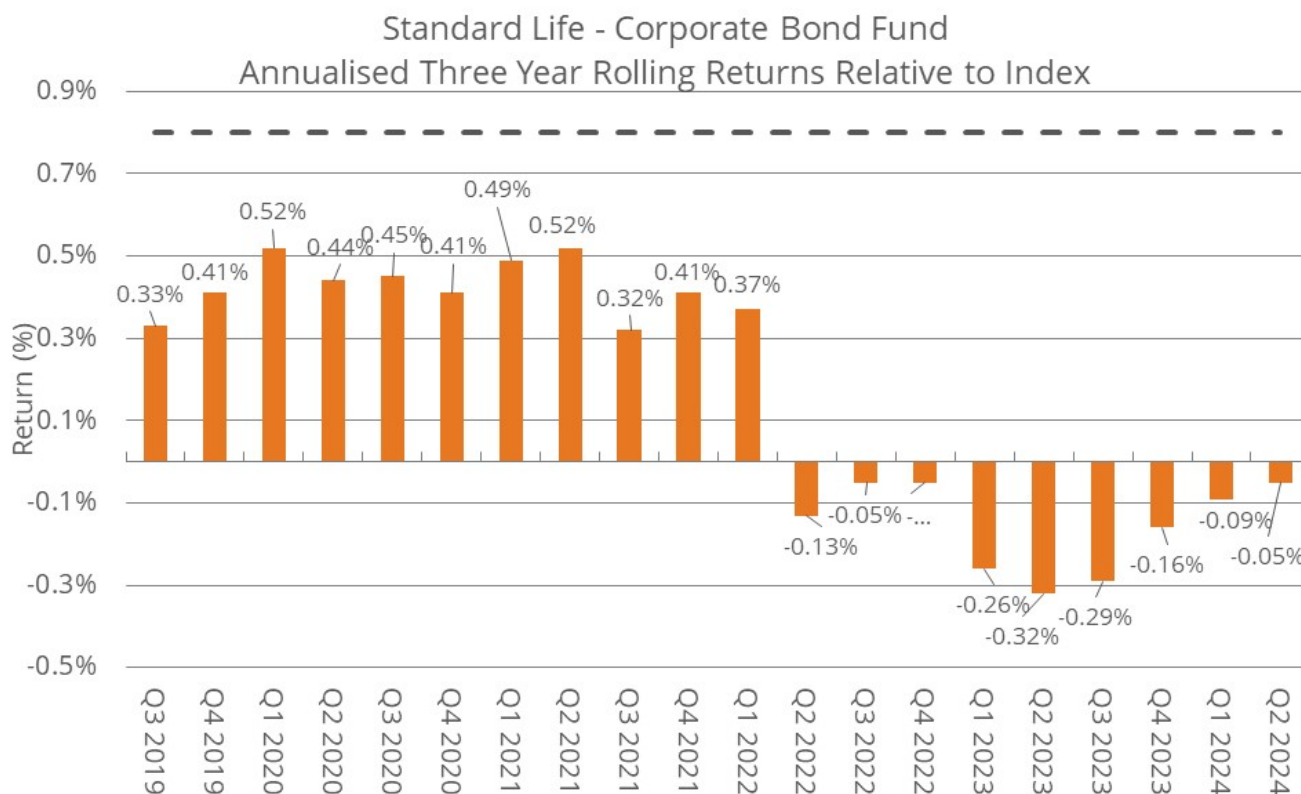
## Standard Life – Corporate Bond Fund

**Headline Comments:** The portfolio outperformed the benchmark return during the quarter by +0.21% and made an absolute return of +0.08%. Over three years, the fund was behind the benchmark return (by -0.05% p.a.) for the ninth 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 -3.96% p.a. net of fees, compared to the benchmark return of -3.91% p.a.

**Portfolio Risk:** The largest holding in the portfolio at quarter-end was in UK Gilts, at 6.2% of the portfolio.

**Portfolio Characteristics:** The value of Standard Life’s total pooled fund at end June 2024 stood at £1,975 million. London Borough of Islington’s holding of £73.1m stood at 3.7% of the total fund value. This allocation is being gradually drawn down to fund the infrastructure investments.

**Staff Turnover:** There were 5 joiners and 15 leavers during the quarter. There were two leavers from the fixed income group, including an Investment Director, and a Credit Research Analyst.

## Aviva Investors – Property – Lime Property Fund

**Headline Comments:** The Lime Fund made a return of +1.11%. It outperformed the benchmark return by +2.96% in Q2. Over three years, the fund is ahead of the benchmark return by +8.85% p.a., albeit

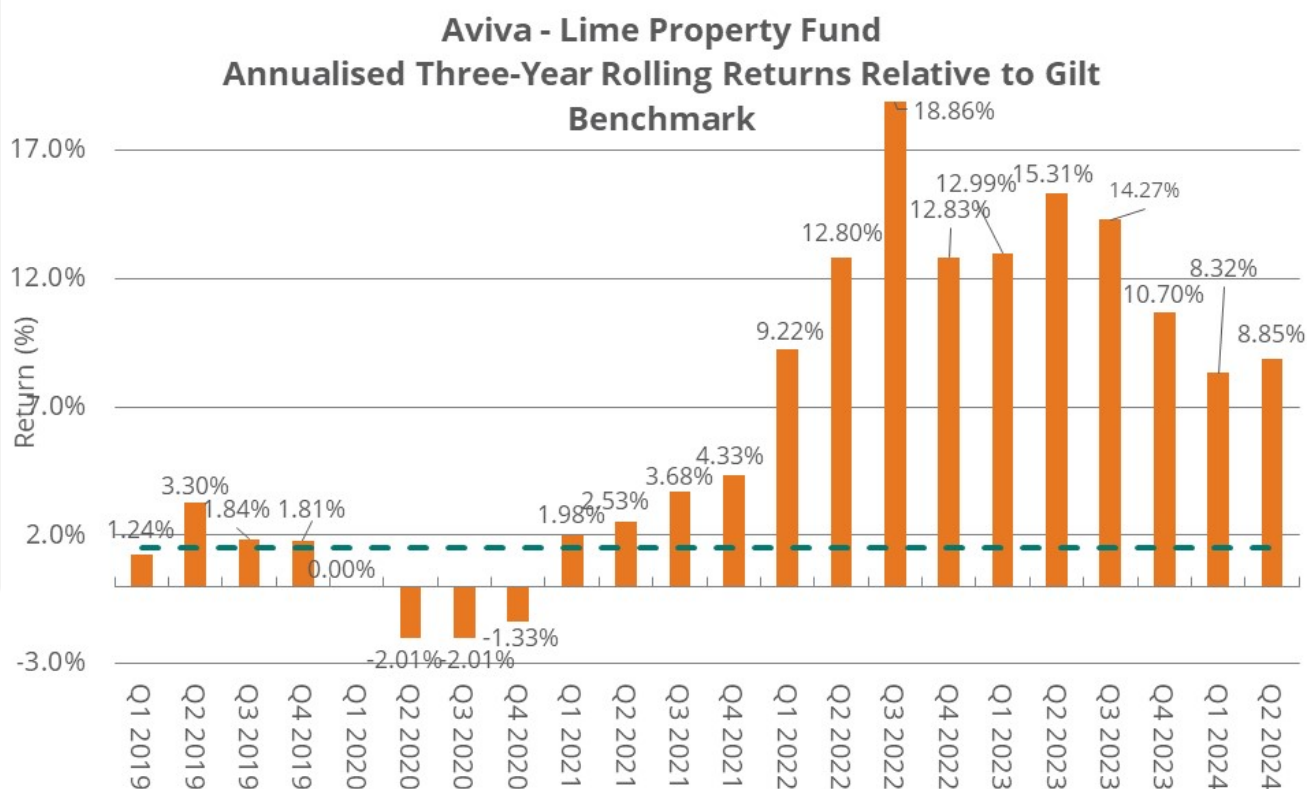
delivering a negative absolute return of -2.12%. Over one-year the fund has underperformed by -5.07%. It is ahead of the benchmark since inception in October 2004, by +1.61% p.a.

**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 2024 return was attributed by Aviva to +0.03% capital return and +1.12% income return.

Over three years, the fund has returned -2.12% p.a., ahead of the gilt benchmark of -10.97% p.a., and ahead of its outperformance target of +1.5% p.a., as can be seen in Chart 3.

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.

This quarter, the Manager completed on a sale on of a £26 million portfolio of three Premier Inn hotels let for another 12 years. The Fund's annual redemption window closed on 30<sup>th</sup> June, 2024, with the number of units investors wishing to redeem exceeding expectations. Redemptions currently represent about 12% of NAV. The Manager plans to sell approximately £150 million of property by year-end to raise capital for these redemptions, but full payment may be deferred until 2025 due to ongoing liquidity challenges, which are expected to improve alongside planned interest rate cuts.

The average unexpired lease term was 20.20 years as at end June 2024. 11.9% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 22.84% (proportion of current rent), and the number of assets in the portfolio is 74. The weighted average tenant credit quality rating of the Lime Fund remained at BBB+ this quarter.

**Portfolio Characteristics:** As at June 2024, the Lime Fund had £2.56 billion of assets under management, a decrease of -£4 million from the previous quarter end. London Borough of Islington's investment represents 7.1% of the total fund.

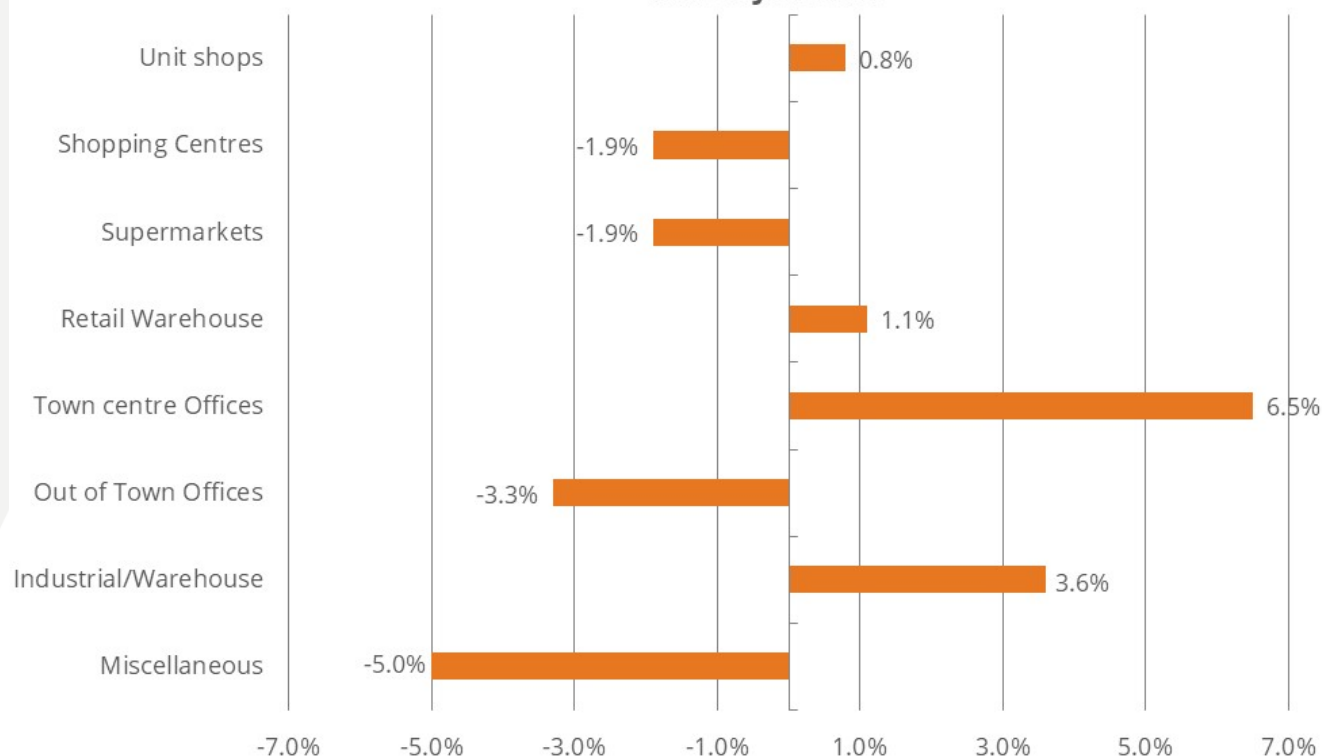
**Staff Turnover/Organisation:** There were no joiners or leavers during Q1 2024.

## Columbia Threadneedle – Pooled Property Fund

**Headline Comments:** The fund delivered a positive absolute return and outperformed the benchmark in Q2 2024, with a quarterly return of +1.29% compared to the benchmark return of +1.15%. Over three years, the fund outperformed the benchmark by +1.09% p.a.

**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:**
**Columbia Threadneedle Property Fund Positions Relative to IPD Index at End Jun-2024**


Source: Apex; Columbia Threadneedle

During the quarter, the fund made no acquisitions and one sale. The cash balance at end March was 7.2%, 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.

The Manager believes that following a sustained period of downward pressure on capital values, UK Real Estate is positioned for a cyclical capital recovery, supported by an improved macro-economic outlook and resilient rental growth. The Manager expects the portfolio to achieve positive long-term total returns through active property asset management, with high conviction in sectors like industrials and retail warehousing, which benefit from strong demand and sustainable rental income.

**Performance Attribution:** The fund outperformed the benchmark in Q2 2024, with a quarterly return of +1.29% compared to +1.15%. This was split evenly between capital and income return. The fund's holdings in retail assets and offices outperformed the benchmark during the quarter. Over 1-year the fund outperformed the benchmark by +1.32%. The fund is now outperforming the benchmark over three years by +1.09% p.a.

**Portfolio Characteristics:** As at end June 2024, the fund was valued at £1.47bn, £30m higher than the fund's value in March 2024. London Borough of Islington's investment represented 8.34% of the fund.

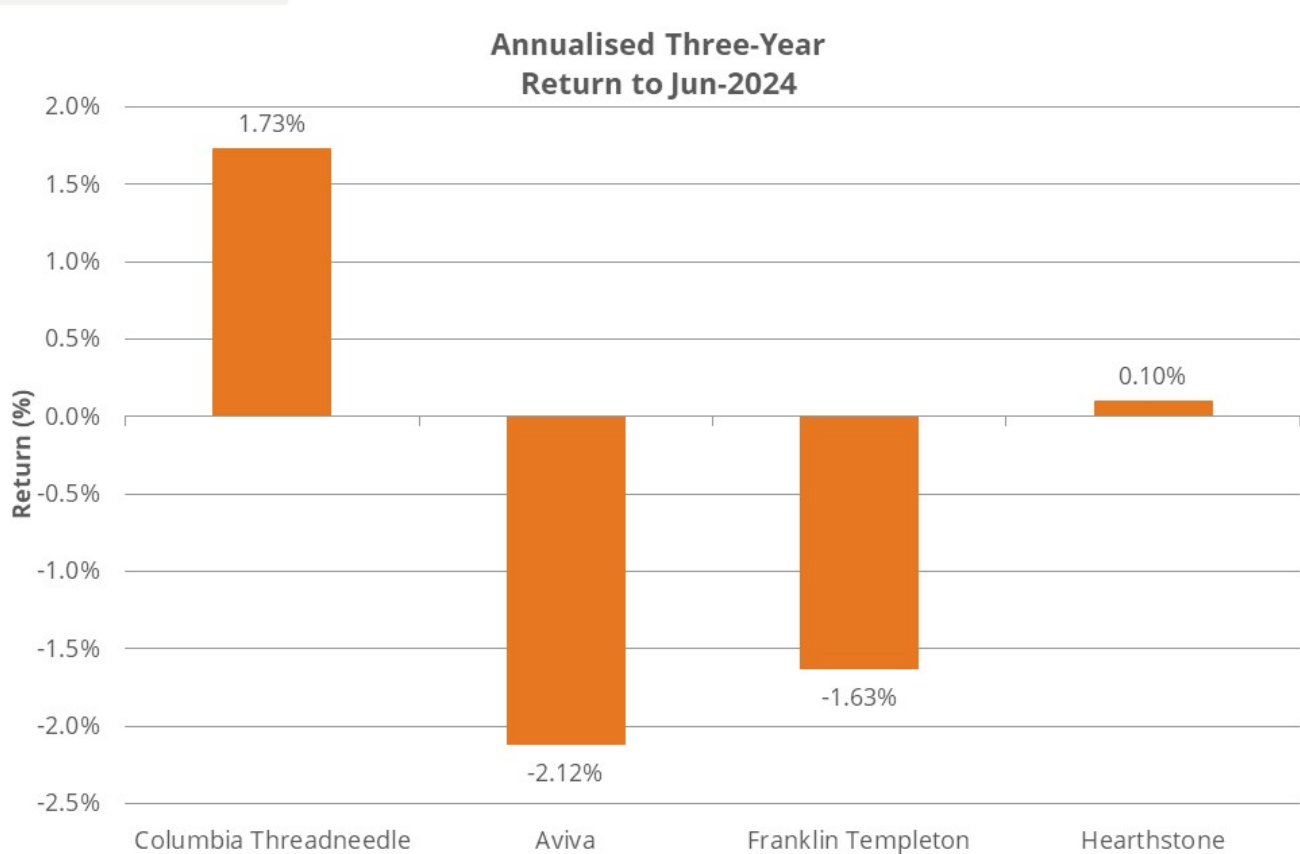
**Staff Turnover:** During the quarter there were 2 joiners and 14 leavers. Some of the departures were from the real estate team, but none related specifically to the TPEN fund in which London Borough of Islington invests.

## 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 -11.63% 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:** With the poor relative performance, over the three years to June 2024, Franklin Templeton ranks the second lowest 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 final portfolio was comprised of a total of 14 investments. 12 of these are fully realized and liquidated. 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 original target return, to date.

The last two investments remaining in Fund I are in the US (80% of funds invested), and Europe (20%). FCPII, in the US, has received approval to extend the life of the fund to June 2025 while residual assets are sold. GO Spain has had a tax appeal ongoing, and the sponsor is trying to negotiate an earlier exit.

Fund II is fully invested in a diverse mix of property sectors including office, industrial and retail uses. As at end June 2024, 83.0% of committed capital had been distributed and there now remain six active underlying holdings, with four having been realised. Leverage remains at 52% for the quarter to June 2024. The Manager notes that significant uncertainties persist regarding the pace and timing of interest rate changes. The Manager believes that as these uncertainties continue to exert pressure on poorly capitalized real estate owners, it is creating attractive entry points for buyers of real estate investments.

The largest geographic allocation in Fund II is to Europe (71% 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 ten investments, two of the original ten having already been realised, and one further investment made in Q2 2024. This new investment consists of a hotel in a suburb of Austin. There was no change to the total distributions made over the period, and no new realisations. The portfolio is allocated 46% to Europe and 54% to the US.

**Staff Turnover/Organisation:** Not reported.

## Hearthstone – UK Residential Property Fund

**Headline Comments:** The portfolio underperformed the benchmark over three years by -1.13% p.a. A phased redemption of this fund was negotiated with the manager during Q2 2023.

The Manager has commented their performance figures are still missing the fund's capital distributions in Islington's BNY performance report hence their 12-month and 3-year performance figures are understated. This is despite them contacting BNY about the issue.

At the end of Q2 the fund had completed on 16 property sales for a total of £4.4m since its termination began in December, had agreed sales on 70 for a total of £20.4m, and had a further 45 on the market for a total asking price of £12m. A second distribution of £3.1m to investors was made on 31<sup>st</sup> May 2024. The Manager wrote to confirm that further distributions will be made on the same payment dates as income distributions (end of February, May, October, and November).

**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:** According to the BNY performance report, the fund underperformed the IPD index over the three years to June 2024 by -1.13% p.a., returning +0.10% p.a. versus the index return of +1.23% p.a. The Manager has underperformed over 5 years by -1.34% p.a. The Manager reported a slight downward valuation of the property portfolio at -0.52% for the quarter, with the impact mitigated by the net income collected. Rental income remains strong at 99% collection on occupied properties over the past 12 months, but with over 50% of pre-termination holdings either sold, under offer, or on the market, rental income is inevitably expected to decrease in the upcoming quarters.

**Portfolio Risk:** The cash and liquid instruments on the fund stood at 0.49%, which is 4.92% lower than at the end of March 2024. A second capital distribution was paid on 31<sup>st</sup> May 2024, with Islington receiving £1,229,297.

**Portfolio Characteristics:** By number, the fund has an 5% allocation to detached houses, 38% allocated to flats, 30% in terraced accommodation and 27% in semi-detached.

As at end June there were 208 properties in the portfolio and the fund stood at £52.9 million. London Borough of Islington's investment represents 39.9% of the fund. This compares with 72% at the start of this mandate in 2013.

**Organisation and Staff Turnover:** a Deputy Fund Manager left during the quarter.

## Quinbrook – Low Carbon Power Fund and Net Zero Power Fund

**Headline Comments:** Performance for the three years to June 2024 for the fund was +10.94% p.a. and therefore was behind the target of 12% p.a. by -1.06% 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 Q2 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 30<sup>th</sup> June 2024.

Net Zero Power Fund: as at Q2 2024, on an unaudited basis, the fund had invested USD 707.6 million into projects ranging from solar power plants, battery storage and powered land facilities. As at 30<sup>th</sup> June 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 no leavers reported. There were five new joiners, a Senior Financial Controller and an Office Manager in the London office, a Finance Manager based in the Houston office, a Finance Associate and an Office Manager based in the Brisbane.

## Pantheon – Infrastructure and Private Equity Funds

**Headline Comments:** Over three years the return on the private equity fund was +4.87% per annum. This compares with a three-year return on listed global equities of +11.92% per annum. The three-year return on the infrastructure fund was +15.31% versus the absolute return target of 10%.

**Mandate Summary:** As at 30<sup>th</sup> June 2024, London Borough of Islington have made total commitments of £187.7 million 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 30<sup>th</sup> June 2024 across all strategies was 10.7%, with a net multiple of 1.37x. Over the quarter, there was one capital call for PGIF IV totalling £2.4 million, and one distribution from the 2018 fund for £0.79 million.

Overall, the programme's rolled for cash valuation at Q2 2024 was £121.2m, up 2.4% from Q1 2024. It is worth noting that there was a negative in-period FX movement of 0.1%, however this does not reflect any uplift in underlying asset values as it is based on a rolled for cash valuation.

## 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 22 investments remaining in the portfolio and has realised three investments. No defaults have been reported. The one-year return to end June 2024 stood at 9.44% 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 June 2024, it has made 12 new investments and 6 add-ons to existing holdings, totalling £76.6 million (\$96.9 m). The portfolio has a weighted average net total leverage of 5.3x. The fund has achieved a one-year return of +12.52% as to 30 June 2024, outperforming the absolute target return of +5.00% by +7.52%, 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 1-year return of +14.32% as to 30 June 2024, outperforming the target return of +10.0% by +4.32%, although like other private markets investments, performance should normally be assessed over a longer (3-year) time-period. Three new fund investments were closed during the quarter. These contributed towards the invested capital reaching \$5.8 billion across 52 portfolio companies as at quarter end. The Manager stated these companies are performing well and the manager expects them to generate strong returns in an attractive rate environment that the Managers expect to continue. No defaults were reported.

Karen Shackleton  
Senior Advisor, Apex

3<sup>rd</sup> September 2024