Lincolnshire
COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

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

Report to:	**Pensions Committee**
Date:	**14 July 2016**
Subject:	**Investment Management Report**

Summary:

This report covers the management of the Lincolnshire Pension Fund assets, over the period from 1st January to 31st March 2016.

Recommendation(s):

That the committee discuss if they wish to continue with the Neptune mandate.

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

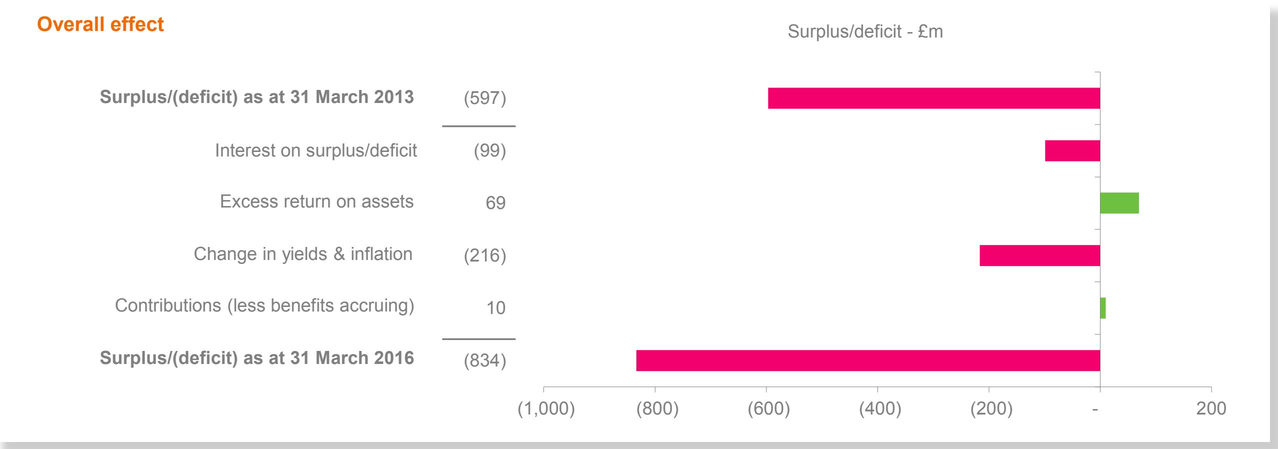
1.1 The funding update is provided to illustrate the estimated development of the funding position from 31st March 2013 to 31st March 2016, for the Fund.

1.2 As the graph below shows, the funding level at the latest formal valuation was 71.5%. As at 31st March 2016 the funding level has decreased to 67.8%. This, however, is not the formal Valuation funding level for March 2016, as the modelling used for this report is a roll forward of the previous valuation. The 2016 Valuation results will be available later in the year.

Change in funding level since last valuation

1.3 As shown below, the deficit in real money has increased from £597m to £834m between the period 31st March 2013 and 31st March 2016. 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. In addition, the Fund's actual investment return over the quarter was lower than the assumed return.

1.4 What's happened since last valuation?



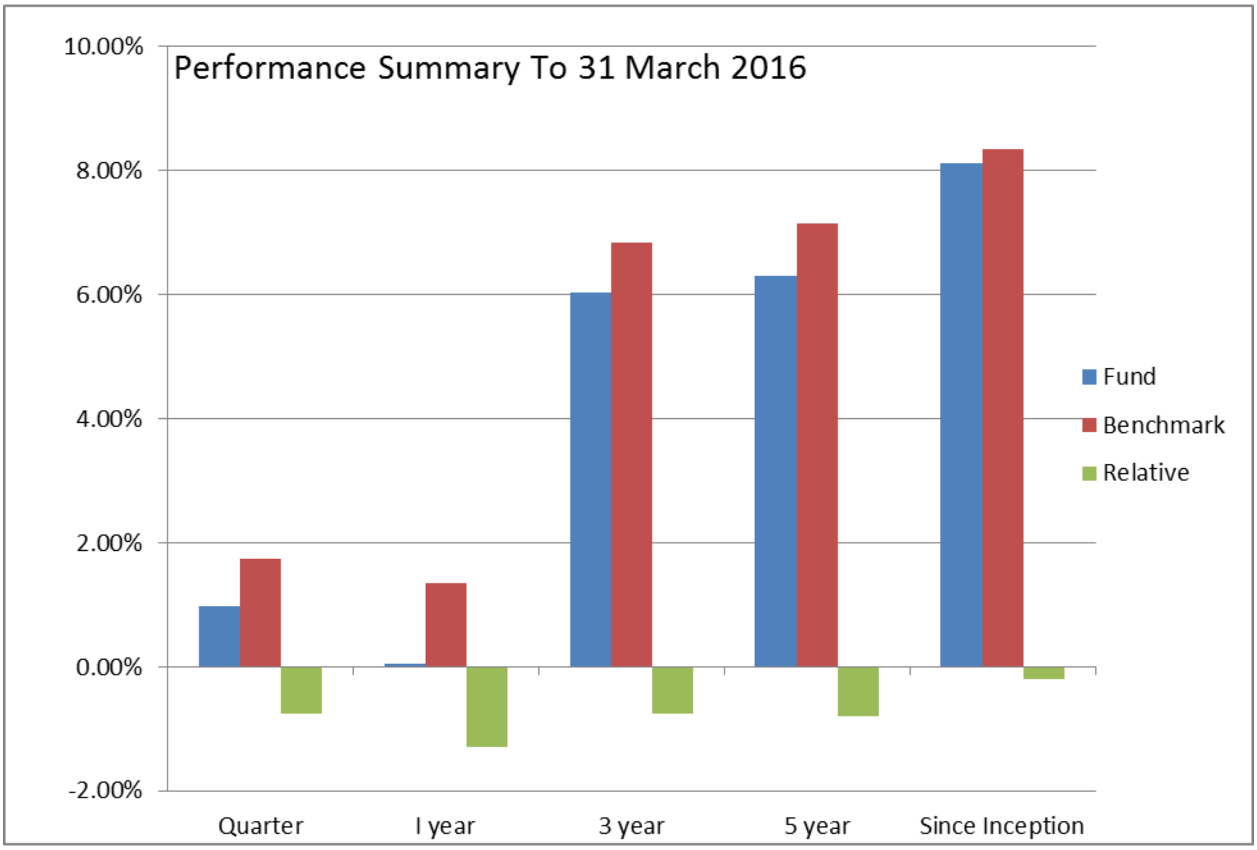
2. Fund Performance & Asset Allocation

2.1 The Fund increased in value by £17.6m during the quarter from £1,732.6m to £1,750.2m, as the chart below shows. The Fund was overweight to Cash and Global Equities and underweight UK Equities, Alternatives and Fixed Interest.

Asset Class	Q1 2016 £	Q4 2015 £	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	335.4	337.5	19.2	20.0	(0.8)
Global Equities	730.1	721.8	41.7	40.0	1.7
Alternatives	250.5	247.1	14.3	15.0	(0.7)
Property	202.0	198.2	11.5	11.5	0.0
Fixed Interest	227.6	223.6	13.0	13.5	(0.5)
Cash	4.6	4.4	0.3	0.0	0.3
Total	**1,750.2**	**1,732.6**	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 0.75% per annum.

2.3 Over the quarter, the Fund produced a positive return of 0.98% and underperformed the benchmark which returned 1.75%. The Fund is behind the benchmark over all periods. The underperformance being due to significant underperformance from two managers in the Fund, Neptune and BMO.



* 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 during the quarter there was one rating change with BMO going from "on watch" to "replace". Sixteen managers remained rated as retain and three managers, Rreef Property Ventures Fund 3, Aviva Pooled Property Fund and Neptune "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
BMO 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	

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 mixed quarter for the Fund with six managers producing a positive absolute return and three a negative return. Over the quarter, only two managers outperformed their benchmark, Morgan Stanley Global Brands and Blackrock. Over the 12 month period three managers produced a positive absolute return. Against their target, Blackrock, Threadneedle, Invesco and Morgan Stanley Global Brands have performed well whilst BMO, Morgan Stanley Alternatives and Neptune continue to disappoint.

	3 months ended 31/03/16			Previous 12 months			
Manager	Manager Return %	Index Return %	Relative Variance %	Manager Return %	Index Return %	Relative Variance %	Target p.a. %
Passive UK Equity In house	(0.2)	(0.1)	(0.1)	(4.5)	(4.4)	(0.1)	+/- 0.5
Invesco (Global Equities (ex UK))	2.3	2.4	(0.1)	0.0	(0.6)	0.6	+1.0
Threadneedle (Global Equities)	0.8	2.9	(2.1)	2.9	(0.7)	3.6	+2.0
Neptune (Global Equities)	(7.7)	2.9	(10.4)	(12.7)	(0.7)	(12.2)	+4.0
Schroder’s (Global Equities)	0.5	2.8	(2.3)	(1.8)	(1.2)	(0.6)	+3.0
Morgan Stanley Global Brands	5.7	2.2	3.5	12.0	(0.3)	12.3	n/a
Blackrock (Fixed Interest)	5.6	5.5	0.1	2.9	2.7	0.1	Match Index
BMO (Fixed Interest)	(2.1)	0.8	(2.9)	(3.8)	3.1	(6.8)	3M LIBOR + 3%

Morgan Stanley (Alternative Investments)	0.1	1.2	(1.1)	(4.2)	4.7	(8.5)	3M LIBOR + 4%

Lincolnshire Pension Fund
UK Equities – In House (Passive UK)
Quarterly Report March 2016

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

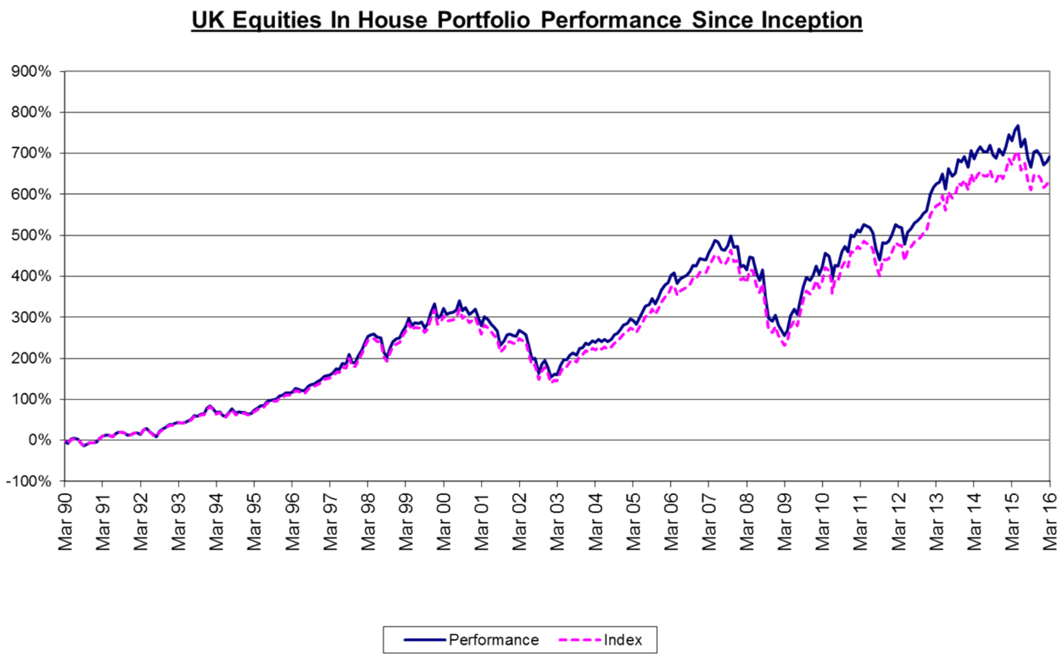
Value at 31.12.15	Value at 31.03.16
£337,523,109	£335,436,113

Performance

During the quarter the portfolio produced a negative return of 0.2% which was 0.1% below the benchmark. 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	(0.2)	(4.5)	3.0	5.5	8.0
MSCI UK IMI	(0.1)	(4.4)	3.1	5.4	7.7
Relative Performance	(0.1)	(0.1)	(0.1)	0.1	0.3

* annualised, inception date 01/10/1989



Turnover

Holdings at 31.12.15	Holdings at 31.03.16	Turnover in Quarter %	Turnover in Previous Quarter %
274	270	0.0	0.5

Purchases and Sales

During the quarter the manager made no purchases or sales.
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Largest Overweights

Rangold	0.15%
Paddy Power	0.13%
Babcock	0.11%
Greene King	0.10%
Inmarsat	0.10%

Largest Underweights

Auto Trader	(0.20%)
Mediclinic	(0.18%)
Worldpay	(0.16%)
CYBG	(0.10%)
Brit American Tobacco	(0.08%)

* Measured against MSCI UK IMI

Top 10 Holdings

1	Royal Dutch Shell	£23,741,845
2	HSBC	£15,535,157
3	British American Tobacco	£13,762,105
4	GlaxoSmithKline	£12,633,530
5	BP	£11,332,297
6	Vodafone	£10,416,864
7	Astrazeneca	£8,732,429
8	Diageo	£8,475,646
9	Sabmiller	£7,626,401
10	Reckitt	£7,567,145

Risk Control

The portfolio has a tracking error limit of 0.5%. At the end of March 2016 the tracking error was 0.41%.

Lincolnshire Pension Fund
Global Equities – Invesco (Global Ex UK Enhanced)
Quarterly Report March 2016

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.

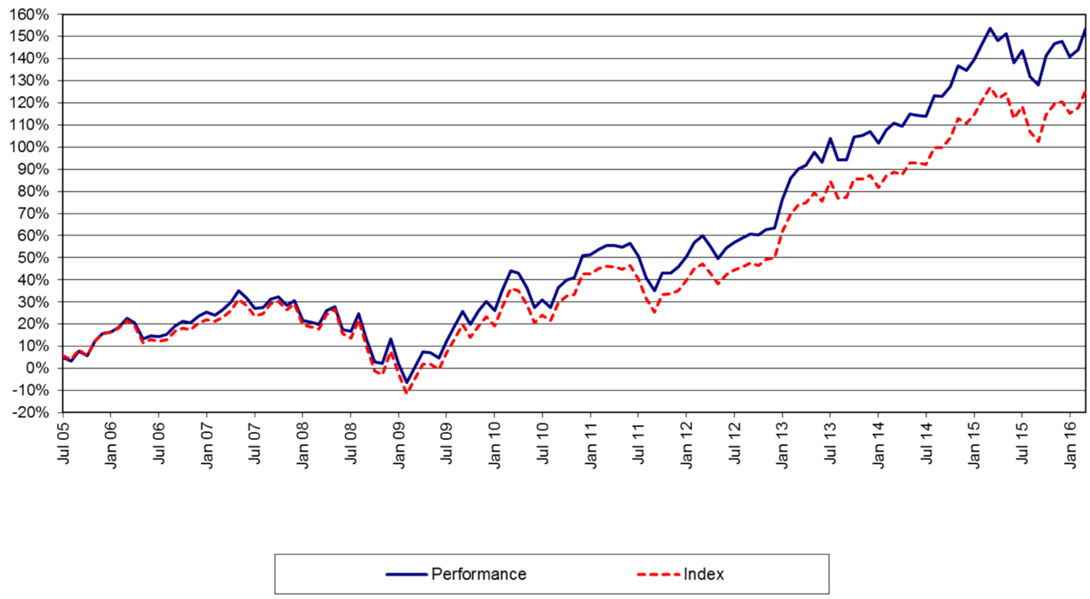
Portfolio Valuation

Value at 31.12.15	Value at 31.03.16
£358,425,059	£366,712,212

Performance

During the quarter Invesco's strategy underperformed its benchmark. Stock Selection showed the largest negative impact on relative performance, whilst active weights in Sectors resulted in a positive contribution to relative performance. Overweights in IT added value, but underweights in consumer staples detracted.

Invesco Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Invesco	2.3	0.0	10.1	10.3	9.0
MSCI World ex UK	2.4	(0.6)	9.1	9.1	7.9
Relative Performance	(0.1)	0.6	0.9	1.1	1.1

* annualised, inception date 1st July 2005

Turnover

Holdings at 31.12.15	Holdings at 31.03.16	Turnover in Quarter %	Turnover in Previous Quarter %
471	494	7.4	8.9

Purchases and Sales

During the quarter, Invesco made a number of stock adjustments to the portfolio. They added Sysco and Realty Income and increased their positions in United Technolgies, Berkshire Hathaway and Alphabet. These were funded by reducing their position in General Electric, Macquarie Group, JP Morgan Chase, Equity Residential and Western Union.

Largest Overweights

Intel	1.02%
Apple	0.80%
Public Storage	0.72%
Citigroup	0.70%
Comcast	0.68%

Largest Underweights

Alphabet	(0.78%)
Chevron	(0.61%)
Exxon Mobil	(0.60%)
Bristol-Myers Squibb	(0.36%)
Medtronic	(0.36%)

* Measured against MSCI World ex UK (NDR)

Top 10 Holdings

1	Apple	£8,753,930
2	Johnson & Johnson	£5,830,088
3	Microsoft	£5,797,571
4	JP Morgan Chase	£5,333,303
5	General Electric	£5,268,403
6	Intel	£5,110,090
7	Verizon	£4,449,575
8	Citigroup	£4,415,092
9	Comcast	£4,218,235
10	AT&T	£3,870,031

Hymans Robertson View

There were no relevant business issues reported over the period.

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 March 2016

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.

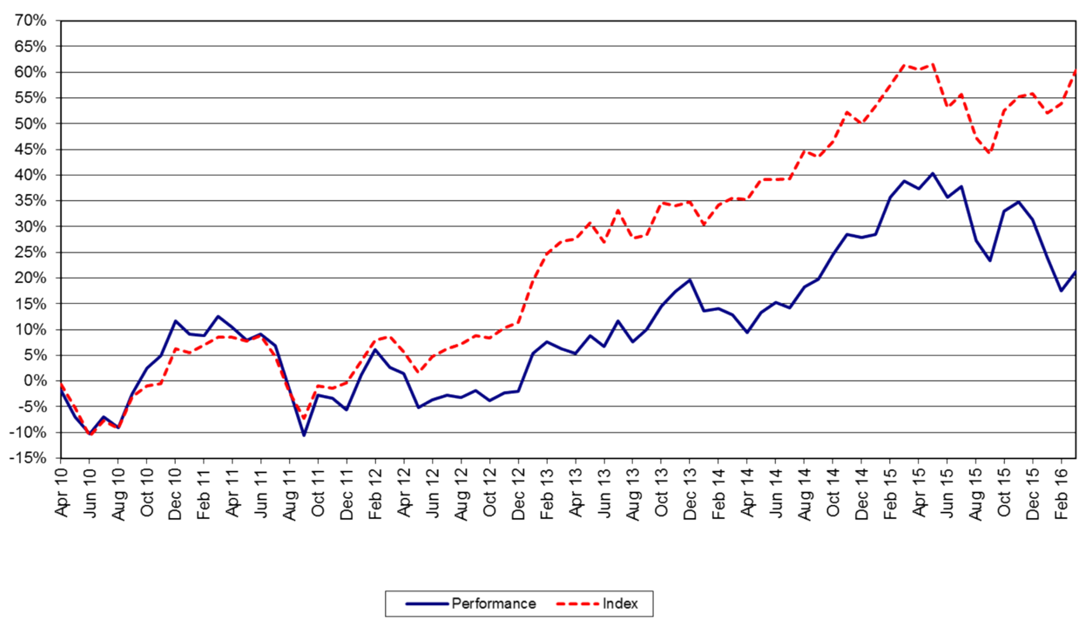
Portfolio Valuation

Value at 31.12.15	Value at 31.03.16
£87,864,070	£81,408,360

Performance

During the quarter Neptune produced a negative return of 7.7% and underperformed the benchmark by 10.4%. Markets that were linked to the oil price delivered the most outperformance during the quarter, with Brazil and Russia particularly strong. Neptune were underweight the energy sector, as their real world research highlighted the growth of US shale oil – as well as the growth of renewable energy resources such as electric cars – could see the oil price remaining lower for longer. Conversely, one of the worst performing markets was Japan, as it was perceived that the large Japanese multinationals were reliant on strong Chinese growth - a view that Neptune do not subscribe too. It was Neptune's overweight position to Japan that was the primary cause of underperformance in the first quarter. Neptune still believe that these world class companies, which generate significant year on year revenue growth are improving returns to shareholders through corporate governance reforms, will outperform over the long term.

Neptune Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Neptune	(7.7)	(12.7)	4.5	1.5	3.3
MSCI ACWI**	2.9	(0.7)	8.1	8.1	8.2
Relative Performance	(10.4)	(12.2)	(3.3)	(6.1)	(4.6)

* annualised, inception date 16/04/2010

Turnover

Holdings at 31.12.15	Holdings at 31.03.16	Turnover in Quarter %	Turnover in Previous Quarter %
52	56	22.7	11.2

Purchases and Sales

During the first quarter, Neptune decreased their exposure to Japan, by selling a number of industrials and consumer stocks and topped up their US exposure to an overweight position. Neptune increased their consumer exposure – in both staples and discretionary, particularly in the US where they believe that the effects of the lower oil price will feed through to higher spending. They also like the ‘health and wellness’ sector and have bought sports drink maker Monster Beverages and Whitewave which makes non-dairy milk alternatives such as Alpro. Neptune changed a number of the financials stocks, preferring US names over Japanese ones.

Top 5 Contributions to Return

Oriental Land Co	0.4%
Facebook	0.4%
CME Group	0.4%
Apple	0.2%
Tencent Holdings	0.2%

Bottom 5 Contributions to Return

Linkedin	(1.7%)
Dai-Ichi Life Insurance	(0.7%)
Sumitomo Mitsui	(0.7%)
Mitsubishi Financial	(0.7%)
Mitsubishi Estate	(0.3%)

Top 10 Holdings

1	Alphabet	£3,769,121
2	Amazon	£3,151,840
3	CME Group	£3,136,050
4	Tencent Holdings	£2,796,668
5	Facebook	£2,647,614

6	Apple	£2,559,629
7	Disney	£2,467,370
8	Starbucks	£2,226,323
9	Sumitomo	£2,181,234
10	JP Morgan Chase	£2,157,485

Hymans Robertson View

Hymans rating on Neptune Global Equity is currently at '3 - On Watch'. Q1 2016 was difficult for many active managers but Neptune could hardly have been worse placed: little exposure to defensive areas such as telecoms and utilities, no exposure to the commodity bounce and high exposure to the worst performing region, Japan, and no respite from the stronger Yen due to hedging. This perfect storm should have abated subsequently but Neptune has much ground to recover. Hymans optimism over the team / process enhancements is waning.

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.

Recommendation

The performance of Neptune was discussed at the Pensions Committee meetings in January and April, and the Committee agreed that a further review was to take place at the July Pensions Committee meeting. The Investment Manager will bring the latest performance figures to June 2016. The Committee will need to discuss if they wish to continue with the appointment of Neptune or to look at alternative options.

Lincolnshire Pension Fund

Global Equities – Schroders
Quarterly Report March 2016

Investment Process

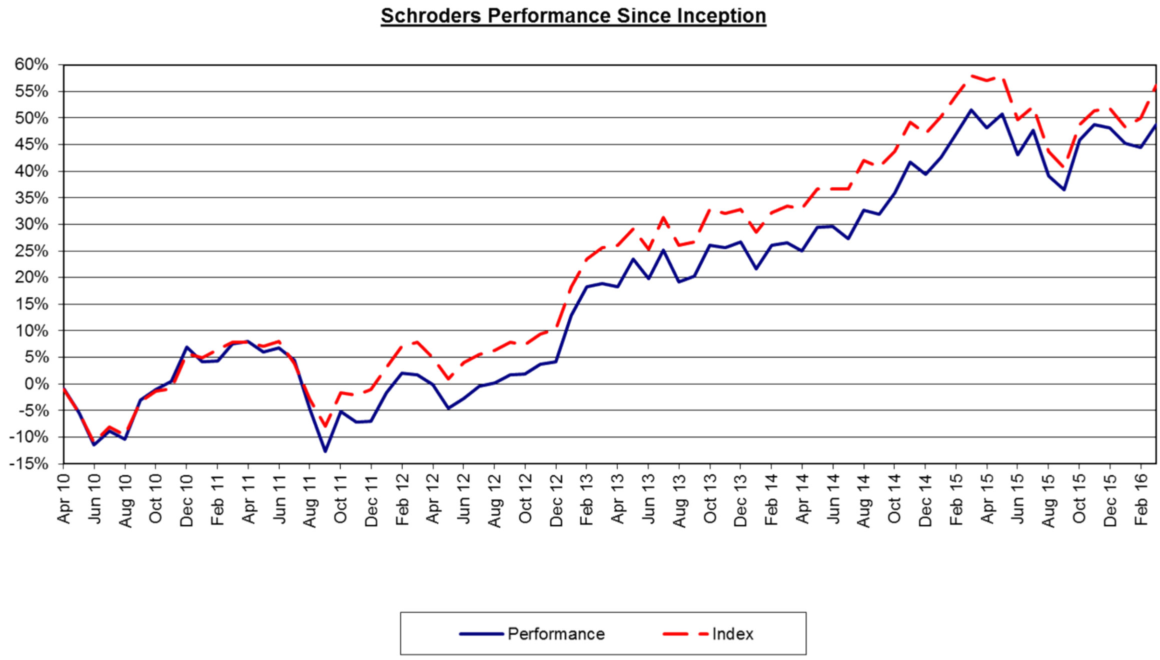
This portfolio is mandated to outperform the MSCI All Countries World Daily Net Index by 2% to 4% over rolling three year periods, gross of fees. This is achieved through an investment approach that is designed to add value relative to the benchmark through both stock selection and asset allocation decisions. Schroders 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 31.12.15	Value at 31.03.16
£88,510,859	£88,886,819

Performance

Schroders underperformed the benchmark over the quarter. The combination of the portfolio's growth bias together with the sharp market rally that was driven by lower quality, cyclical names towards the quarter end, had a significant bearing on the relative performance of the fund. Stock selection in the US, where the market shift was most prominent, was particularly unfavourable.



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Schroders	0.5	(1.8)	7.8	6.7	6.8
MSCI ACWI (Net)	2.8	(1.2)	7.5	7.7	7.6
Relative Performance	(2.3)	(0.6)	0.3	(0.9)	(0.8)

*annualised since Inception April 16 2010

Turnover

Holdings at 31.12.15	Holdings at 31.03.16	Turnover in Quarter %	Turnover in Previous Quarter %
69	77	14.2	9.8

Purchases and Sales

During the quarter Schroders began to increase their exposure to the more cyclical areas of the market that have been out of favour for the past 18 months. These include Occidental Petroleum and chemical distributor, Brenntag. On the sales side, Schroders exited their position in Deutsche Bank and Nokia.

Top 5 Contributions to Return

Taiwan Semicon Man	0.4%
Kasikombank	0.2%
Cabot Oil & Gas	0.2%
Unitedhealth Group	0.2%
Statoil Asa	0.2%

Bottom 5 Contributions to Return

Citigroup	(0.4%)
Sumitomo Mitsui	(0.3%)
Prudential	(0.3%)
Amazon	(0.3%)
Capita	(0.2%)

Top 10 Holdings

1	Alphabet	£2,837,472
2	Citigroup	£2,344,648
3	TWN Semicont	£2,328,847
4	Comcast	£2,265,321
5	Reckitt	£2,119,365

6	Pfizer	£2,012,238
7	Lauder	£1,906,458
8	Unitedhealth	£1,903,047
9	Visa	£1,878,132
10	US Bancorp	£1,857,358

Hymans Robertson View

Q1 2016 was particularly difficult as the market variously rewarded stocks with near term cash flow safety and latterly commodity led value stocks which left Schroder's broader long term growth stocks out of favour. Financials (banks) exposure was also unhelpful.

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 March 2016

Investment Process

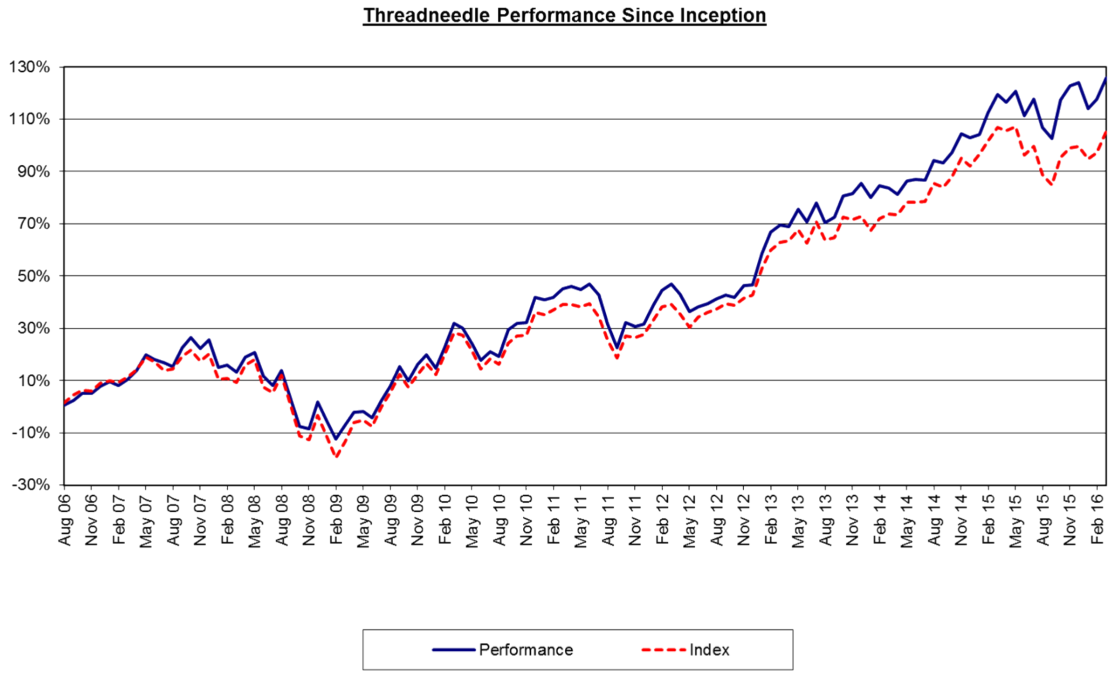
This portfolio is mandated to outperform the MSCI All Countries World Index by 2% per annum, gross of fees over rolling three year periods. This is achieved through investment managers who can draw on their own knowledge and that of other parts of the organisation to implement a thematic approach to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

Portfolio Valuation

Value at 31.12.15	Value at 31.03.16
£93,347,789	£94,090,170

Performance

Threadneedle underperformed its benchmark in the quarter. Regional allocation was marginally positive, thanks largely to their underweight in Japan. However, both allocation and selection detracted in sector terms. Threadneedle's underweight position in materials, utilities and consumer staples weighed on returns, while gains from their industrials selections were offset by the adverse effects from those in healthcare, materials, financials and telecoms.



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Threadneedle	0.8	2.9	10.0	9.2	8.8
MSCI ACWI	2.9	(0.7)	8.0	8.1	7.7
Relative Performance	(2.1)	3.6	1.8	1.0	1.0

* annualised, inception date 01/08/2006

Turnover

Holdings at 31.12.15	Holdings at 31.03.16	Turnover in Quarter %	Turnover in Previous Quarter %
88	85	12.4	2.7

Purchases and Sales

Threadneedle opened positions in CRH, one of the world's leading diversified building materials businesses. They also initiated a holding in Activision, a gaming company with a strong catalogue that is well placed to capitalise on the move towards digital. They exited their position in pharmacy benefit manager Express Scripts.

Top 5 Contributions to Return

Aon	0.36%
Markit	0.31%
Facebook	0.29%
Comcast	0.26%
WESCO	0.25%

Bottom 5 Contributions to Return

Alkermes	(0.77%)
Vertex Pharma	(0.67%)
UBS Group	(0.38%)
Bank of Ireland	(0.37%)
Taiheiyo Cement	(0.36%)

Top 10 Holdings

1	Alphabet	£2,756,291	6	Aon	£2,082,668
2	Facebook	£2,412,538	7	Gilead Sciences	£2,072,298
3	Unilever	£2,377,129	8	UBS Group	£1,866,471
4	Amazon	£2,288,236	9	Pfizer	£1,838,026
5	JPMorgan Chase	£2,156,665	10	Mastercard	£1,785,647

Hymans Robertson View

In April 2016, Columbia Threadneedle announced that Campbell Fleming, Chief Executive of the EMEA region and Global Chief Operating Officer was leaving the firm [he is moving to Aberdeen Asset Management]. Ted Truscott, Global CEO, remains in place. Ted Gillbanks (COO for EMEA) will take over Fleming's CEO role for the time being and Amy Johnson will take over Fleming's Global COO responsibilities. A replacement for Fleming is being sought. The departure of a senior figure such as Fleming is a loss for the firm but we think this is more about the opportunity at Aberdeen than a sign of any problems at Columbia Threadneedle. In the meantime Hymans see no reason to change their ratings on any of the firm's products.

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 March 2016

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.

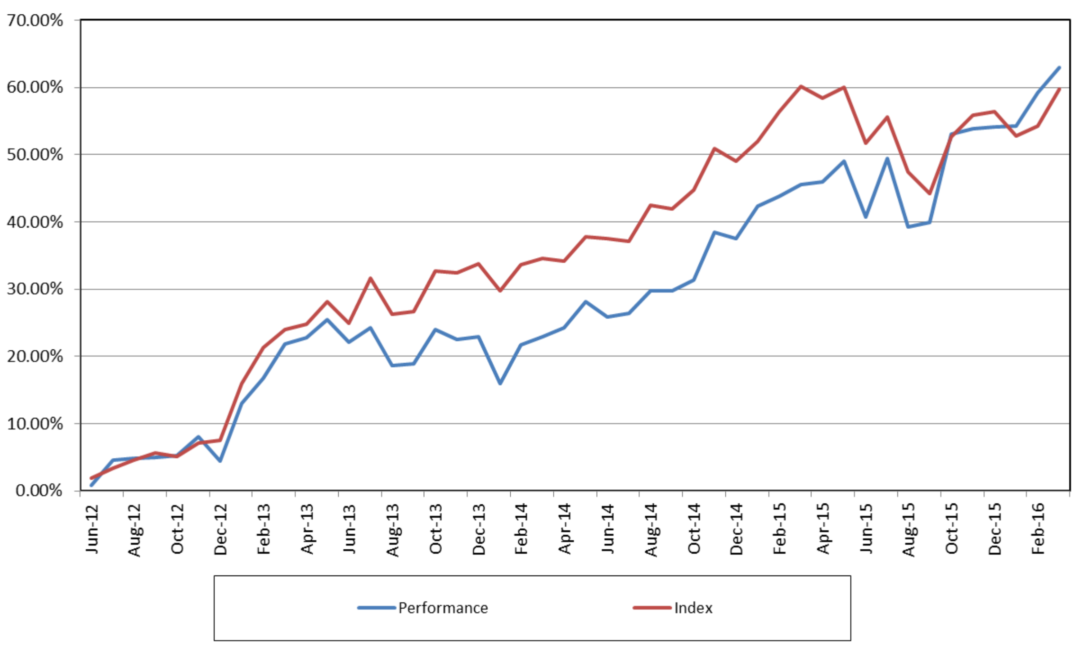
Portfolio Valuation

Value at 31.12.15	Value at 31.03.16
£93,666,116	£99,033,147

Performance

During the quarter Morgan Stanley Global Brands returned 5.7% outperforming its benchmark by 3.5%, which returned 2.2%. The outperformance for the quarter was mainly due to stock selection in consumer staples, consumer discretionary and information technology. Not owning stocks in sectors that did well such as energy, utilities, telecoms and materials detracted from performance.

Morgan Stanley Global Brands Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Morgan Stanley Global Brands	5.7	12.0	10.2	N/A	13.6
MSCI World Index	2.2	(0.3)	8.8	N/A	13.0
Relative Performance	3.5	12.3	1.3	N/A	0.5

*annualised, inception date 18/06/2012

Purchases and Sales

During the quarter Morgan Stanley exited their position in Publicis and added to and reduced some consumer staples and consumer discretionary names, for quality or valuation reasons.

Top 3 Contributions to Return

British American Tobacco	0.83%
Reynolds American	0.63%
Reckitt Benckiser	0.60%

Bottom 3 Contribution to Return

Mondelez Int'l	(0.37%)
Walt Disney	(0.13%)
Publicis	(0.09%)

Top Ten Holdings

Company	Industry	% Weighting
Microsoft	Software	8.41
Reckitt Benckiser	Household Products	7.83
British American Tobacco	Tobacco	7.40
L'Oreal	Personal Products	6.64
Unilever	Personal Products	5.97
Accenture	IT Services	4.76
Nestle	Food Products	4.76
Altria	Tobacco	4.67
Reynolds American	Tobacco	4.52
Visa	IT Services	4.18

Hymans Robertson View

There were no relevant business issues reported over the period.

Lincolnshire Pension Fund
Passive Bonds – Blackrock
Quarterly Report March 2016

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 31st March 2016

Portfolio	**31.12.15 £**	**31.03.16 £**
Corporate Bond All Stocks Index Fund	56,878,545	59,931,423
Over 5 Years UK Index-Linked Gilt Index Fund	32,987,164	35,858,495
Overseas Bond Index Fund	23,384,837	23,774,105
Cash (residual)	10	10
Total	**113,250,556**	**119,564,033**

Performance

Over all periods the portfolio has slightly outperformed the benchmark.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Blackrock	5.6	2.9	4.8	7.3	7.5
Composite Benchmark	5.5	2.7	4.7	7.2	7.4
Relative Performance	0.1	0.1	0.1	0.1	0.1

*annualised since inception 28/07/10

Fees

Following work done by BCPP on passive managers across the pool, the Pension Fund Manager looked at the potential savings that could be had across the selection of passive managers available within the pool, taking into account past performance. Following this, and after discussion with Blackrock, new fee levels have been agreed from 1st April forward.

Hymans Robertson View

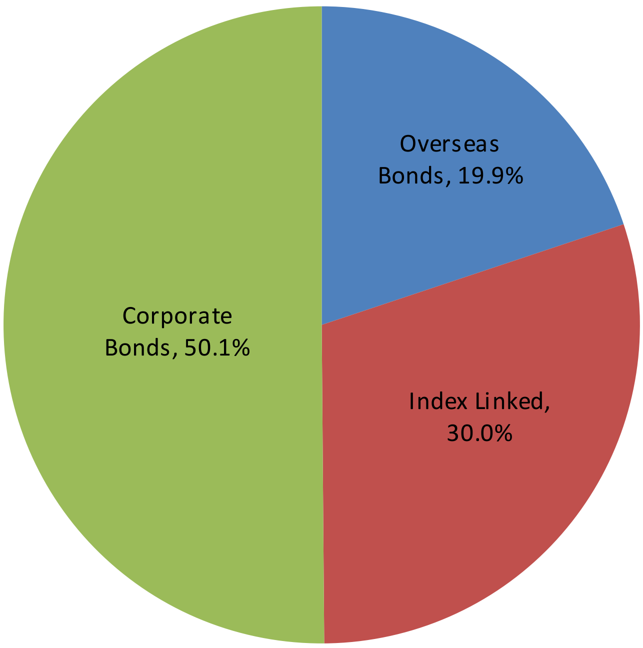
There were no significant developments within the Index Fixed Income team over the quarter; as such Hymans continue to rate Blackrock as one of their preferred passive fixed income managers.

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 31st March 2016.



Lincolnshire Pension Fund
Absolute Return Bonds – BMO
Quarterly Report March 2016

Investment Process

BMO 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 31.12.15	Value at 31.03.16
£110,375,120	£108,035,745

Performance

BMO produced a negative return of -2.1% during the quarter which was 2.9% below target. In the quarter, Chenavari had a tough period and both Concerto and Threadneedle were also down a little. Chenavari's exposure to financial bonds and structured credit caused almost all of the underperformance. Concerto lost a little over the quarter, but BMO were very encouraged by their stock selection ability over the period.

BMO have maintained a lower level of risk within the Fund by holding on to the shorter dated bond allocation. They believe the current return potential for the Fund is the highest it has been for a long time.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
BMO	(2.1)	(3.8)	(0.8)	0.6	0.9
3 Month LIBOR + 3%	0.8	3.1	3.1	3.2	3.4
Relative Performance	(2.9)	(6.8)	(3.8)	(2.5)	(2.4)

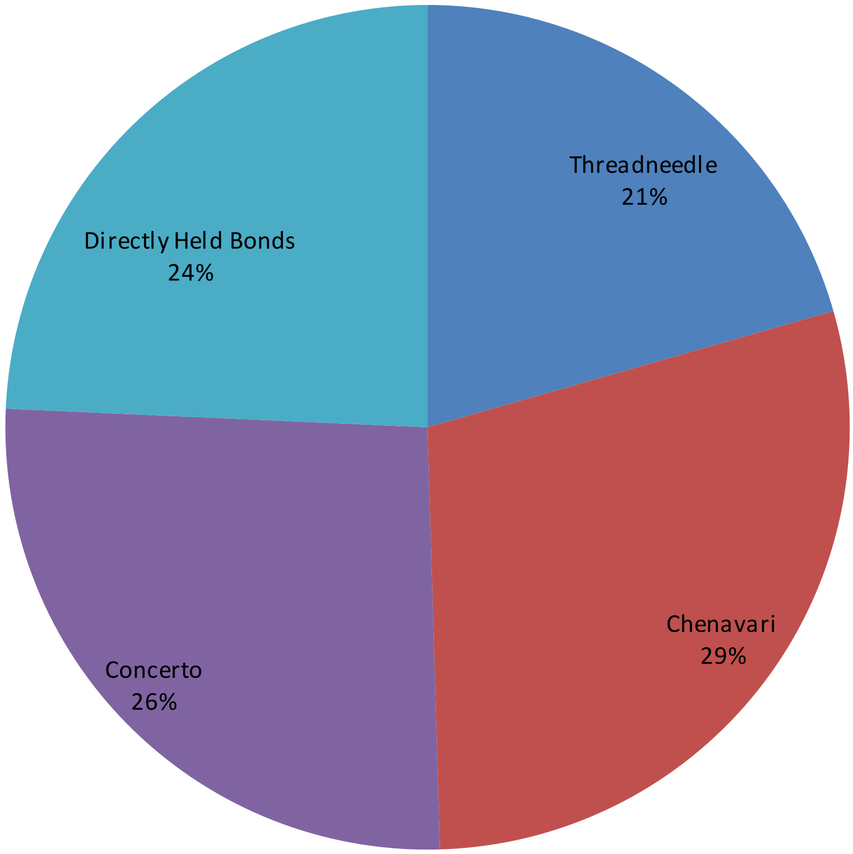
* annualised since inception date 19/07/2010

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

The pie chart below shows the allocation as at 31st March 2016



Hymans Robertson View

Although many absolute return bond managers struggled in 2015, the disappointing returns from BMO have gone on for much longer. Hymans discussed the options for this mandate with the Committee in May, and they have changed their rating to "replace".

Lincolnshire Pension Fund
Alternative Investments – Morgan Stanley
Quarterly Report March 2016

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 31.12.15	Value at 31.03.16
£183,444,113	£188,933,585

Performance

The portfolio returned -0.04% during the first quarter. Gains from credit and real assets were insufficient to offset losses in hedge funds, and to a lesser extent, convertibles. Hedge funds failed to fully participate in the market rally during the latter part of the quarter. Morgan Stanley's decision to increase their real estate allocation and re-introduce inflation linked assets in the portfolio was particularly beneficial.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Morgan Stanley	0.1	(4.2)	(0.2)	N/A	3.6
3 Month LIBOR + 4%	1.2	4.7	4.7	N/A	5.0
Relative Performance	(1.1)	(8.5)	(4.7)	N/A	(1.4)

* 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;

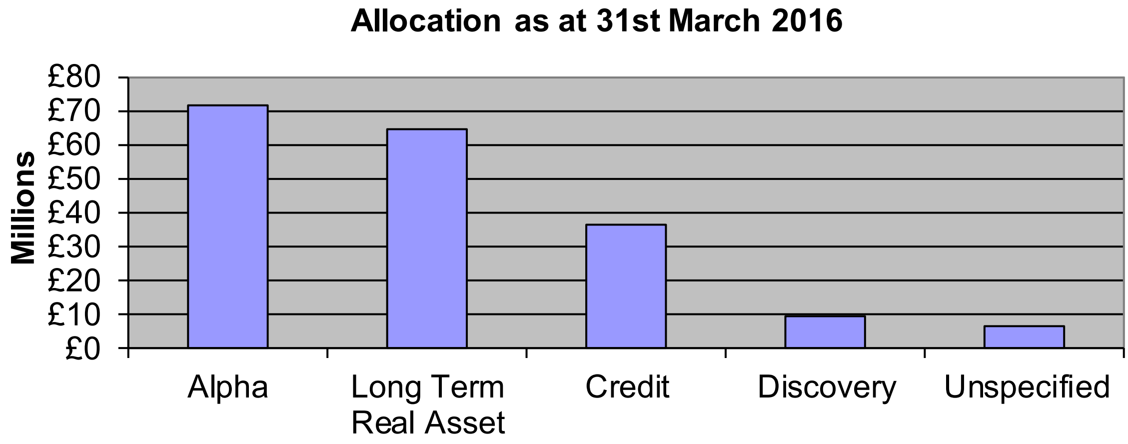
Alpha – These are pure return seeking products based on Manager skill. The Alpha investments include Hedge Funds, Global Tactical Asset Allocation (GTAA) and Active Currency.

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.



Portfolio Positioning

Growth remains weak, although Morgan Stanley believe that it should improve modestly. They anticipate a continued slow with uneven expansion in advanced economies with either stabilisation or minor recovery by several emerging/developing economies. Against a backdrop where assuming additional investment risk to generate incremental returns is limited relative to previous years, they envision an environment which is most supportive for hedge funds, inflation and credit asset classes. Despite low yields and low breakeven inflation expectations, they see stabilisation in core inflation and therefore reintroduced inflation-linked exposure in the portfolio in February. They have a modest overweight to credit, as the asset class offers risk-adjusted return potential as a consequence of substantial spread widening. Within real assets, they continue to progressively make commitments to private infrastructure. On the liquid side, they have a preference for listed private equity over listed infrastructure. Although the performance of liquid infrastructure has been strong, they maintain a significant tactical underweight to the asset class in order to minimize energy equity exposure alongside the portfolio's energy high yield credit investment theme. They maintain a positive outlook for REITs in the medium term due to reasonable valuation levels, solid real estate fundamentals, and the prospect of further accommodative monetary policy. Consequently, they modestly increased their exposure this quarter. Even with signs of a bottom in oil, they continue to be cautious on the asset class as inventory and supply overhangs remain a concern.

Hymans Robertson View

Hymans don't believe that the team's approach to investing has changed and acknowledge that many of the underlying asset classes in which the portfolio invests have suffered as a result of a couple of key macro themes, notably the China slowdown and its impact on commodities and emerging markets more broadly. Nonetheless the strategy's recent performance has been disappointing.

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 positive return of 0.98% which is behind the benchmark which returned 1.75%.

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.

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