

Regulatory and Other Committee

Open Report on behalf of Executive Director of Finance and Public Protection

Report to:	Pensions Committee
Date:	08 October 2015
Subject:	Investment Management Report

Summary:

This report covers the management of the Lincolnshire Pension Fund assets, over the period from 1st April to 30th June 2015.

Recommendation(s):

That the committee note this report.

Background

This report is split into four areas:

- Funding Level Update
- Fund Performance & Asset Allocation
- Hymans Robertson Manager Ratings
- Individual Manager Update

1. Funding Level Update

1.1 The funding update is provided to illustrate the estimated development of the funding position from 31st March 2013 to 30th June 2015, for the Fund.

1.2 As the graph below shows, the funding level at the latest formal valuation was 71.5%. As at 30th June 2015 the funding level has decreased to 71%.

1.3

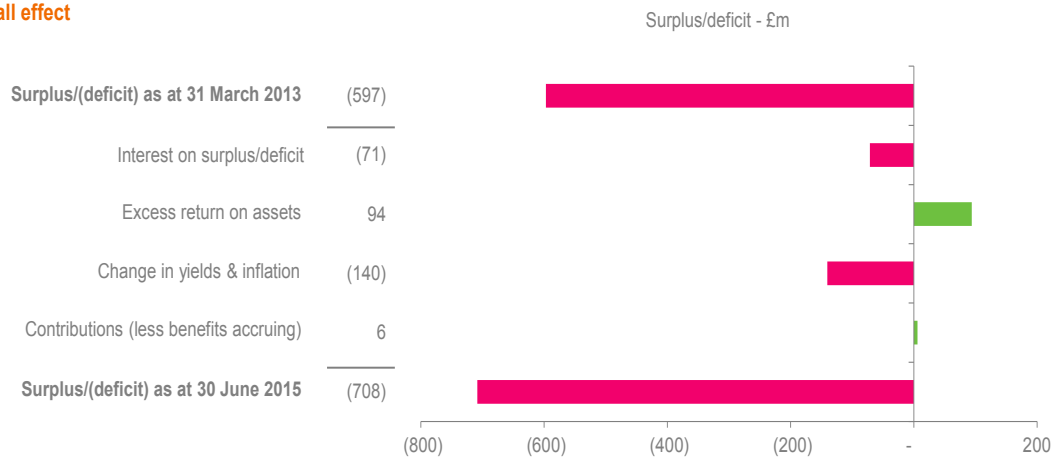
Change in funding level since last valuation



- 1.4 As shown below, the deficit in real money has increased from £597m to £708m between the period 31st March 2013 and 31st March 2015. This is largely as a result of a decrease in bond yields, and subsequent discount rate, which places a higher value on the Fund's liabilities. This has been exacerbated by an increase in inflation.

What's happened since last valuation?

Overall effect



- 1.5 In the period since 31st March 2015, the funding level has risen from 70.5% to 71% as a result of good investment performance.

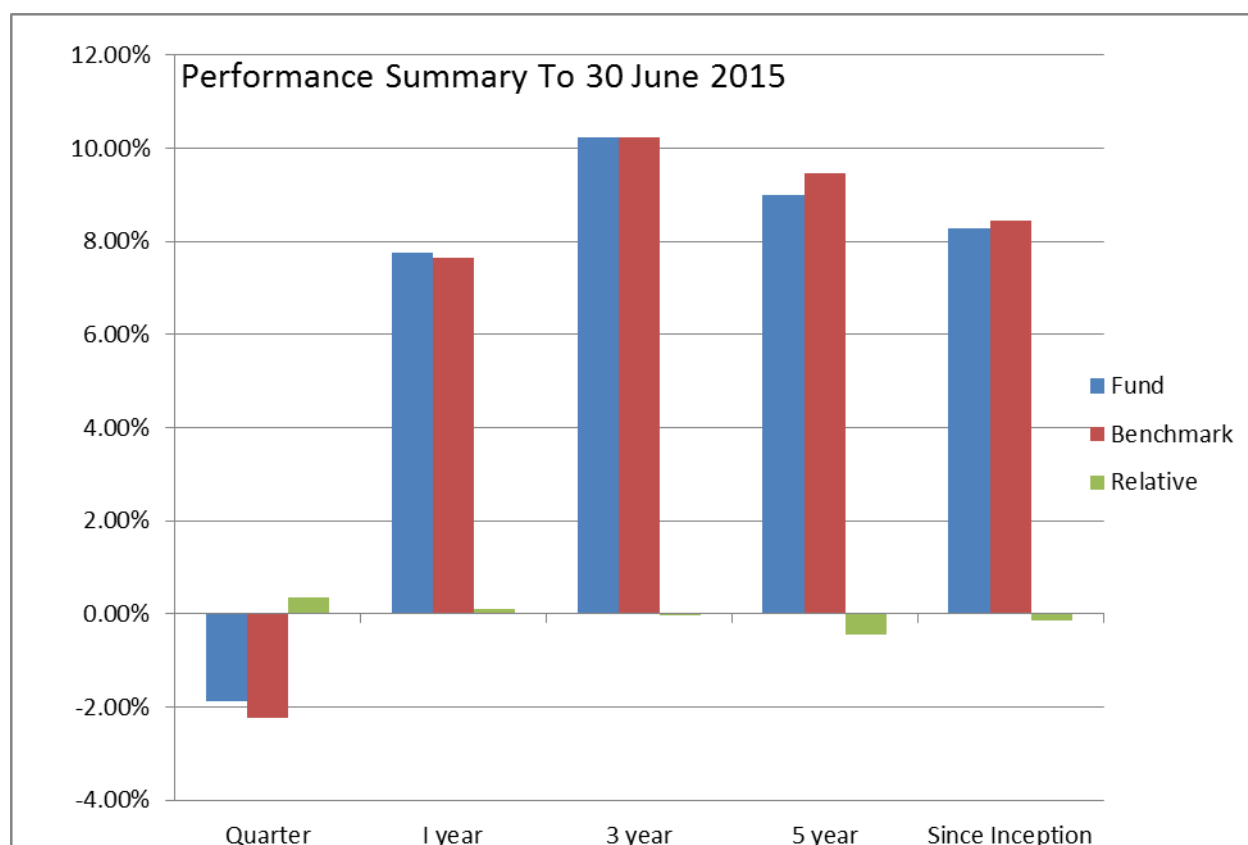
2. Fund Performance & Asset Allocation

2.1 The Fund decreased in value by £37.7m during the quarter from £1,751.7m to £1,714m, as the chart below shows. The Fund was overweight to cash and global equities and underweight fixed interest and alternatives.

Asset Class	Q2 2015 £	Q1 2015 £	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	342.2	348.1	20.0	20.0	0.0
Global Equities	693.2	725.7	40.4	40.0	0.4
Alternatives	253.6	248.2	14.8	15.0	(0.2)
Property	197.4	193.5	11.5	11.5	0.0
Fixed Interest	222.4	228.6	13.0	13.5	(0.5)
Cash	5.2	7.6	0.3	0.0	0.3
Total	1,714.0	1,751.7	100.0	100.0	

2.2 The graph below shows the Fund's performance against the benchmark over the quarter, one year, three years, five years and since inception. The Fund has a target to outperform the strategic benchmark by 1% per annum. This target will be discussed in the Performance Measurement paper.

2.3 Over the quarter, the Fund produced a negative return of -1.88% but outperformed the benchmark which returned -2.22%. The Fund is ahead of the benchmark over one year but behind in all other periods.



* Since Inception figures are from March 1987

3. Hymans Robertson Manager Ratings

3.1 Hymans Robertson regularly meet managers to discuss current issues, management changes and performance. The manager is then allocated one of five ratings between replace and retain. The table below shows Hymans Robertson's rating of all managers that have been appointed by the Lincolnshire Pension Fund.

3.2 The Fund has twenty managers and there have been no changes to the ratings during the quarter. Sixteen managers remained rated as retain and four managers, Rreef Property Ventures Fund 3, Aviva Pooled Property Fund, Neptune and Schroders, as "on watch". Officers will monitor these managers closely and arrange meetings to discuss any potential issues

Manager	Rating			
	Replace		On Watch	Retain
Invesco Global Equities (Ex-UK)			X	
Threadneedle Global Equity			X	
Schroders Global Equity			X	
Neptune Global Equity			X	
Morgan Stanley Global Brands				X
F&C Absolute Return Bonds			X	
Morgan Stanley Alternative Investments				X
Blackrock Fixed Interest				X
Standard Life European Property			X	
Innisfree Continuation Fund 2				X
Innisfree Secondary Fund				X
Innisfree Secondary Fund 2				X
Franklin Templeton European Real Estate			X	
Franklin Templeton Asian Real Estate			X	
RREEF Ventures Fund 3			X	
Igloo Regeneration Partnership			X	
Aviva Pooled Property Fund			X	
Royal London PAIF			X	
Standard Life Pooled Property Fund			X	
Blackrock Property			X	

3.3 Paul Potter will explain the process which Hymans Robertson follow when rating a manager.

4. Individual Manager Update

- 4.1 The manager returns and index returns for equity, fixed interest and alternative managers are shown in the table below. A detailed report on each manager outlining the investment process, performance, purchases and sales and Hymans Robertson's manager view can be found after the table at 4.2.
- 4.2 Manager Returns – As shown below it was a poor quarter for the Fund with all managers producing a negative absolute return. Over the quarter, six managers outperformed their benchmark, with Schroder's slightly underperforming by 0.3% and Morgan Stanley Alternatives and F&C underperforming by 1.7% and 1.6%. Over the 12 month period only F&C and Morgan Stanley Alternatives have failed to produce a positive absolute return. Against their target, the performance has been mixed with four managers failing to match their target. The in-house team and Blackrock matched their target and Schrodors and Neptune beat their target, Neptune by 2.9%.

	3 months ended 31/03/15			Previous 12 months			
Manager	Manager Return %	Index Return %	Relative Variance %	Manager Return %	Index Return %	Relative Variance %	Target p.a. %
Passive UK Equity In house	(1.7)	(1.7)	0.1	1.4	1.7	(0.3)	+/- 0.5
Invesco (Global Equities (ex UK))	(6.0)	(6.3)	0.3	11.2	10.4	0.7	+1.0
Threadneedle (Global Equities)	(3.6)	(5.1)	1.6	13.1	10.1	2.7	+2.0
Neptune (Global Equities)	(2.3)	(5.1)	3.0	17.7	10.1	6.9	+4.0
Schroder's (Global Equities)	(5.6)	(5.3)	(0.3)	10.4	9.5	0.8	+3.0
Morgan Stanley Global Brands	(3.3)	(5.3)	2.2	11.8	10.3	1.4	n/a
Blackrock (Fixed Interest)	(4.4)	(4.4)	0.0	8.1	7.8	0.3	Match Index
F&C (Fixed Interest)	(0.9)	0.8	(1.6)	(3.6)	3.1	(6.5)	3M LIBOR + 3%
Morgan Stanley (Alternative Investments)	(0.6)	1.2	(1.7)	(1.8)	4.7	(6.2)	3M LIBOR + 4%

**Lincolnshire Pension Fund
UK Equities – In House (Passive UK)
Quarterly Report June 2015**

Investment Process

This portfolio is managed internally and mandated to track the MSCI UK IMI index +/- 0.5% around the index, with a tracking error of 0.5%. Approximately 250-300 stocks are held.

Portfolio Valuation

Value at 31.03.15	Value at 30.06.15
£348,079,334	£342,172,813

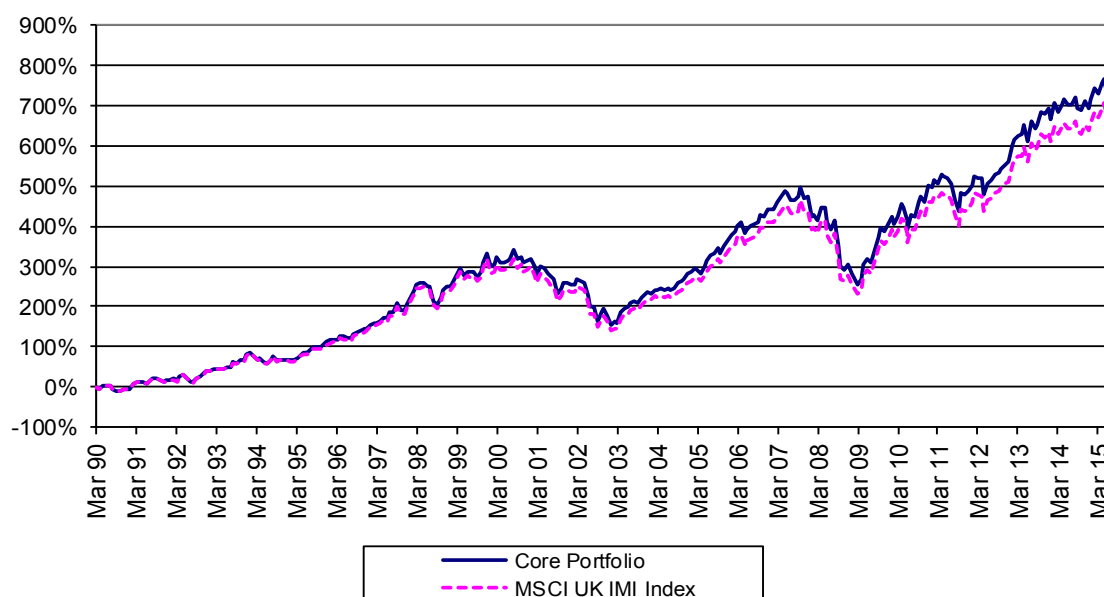
Performance

During the quarter the portfolio produced a negative return of 1.7% which slightly lagged the benchmark by 0.1%. The underperformance was due to the underweight position in consumer discretionary which delivered a positive return over the quarter. The portfolio is slightly behind the benchmark over one and three year time periods but ahead over five years and since inception.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
UK Equities – In House	(1.7)	1.4	10.4	10.6	8.5
MSCI UK IMI	(1.7)	1.7	10.4	10.6	8.2
Relative Performance	(0.1)	(0.3)	(0.1)	0.1	0.3

* annualised, inception date 01/10/1989

UK Equities In House Portfolio Performance Since Inception



Turnover

Holdings at 31.03.15	Holdings at 30.06.15	Turnover in Quarter %	Turnover in Previous Quarter %
256	255	0.0	3.7

Purchases and Sales

During the quarter the manager made no purchases or sales.

Largest Overweights

Babcock	0.13%
South32 Ltd	0.09%
XL Group	0.08%
Tui AG	0.08%
Royal Dutch Shell	0.07%

Largest Underweights

AA PLC	(0.11%)
London Stock Exchange	(0.11%)
Glencore	(0.08%)
Crest Nicholson	(0.07%)
GW Pharmaceuticals	(0.07%)

* Measured against MSCI UK IMI

Top 10 Holdings

1	Royal Dutch Shell	£19,933,013	6	Vodafone Group	£10,841,358
2	HSBC Holdings	£19,110,865	7	Astrazeneca	£8,796,385
3	BP	£13,420,111	8	Lloyds Banking Group	£8,349,014
4	GlaxoSmithkline	£11,323,923	9	Diageo	£7,966,081
5	British American Tobacco	£11,202,667	10	Barclays	£7,403,204

Risk Control

The portfolio has a tracking error limit of 0.5%. At the end of June 2015 the tracking error was 0.29%.

Lincolnshire Pension Fund
Global Equities – Invesco (Global Ex UK Enhanced)
Quarterly Report June 2015

Investment Process

This portfolio is mandated to track the MSCI World ex UK Index, with a performance target of +1% and a tracking error of 1%. The aim is to achieve long-term capital growth from a portfolio of investments in large-cap global companies. Active performance is generated through a quantitative bottom-up investment process, driven by stock selection and based on four concepts: Earnings Momentum, Price Trend, Management Action and Relative Value.

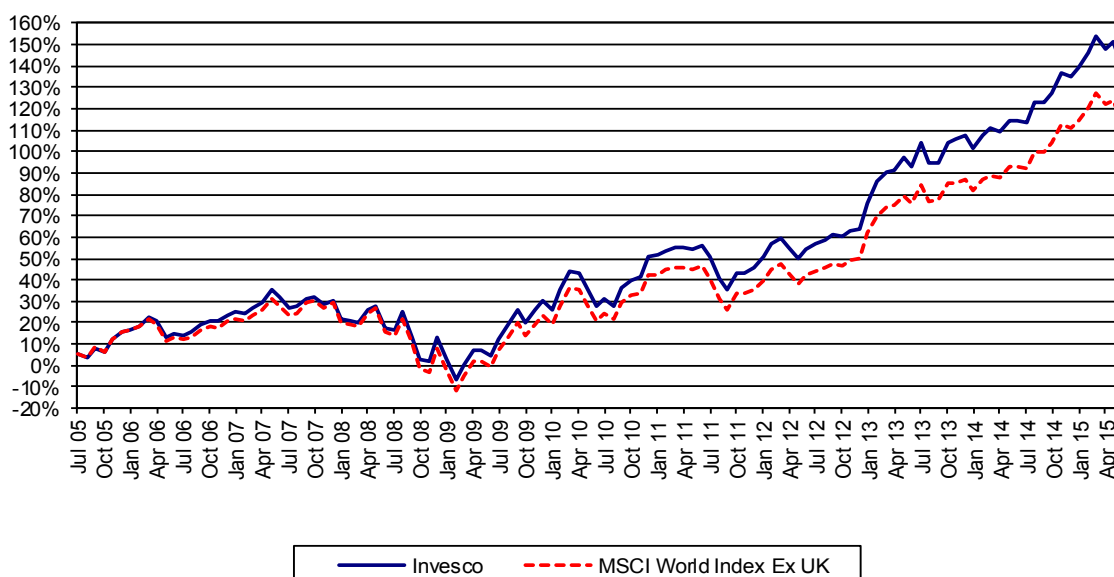
Portfolio Valuation

Value at 31.03.15	Value at 30.06.15
£363,555,873	£344,469,542

Performance

During the quarter Invesco's strategy outperformed its benchmark. Stock Selection had the largest positive impact on relative performance, as the contribution from their overweighted assets were positive. In addition, overweightings in stocks with high scores in their Earnings Exceptions and Value concepts helped performance. Over 12 months Invesco have outperformed their benchmark but fallen short of their target. Over all other periods they are ahead of both the benchmark and the target.

Invesco Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Invesco	(6.0)	11.2	18.9	12.0	9.1
MSCI World ex UK	(6.3)	10.4	15.5	17.5	7.8
Relative Performance	0.3	0.7	1.0	1.2	1.1

* annualised, inception date 1st July 2005

Turnover

Holdings at 31.03.15	Holdings at 30.06.15	Turnover in Quarter %	Turnover in Previous Quarter %
419	438	11.4	11.5

Purchases and Sales

During the quarter Invesco made a number of stock adjustments to the portfolio as a result of their stock selection process. Invesco added Visa and increased positions in Verizon, Bunge, Gilead Sciences and Health Net. These were funded by selling out of Lockheed Martin, PPG Industries and Partnerre. Invesco also reduced positions in Exxon Mobil and Ameriprise Financial.

Largest Overweights

Pfizer	1.00%
Citigroup	0.85%
Nippom	0.85%
JPMorgan Chase	0.82%
Archer Daniels	0.76%

Largest Underweights

Chevron	(0.58%)
Exxon Mobil	(0.56%)
Amazon	(0.55%)
Google	(0.52%)
Walt Disney	(0.50%)

* Measured against MSCI World ex UK (NDR)

Top 10 Holdings

1	Apple Inc	£10,255,619
2	Pfizer Inc	£5,684,789
3	JPMorgan Chase	£5,583,834
4	Microsoft Corp	£5,283,290
5	Citigroup Inc	£4,754,110

6	Johnson & Johnson	£4,409,990
7	Intel Corp	£4,048,995
8	General Electric Co	£3,389,407
9	Nippon Tel & Tel	£3,199,745
10	Gilead Sciences Inc	£3,149,302

Hymans Robertson View

In May Invesco announced that Karl Georg Bayer was retiring as Head of Research and is being replaced by Michael Fraikin. This will mean Fraikin doing fewer client meetings – his role will be taken by Thorsten Paarmann, another very experienced member of the Portfolio Management team. There will be no change, in our view, to the philosophy, process or portfolio structure resulting from Fraikin's promotion.

Risk Control

The predicted tracking error of the portfolio slightly increased to 1.07% (actual target 1%).

**Lincolnshire Pension Fund
Global Equities – Neptune
Quarterly Report June 2015**

Investment Process

This portfolio is mandated to outperform the MSCI All Countries World Index by 2% to 4% over rolling three year periods, net of fees. This is achieved through generating capital growth from a concentrated portfolio of global securities, selected from across world equity markets. The investment process of Neptune means that they will usually generate more volatile returns than the Fund's other Global Equity Managers and are seen as benchmark agnostic.

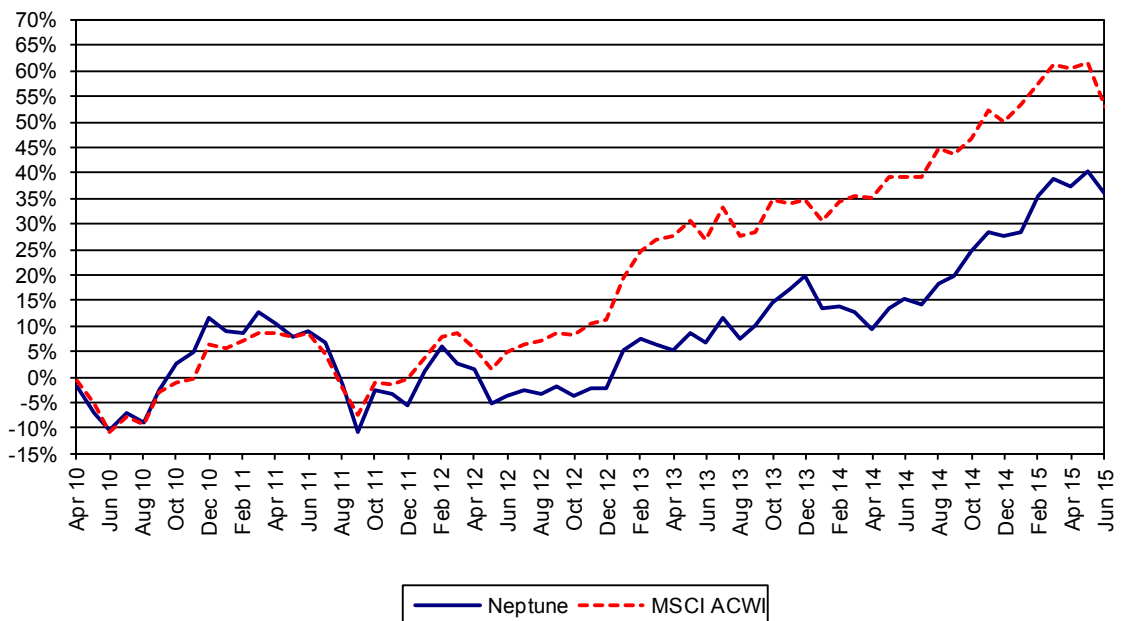
Portfolio Valuation

Value at 31.03.15	Value at 30.06.15
£91,900,198	£89,662,366

Performance

During the quarter Neptune produced a negative return of 2.3% but outperformed the benchmark by 2.9%. The Fund's strong performance for the quarter was driven by Neptune's Japanese portfolio, particularly industrials and consumer holdings. Neptune's view on further Yen weakness, contributed to performance as the Yen depreciated versus sterling. The Indian market sold off in April, which impacted on performance, however Neptune are still firm believers in the Modi reform story and expect stronger performance in the second half of 2015.

Neptune Performance Since Inception



	Quarter %	1 Year %	3 Year %	5 Year %	Inception*
Neptune	(2.3)	17.7	12.1	8.6	6.0
MSCI ACWI**	(5.1)	10.1	13.5	11.4	8.5
Relative Performance	2.9	6.9	(1.3)	(2.5)	(2.3)

* annualised, inception date 16/04/2010

Turnover

Holdings at 31.03.15	Holdings at 30.06.15	Turnover in Quarter %	Turnover in Previous Quarter %
54	55	5.9	17.4

Purchases and Sales

Neptune made limited changes during the quarter following the previous period's higher turnover (which added to the US consumer and healthcare exposure). They did increase and diversify their holdings of Japanese financials into banks and insurers; this was funded by taking some profits from the US.

Top 5 Contributions to Return

Dai-ichi Life Ins	0.2%
Gilead Sciences Inc	0.2%
Amazon.com	0.2%
Starbucks Corp	0.1%
Daiwa House Industry	0.1%

Bottom 5 Contributions to Return

Oriental Land Co	(0.4%)
Mitsubishi Estate Co	(0.4%)
Fanuc Ltd	(0.5%)
Whole Foods Market	(0.6%)
LinkedIn Corp	(0.7%)

Top 10 Holdings

1	Apple Inc	£3,189,928	6	Fanuc Corp	£2,606,480
2	Sumitomo Realty	£2,786,533	7	Google Inc	£2,575,332
3	Dai-ichi Life Ins Co	£2,745,378	8	Mitsui Fudosan Co	£2,574,601
4	Mitsubishi Estate	£2,731,192	9	Tencent Holdings	£2,526,157
5	Icici Bank	£2,687,531	10	CME Group Inc	£2,365,613

Hymans Robertson View

Hymans view has not changed following their meeting with Neptune in early 2015 and still retain their "on watch" rating. A further review of the rating will take place in the last quarter of 2015.

Risk Control

The portfolio may invest up to a maximum of 10% of value in securities outside the benchmark index and, in addition, may hold a maximum of 20% of value in cash, in any currency. The portfolio has no regional constraints but will always maintain exposure to at least seven of the ten MSCI Global Sectors and a broad geographical reach.

Lincolnshire Pension Fund Global Equities – Schrodgers Quarterly Report June 2015

Investment Process

This portfolio is mandated to outperform the MSCI All Countries World Daily Net Index by 2% to 4% over rolling three year periods, gross of fees. This is achieved through an investment approach that is designed to add value relative to the benchmark through both stock selection and asset allocation decisions. Schrodgers believe that stock markets are inefficient and they can exploit this by undertaking fundamental research and taking a long term view.

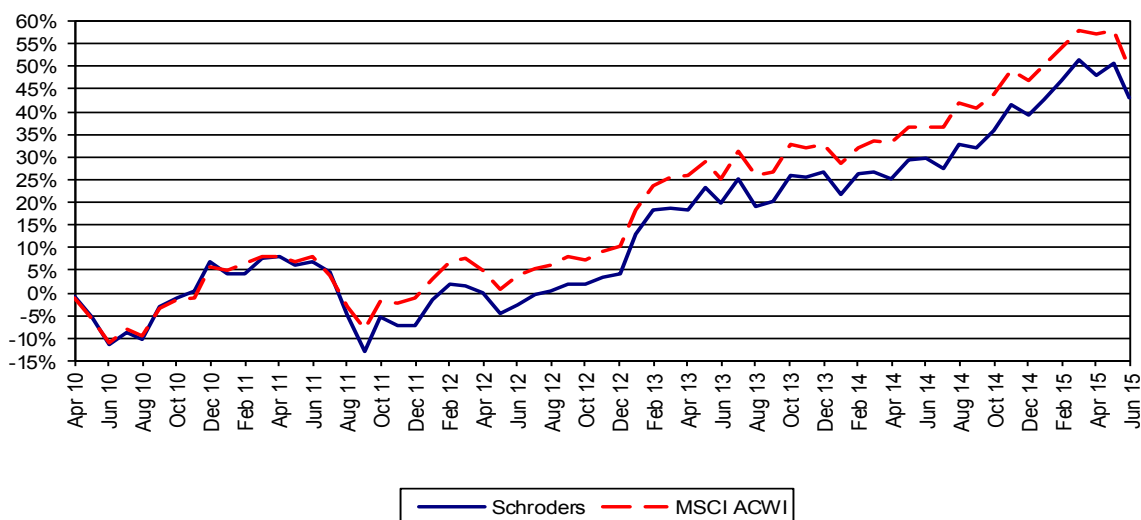
Portfolio Valuation

Value at 31.03.15	Value at 30.06.15
£90,450,362	£85,441,059

Performance

Schrodgers underperformed the benchmark over the period as holdings in healthcare and consumer discretionary detracted the most, although gains were made from stock selection in consumer staples, financials, energy and telecoms. Over one and three years Schrodgers have outperformed the benchmark but underperformed over five years and since inception. They are behind their target in all periods.

Schrodgers Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Schrodgers	(5.6)	10.4	13.7	10.1	7.1
MSCI ACWI (Net)	(5.3)	9.5	12.9	11.0	8.0
Relative Performance	(0.3)	0.8	0.7	(0.8)	(0.9)

*annualised since Inception April 16 2010

Turnover

Holdings at 31.03.15	Holdings at 30.06.15	Turnover in Quarter %	Turnover in Previous Quarter %
66	69	10.8	19.4

Purchases and Sales

During the quarter Schroders increased their exposure to the financial sector with new purchases in Lloyds Banking Group and Deutsche Bank. New positions were also taken in medical supplier, Fresenius and Japanese air conditioning manufacturer Daikin. Sales during the quarter included Walmart and Astellas as Schroders have concerns about the operating profit outlook.

Top 5 Contributions to Return

Raia Drogasil	0.4%
Sumitomo Mitsui	0.3%
Vodafone	0.2%
Capita	0.2%
JPMorgan Chase	0.2%

Bottom 5 Contributions to Return

Kasikornbank	(0.3%)
Astellas Pharma	(0.2%)
Jardine Strategic	(0.2%)
Sprouts Farmers Mkt	(0.2%)
Wal-Mart Stores	(0.2%)

Top 10 Holdings

1	Citigroup Inc	£2,357,849	6	JPMorgan Chase & Co	£1,930,516
2	Taiwan Semiconductor	£2,178,049	7	Apple Inc	£1,908,454
3	Pfizer Inc	£2,114,388	8	BBVA	£1,873,428
4	Google Inc	£2,051,681	9	Sumitomo Mitsui Fin	£1,870,579
5	SMC Corp	£1,991,983	10	Comcast Corp	£1,811,539

Hymans Robertson View

Hymans rate Schroders as "on watch". They are optimistic that Schroder's fundamental equity team has been successfully refocused under the leadership of Alex Tedder and Hymans will be reviewing their "on watch" during Q3 2015 at which stage Tedder will have been in his role for 12 months.

Risk Control

The portfolio can have a maximum 10% off-benchmark exposure; any increase in this would require the consent of the Pension Fund.

**Lincolnshire Pension Fund
Global Equities – Threadneedle
Quarterly Report June 2015**

Investment Process

This portfolio is mandated to outperform the MSCI All Countries World Index by 2% per annum, gross of fees over rolling three year periods. This is achieved through investment managers who can draw on their own knowledge and that of other parts of the organisation to implement a thematic approach to stock selection.

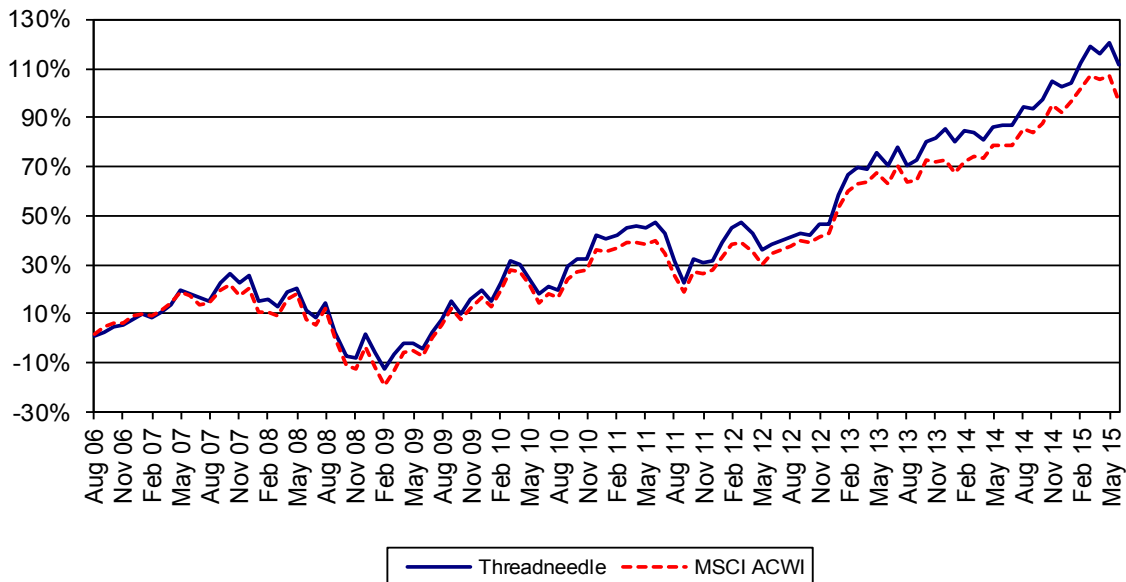
Portfolio Valuation

Value at 31.03.15	Value at 30.06.15
£91,378,618	£88,102,935

Performance

Threadneedle outperformed its benchmark in the quarter. Regional allocation added value as developed Asia, where they are underweight, underperformed. Threadneedle also benefitted from their overweight position in Japan. Stock selection also drove returns with their holdings in financials, healthcare energy proving supportive.

Threadneedle Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Threadneedle	(3.6)	13.1	15.2	12.4	9.0
MSCI ACWI	(5.1)	10.1	3.5	11.4	8.1
Relative Performance	1.6	2.8	1.5	0.9	0.9

* annualised, inception date 01/08/2006

Turnover

Holdings at 31.03.15	Holdings at 30.06.15	Turnover in Quarter %	Turnover in Previous Quarter %
86	83	9.3	15.0

Purchases and Sales

Threadneedle took advantage of recent weakness to buy a position in ASML, a market leader in technology, for producing microchips and also opened a position in dental solutions business Align Technology. Threadneedle exited their position in biopharmaceutical giant Amgen.

Top 5 Contributions to Return

BG Group	0.3%
Gilead Sciences	0.3%
Ping An Ins group	0.2%
Shimadzu Corp	0.2%
UBS Group	0.2%

Bottom 5 Contributions to Return

PT Bank Rakyat Ind	(0.4%)
Sumco Corp	(0.3%)
Union Pacific Corp	(0.3%)
Samsung Electronics	(0.2%)
Tower Watson & Co	(0.2%)

Top 10 Holdings

1	Gilead Sciences	£2,563,964
2	Apple Inc	£2,328,568
3	Walt Disney Co	£2,079,112
4	UBS AG	£1,946,687
5	Comcast Corp	£1,911,931

6	Facebook Inc	£1,881,681
7	Aon PLC	£1,832,364
8	Wolseley PLC	£1,767,405
9	Amphenol Corp	£1,759,798
10	Japan Exchange Grp	£1,695,740

Hymans Robertson View

Hymans rate Threadneedle as "retain". Personnel turnover has ceased under William Davies who transferred from the successful European team at the end of 2011. Subsequently the performance has been encouragingly positive year to date.

Risk Control

The portfolio can have a maximum 10% off-benchmark exposure; any increase in this would require the consent of the Pension Fund.

**Lincolnshire Pension Fund
Global Equities – Morgan Stanley Global Brands
Quarterly Report June 2015**

Investment Process

The Global Brands Fund is an open-ended investment company incorporated in the United Kingdom. The aim of the Fund is to provide long term capital appreciation through investing in a concentrated high quality global portfolio of companies with strong “intangible assets”. The Fund is benchmarked against the MSCI World Index. Managers aim to gain an absolute return to the Fund rather than a relative return against their benchmark index.

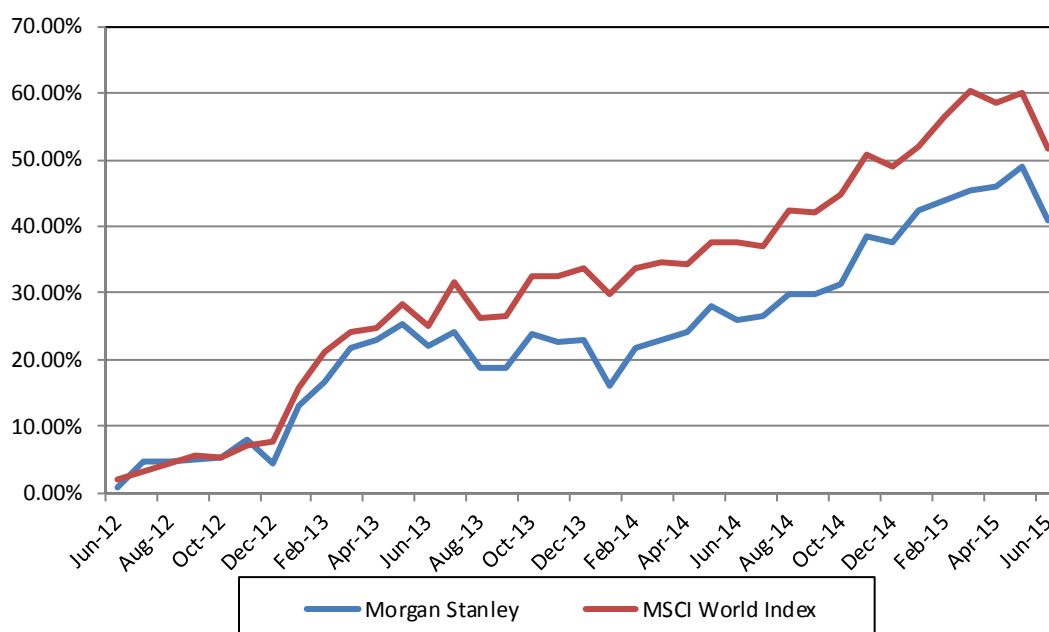
Portfolio Valuation

Value at 31.03.15	Value at 30.06.15
£88,445,435	£85,570,518

Performance

During the quarter Morgan Stanley Global Brands returned -3.25% outperforming its benchmark by 2.2%, which returned -5.32%. The outperformance for the quarter was mainly due to their stock selection in consumer staples and information technology. Morgan Stanley's underweight position in Financials and Healthcare detracted from performance.

Morgan Stanley Global Brands Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Morgan Stanley Global Brands	(3.3)	11.8	11.8	N/A	12.8
MSCI World Index	(5.3)	10.3	14.2	N/A	15.8
Relative Performance	2.2	1.4	(2.1)	N/A	(2.6)

*annualised, inception date 18/06/2012

Purchases and Sales

During the quarter Morgan Stanley added to some of their Media names and reduced some of their positions in Consumer Staples, Pharma and Luxury Goods on relative valuation grounds.

Top 3 Contributions to Return

Mondelez Intl	0.3%
Microsoft	0.1%
Japan Tobacco	0.1%

Bottom 3 Contribution to Return

Nestle	(0.7%)
Procter & Gamble	(0.4%)
Reckitt Benckiser	(0.3%)

Top Ten Holdings

Company	Industry	% Weighting
British American Tobacco	Tobacco	9.1
Nestle	Food Products	9.0
Unilever	Personal Products	6.9
Reckitt Benckiser	Household Products	6.9
Microsoft	Software	6.6
Time Warner	Media	4.8
Accenture	IT Services	4.7
Procter & Gamble	Household Products	4.3
Visa	IT Services	4.1
Mondelez	Food Products	4.1

Hymans Robertson View

In July, Morgan Stanley has announced two new experienced hires for the International Equity team that manages the Global Brands / Franchise strategy. Yiwen Li left the team at the end of March 2015. The manager has since made two new hires, Nic Sochovsky (ex-Credit Suisse) and Richard Perrott (ex-Autonomous Research / Brenberg Bank). We do not know these individuals from their previous employment but we are encouraged to see the team being strengthened.

**Lincolnshire Pension Fund
Passive Bonds – Blackrock
Quarterly Report June 2015**

Investment Process

Blackrock manage a passive bond mandate for the Pension Fund. Their portfolio is made up of three pooled funds; an index-linked bond fund, a corporate bond fund and an overseas bond fund. All three funds are designed to match the return of their relevant benchmarks. The manager uses two methods to manage index-tracking funds; full replication and stratified sampling.

Full replication involves holding each of an index's constituent bonds in exactly the same proportion as the index. This method is used where the number of constituents in an index is relatively low and liquidity is above a certain level.

Stratified sampling is the method used when full replication is not possible or appropriate. This approach subdivides the benchmark index according to various risk characteristics, such as currency/country, maturity, credit rating, sector of issuer etc. Each subset of bonds is then sampled to select bonds for inclusion within the pooled fund.

The table below shows the indexing method for each of the three pooled funds in which the Fund invests.

Pooled Fund	Indexing Method
Aquila Life Corporate Bond All Stocks Index Fund	Sampled
Aquila Life Over 5 Years UK Index-Linked Gilt Index Fund	Full Replication
Aquila Life Overseas Bond Index Fund	Sampled

Portfolio Valuation at 30th June 2015

Portfolio	31.03.15 £	30.06.15 £
Corporate Bond All Stocks Index Fund	58,331,925	56,102,690
Over 5 Years UK Index-Linked Gilt Index Fund	34,465,335	33,332,957
Overseas Bond Index Fund	23,380,074	21,632,164
Total	116,177,344	111,067,811

Performance

Over all periods the portfolio has slightly outperformed the benchmark.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Blackrock	(4.4)	8.1	5.1	n/a	6.7
Composite Benchmark	(4.4)	7.8	5.0	n/a	6.7
Relative Performance	0.0	0.3	0.1	n/a	0.1

*annualised since inception 28/07/10

Hymans Robertson View

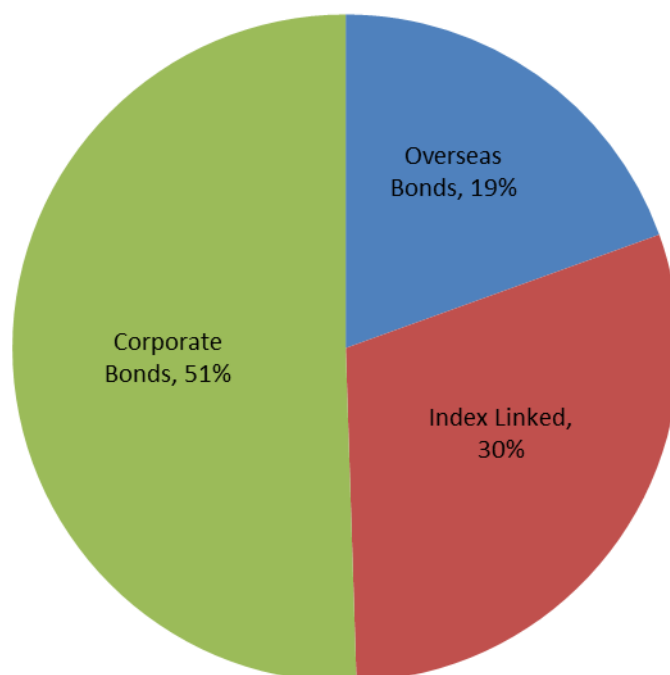
There were no significant developments within the Index Fixed Income team over the quarter; as such Hymans continue to rate Blackrock as one of their preferred passive fixed income managers.

Allocation

The target allocation between the three funds is:

Aquila Life Corporate Bond All Stocks Index Fund	50%
Aquila Life Over 5 Years UK Index-Linked Gilt Index Fund	30%
Aquila Life Overseas Bond Index Fund	20%

The pie chart below shows the allocation as at 30th June 2015



**Lincolnshire Pension Fund
Absolute Return Bonds – F&C
Quarterly Report June 2015**

Investment Process

F&C manage an absolute return bond mandate for the Fund. The Pension Fund is invested in their multi-manager target return fund, with an investment objective to achieve a low level of return in excess of anticipated money market returns, within a multi-manager structure. The managers are selected to exploit various investment opportunities, including the money market, interest rate, equity, commodity, currency and credit markets. The manager has a target to beat the return of 3 month LIBOR +3%.

Portfolio Valuation

Value at 31.03.15	Value at 30.06.15
£112,371,266	£111,368,676

Performance

F&C produced a negative return of 0.9% during the quarter which was 1.6% below target. The most important contributor to F&C's return this quarter was the negative return from Concerto, who have had a tough twelve months. Concerto has been affected by the continued volatility in the US high yield market after the massive collapse in oil prices last year; however F&C maintain their conviction in the strategy and feel that future prospects are good. Broadly speaking, Chenavari and Threadneedle cancelled each other out over the period.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
F&C	(0.9)	(3.6)	1.6	n/a	1.7
3 Month LIBOR + 3%	0.8	3.1	3.1	n/a	3.4
Relative Performance	(1.6)	(6.5)	(1.4)	n/a	(1.7)

* annualised since inception date 19/07/2010

Allocation

The target return fund is currently split between three managers, listed below with their speciality investment areas:

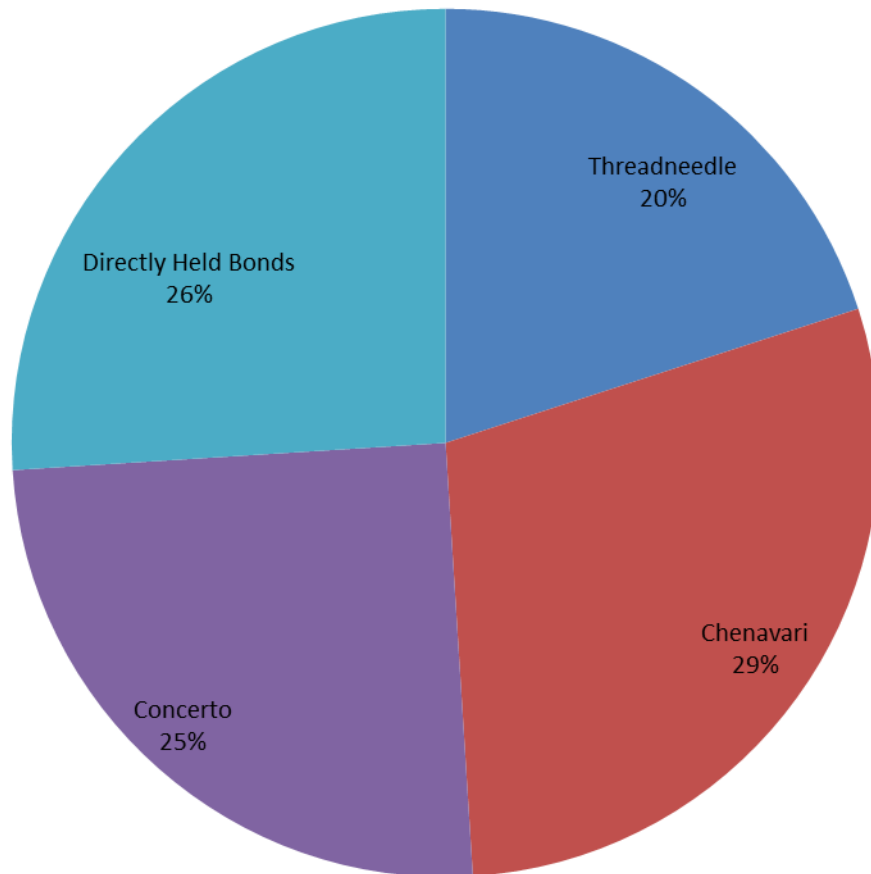
Threadneedle	Interest rates, currency
Chenavari	Credit
Concerto	Credit

Hymans Robertson View

Hymans continue to rate F&C Absolute Return Bond fund a “4 – retain”. There have been no significant developments within the Fixed Income team over the quarter to end June 2015 and we continue to be encouraged by the firm’s strong focus on growing its multi strategy business. Under BMO ownership further investors into the

Fund are being actively sought however there have been no new investors in Q2 2015 and Lincolnshire remains the largest investor.

The pie chart below shows the allocation as at 30th June 2015



**Lincolnshire Pension Fund
Alternative Investments – Morgan Stanley
Quarterly Report June 2015**

Investment Process

Morgan Stanley manages a bespoke absolute return alternative investment mandate for the Fund. The portfolio is invested in alternatives only, with no exposure to traditional equities or bonds. Investments are made to complement our existing portfolio and in future will include our Private Equity portfolio. The manager has a target to beat the return of 3 Month LIBOR + 4%.

Portfolio Valuation

Value at 31.03.15	Value at 30.06.15
£171,685,176	£178,878,880

Performance

The portfolio returned -0.67% during the second quarter. Global macro, which was the worst performing hedge fund strategy, was the largest detractor. Real estate, due to weakness in the asset class, and high yield, also weighed heavily on returns. In contrast, senior loans and frontier equity were the largest contributors, where both our positioning and manager selection were additive.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Morgan Stanley	(0.6)	(1.8)	4.4	n/a	4.5
3 Month LIBOR + 4%	1.2	4.7	4.7	n/a	4.7
Relative Performance	(1.7)	(6.2)	(0.2)	n/a	(0.2)

* annualised since inception date 24/11/2010

Allocation

Morgan Stanley has split out investments into a bespoke portfolio of alternatives comprising five different asset allocations;

Alpha – These are pure return seeking products based on Manager skill. The Alpha investments include Hedge Funds, Global Tactical Asset Allocation (GTAA) and Active Currency.

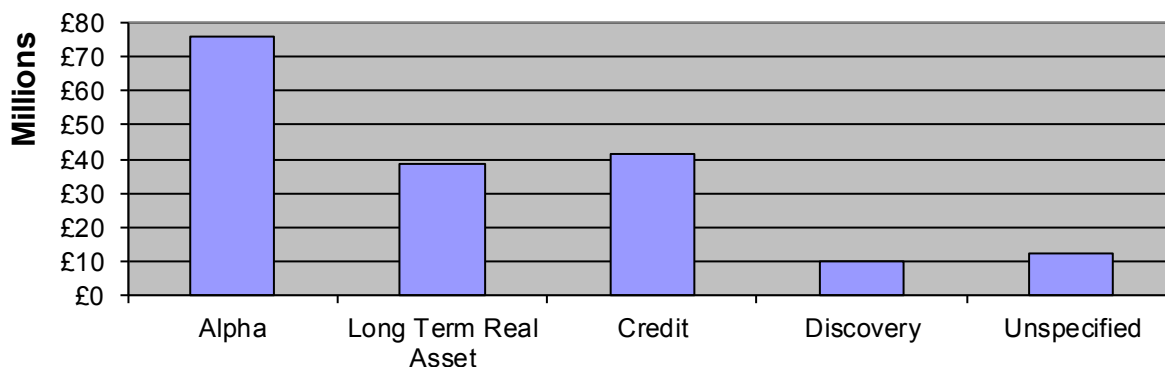
Long Term Real Asset – These are long term investments that seek to access illiquidity premium. Investments include Private Equity, Infrastructure, Real Estate, Commodities and Inflation – linked strategies.

Credit – These are the purchase of the lower rated bonds where higher default is more likely. Manager selection is important to ensure the correct bonds are purchased that will appreciate following rating upgrades and merger and acquisition activity. Credit opportunities include Emerging Market Debt, High Yield Bonds, Senior Loans and Convertibles.

Discovery – These are new opportunities of investments and can include Frontier Markets, Distressed Opportunities and Volatility.

Unspecified – These are cash balances held with Morgan Stanley.

Allocation as at 30th June 2015



Portfolio Positioning

Given the slowdown of the U.S. equity beta rally, Morgan Stanley have positioned the portfolio with an emphasis on alpha generating strategies (hedge funds) at the expense of credit strategies and commodities. This quarter, within alpha strategies, they increased their exposure to hedge funds, particularly co-investments and other opportunistic investments, while modestly reducing their macro allocation. Morgan Stanley decreased their credit exposure through reductions in high yield and convertibles. Within credit strategies, they favour less interest rate-sensitive strategies, such as senior loans, given extremely low yields and potential capital losses associated with rising interest rates. They are prudently positioned in EM debt, where they have a preference for USD (as opposed to local currency) and corporate exposure, as the relative strength of the U.S. economy versus other major developed and EM economies will likely continue to support the USD. Furthermore, local EM economies struggling with low future growth expectations will likely weaken their respective currencies. In addition, they restructured their high yield allocation to include high yield energy given that the sharp decline in oil prices has created some dislocations in the U.S. high yield markets and short term improvements in oil and cost cutting measures by energy companies should allow for high yield spread compression. Within real assets, the first commitments to Morgan Stanley's global infrastructure manager are being drawn. They continue to build out the private markets portfolio, which is expected to cause a drag on short-term performance, but deliver meaningful upside in the medium and long-term. On the liquid side, they have a preference for listed private equity over listed infrastructure and REITS since the latter are more exposed to interest rate sensitivity. In addition, they redeemed out of the EM inflation fund. Morgan Stanley continue to have a positive view on catastrophe risk as they enter the U.S. hurricane season, which should offer relatively high premiums throughout the second half of the year.

Hymans Robertson View

Hymans continue to rate Morgan Stanley a "5-preferred manager" for Diversified Alternatives.

Hedge Funds have always been a core strategic allocation within the portfolio due to what Morgan Stanley believes to be their attractive characteristics. However, the group has recently launched a liquid alternatives strategy which seeks to replicate some of the returns of hedge fund strategies but in a more liquid and transparent approach, and also with lower fees. Going forward Morgan Stanley will re-balance some of the hedge fund investments into this strategy.

Risk Control

Portfolio volatility since inception is 3.87% within the guidelines specified by the mandate.

Conclusion

Over the quarter the Fund has produced a negative return of -1.88% which is slightly ahead of the benchmark.

Consultation

a) Policy Proofing Actions Required

n/a

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Nick Rouse, who can be contacted on 01522 553641 or nick.rouse@lincolnshire.gov.uk.

