

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

Report to:	<b>Pensions Committee</b>
Date:	<b>08 March 2017</b>
Subject:	<b>Investment Management Report</b>

**Summary:**

This report covers the management of the Lincolnshire Pension Fund assets over the period from 1st October to 31st December 2016.

**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**

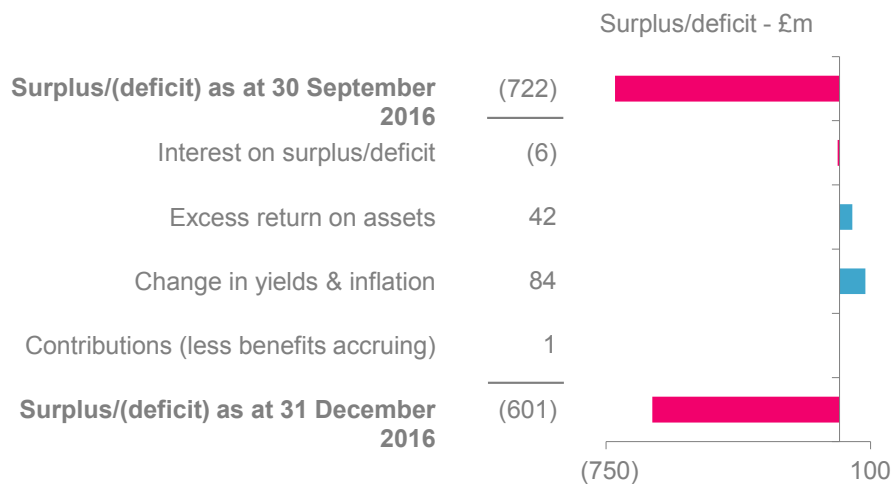
- 1.1 The funding update is provided to illustrate the estimated development of the funding position from 31<sup>st</sup> March 2016 to 31<sup>st</sup> December 2016, for the Fund.
- 1.2 As the graph below shows, the funding level at the latest formal valuation was 76.9%. As at 31<sup>st</sup> December 2016 the funding level has increased to 77.3%.

### Change in funding level since last valuation



1.3 As shown below, the deficit in real money has decreased from £722m to £601m between the period 30<sup>th</sup> September 2016 and 31<sup>st</sup> December 2016. This is largely as a result of an increase in bond yields and greater return on assets than expected.

### 1.4 What's happened since last valuation?



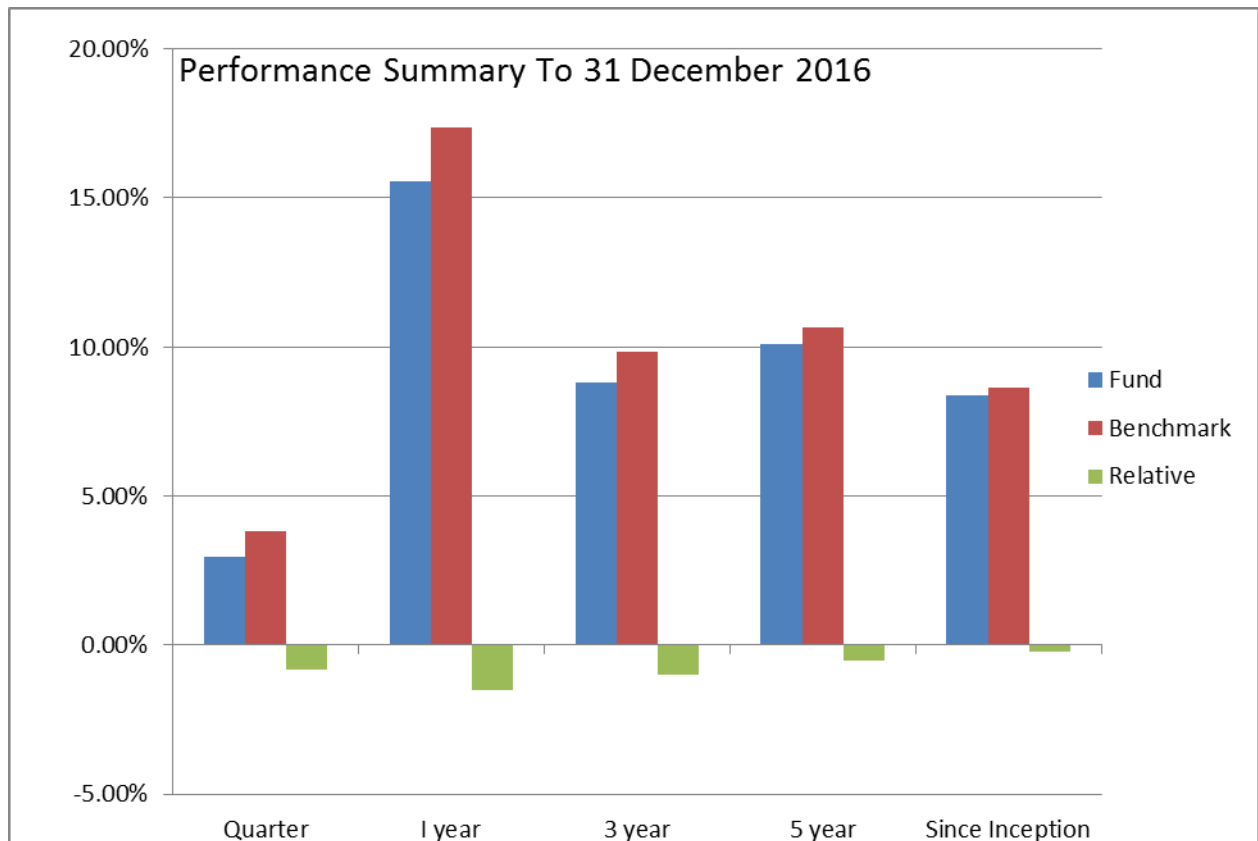
## 2. Fund Performance & Asset Allocation

2.1 The Fund increased in value by £61.8m during the quarter from £1,943.1m to £2,004.9m, as the table below shows.

Asset Class	Q4 2016 £m	Q3 2016 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	387.3	375.4	19.3	20.0	(0.7)
Global Equities	859.5	852.8	42.9	40.0	2.9
Alternatives	270.5	265.4	13.5	15.0	(1.5)
Property	209.1	202.4	10.4	11.5	(1.1)
Fixed Interest	243.9	247.8	12.2	13.5	(1.3)
Cash	34.6	(1.2)	1.7	0.0	1.7
<b>Total</b>	<b>2,004.9</b>	<b>1,943.1</b>	<b>100.0</b>	<b>100.0</b>	

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 2.98% but underperformed the benchmark which returned 3.81%. The Fund is behind the benchmark over all periods.



\* Since Inception figures are from March 1987

2.4 Following the Pensions Committee meeting in January and the approval to implement the asset allocation changes following the investment strategy review, the following have been completed:

- Transfer of assets from the internally managed UK Equity portfolio to LGIM was completed on the 15<sup>th</sup> February.

- Change to the passive benchmark for Blackrock, substituting Overseas Government Bonds with UK Fixed Interest Government Bonds was completed on the 20<sup>th</sup> February.

- Notice has been given to both the Currency Overlay managers, HSBC Trinkhaus and Record. They will both start a phased withdrawal with this being completed by 31<sup>st</sup> December 2017.

### 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 eighteen managers and during the quarter there was one rating change where Aviva Pooled Property Fund has been moved from "on watch" to "retain". Seventeen managers remained rated as "retain", and one manager, Rreef Ventures Fund 3, as "on watch". Officers continue to monitor 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	
Morgan Stanley Global Brands					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	
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#### 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 4.3.

4.2 Manager Returns – As shown below it was a good quarter for the Fund with all managers, except for Blackrock, producing a positive absolute return. Disappointingly over the quarter, only two managers outperformed their benchmark, Invesco and Blackrock. Over the 12 month period all managers have produced a positive absolute return. Morgan Stanley Alternatives, Blackrock and Invesco have both outperformed their benchmark over the 12 month period.

Manager	3 months ended 31/12/16			Previous 12 months			Target p.a. %
	Manager Return %	Index Return %	Relative Variance %	Manager Return %	Index Return %	Relative Variance %	
Passive UK Equity In house	3.7	3.8	(0.1)	17.2	17.5	(0.2)	+/- 0.5
Invesco (Global Equities (ex UK))	8.7	7.3	1.3	30.9	28.9	1.5	+1.0
Threadneedle (Global Equities)	3.0	6.5	(3.3)	22.0	29.4	(5.7)	+2.0
Schroder's (Global Equities)	5.3	6.4	(1.0)	25.6	28.7	(2.4)	+3.0
Morgan Stanley Global Brands	4.1	7.1	(2.8)	25.5	28.2	(2.1)	n/a
Blackrock (Fixed Interest)	(2.8)	(2.8)	0.1	18.2	18.1	0.1	Match Index
Blackrock Interim (Fixed Interest) *From Sept 2016	0.1	0.1	0.0	0.3*	0.2*	0.1*	Match Index

Morgan Stanley (Alternative Investments)	1.1	1.1	0.0	7.3	4.6	2.6	3M LIBOR + 4%
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**Lincolnshire Pension Fund**  
**UK Equities – In House (Passive UK)**  
**Quarterly Report December 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 30.09.16	Value at 31.12.16
£375,383,384	£387,348,629

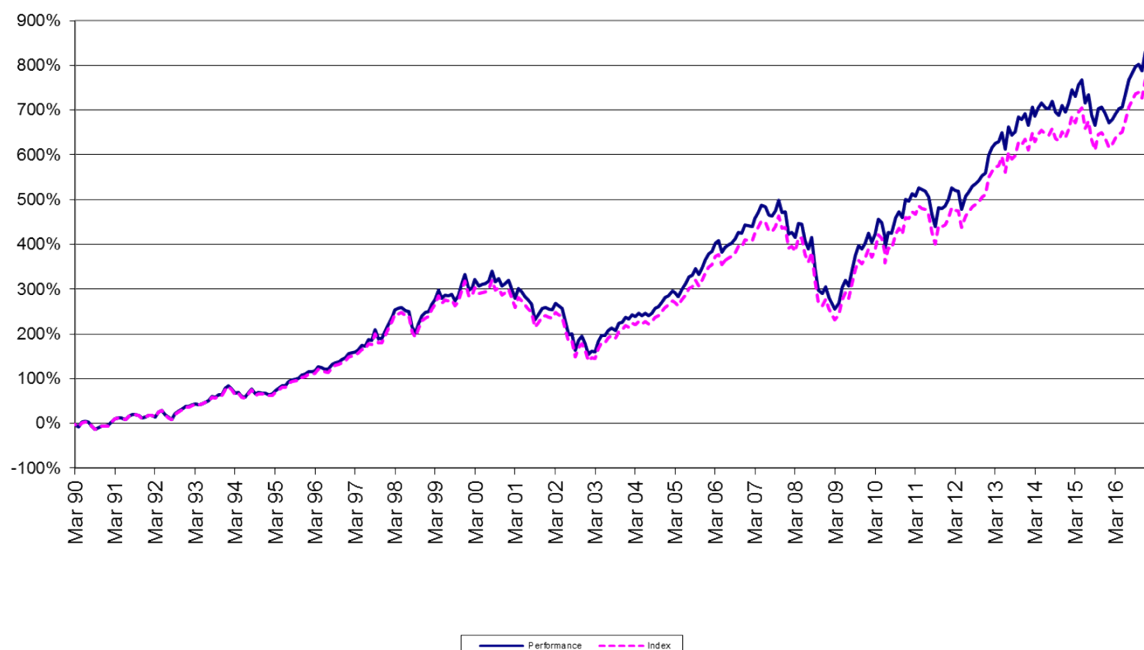
**Performance**

During the quarter the portfolio produced a return of 3.7% which was 0.1% below the benchmark. The portfolio is slightly behind the benchmark over one, three and five year time periods but ahead since inception.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
UK Equities – In House	3.7	17.2	5.5	9.7	8.5
MSCI UK IMI	3.8	17.5	5.7	9.8	8.2
Relative Performance	(0.1)	(0.2)	(0.1)	(0.1)	0.3

\* annualised, inception date 01/10/1989

**UK Equities In House Portfolio Performance Since Inception**



## Turnover

Holdings at 30.09.16	Holdings at 31.12.16	Turnover in Qtr %	Turnover in Previous Qtr %
279	282	1.7	0.0

## Purchases and Sales

During the quarter the manager made a number of trades reducing the cash holding from £15m to £3m. Significant underweight positions in Royal Dutch Shell, HSBC and Shire were brought to a neutral position and new positions were initiated with PZ Cussons and SVG Capital.

### Largest Overweights

Randgold	0.13%
Tullow Oil	0.13%
Paddy Power Betfred	0.11%
Indivior	0.10%
Babcock	0.09%

### Largest Underweights

Metro Bank	(0.08%)
JD Sports	(0.05%)
TP ICAP	(0.05%)
RPC Group	(0.05%)
Standard Charter	(0.05%)

\* Measured against MSCI UK IMI

## Top 10 Holdings

1	Royal Dutch Shell	£33,884,305	6	Astrazeneca	£10,351,557
2	HSBC	£23,958,803	7	Vodafone	£10,035,368
3	BP	£17,537,744	8	Diageo	£9,844,762
4	Brit Amer Tobacco	£15,949,672	9	Reckitt Benckiser	£8,084,625
5	GlaxoSmithKline	£14,243,279	10	Unilever	£7,813,730

## Risk Control

The portfolio has a tracking error limit of 0.5%. At the end of December 2016 the tracking error was 0.23%.



**Lincolnshire Pension Fund  
Global Equities – Invesco (Global Ex UK Enhanced)  
Quarterly Report December 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.

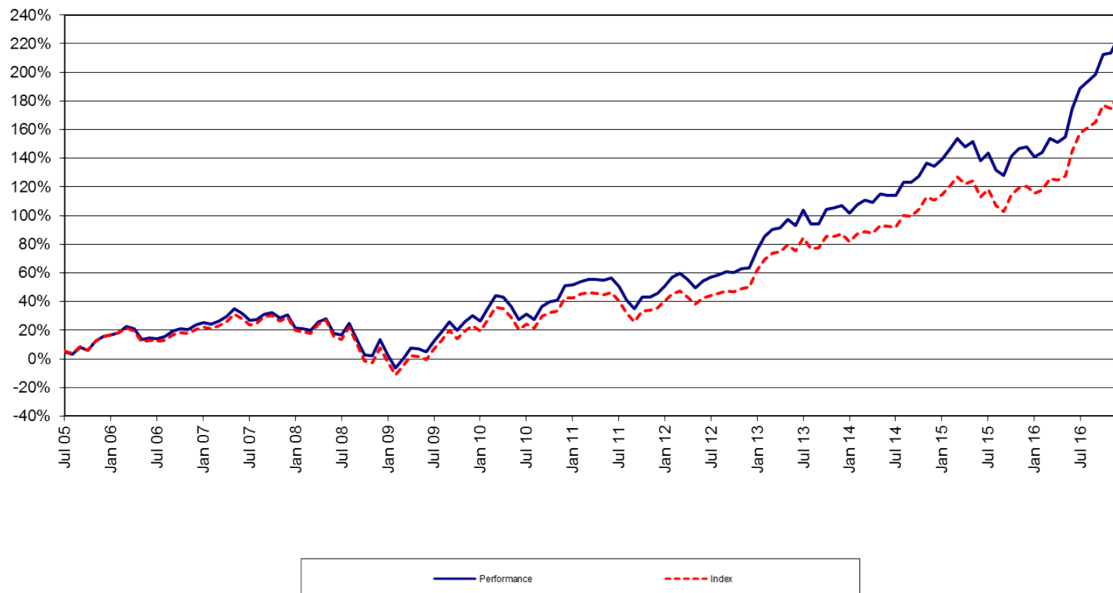
**Portfolio Valuation**

Value at 30.09.16	Value at 31.12.16
£477,875,995	£468,673,452

**Performance**

During the quarter Invesco's strategy outperformed its benchmark. Stock selection was the most dominant driver of relative performance, as stocks with attractive scores in their value concept performed strongly. Stocks which Invesco think are attractive from a Management & Quality perspective contributed positively as well. Performance over all periods continues to be above the target return of +1%. During the quarter £50m was redeemed from our investment with Invesco to keep within tolerance levels of agreed asset allocation.

**Invesco Performance Since Inception**



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Invesco	8.7	30.9	16.1	17.4	10.8
MSCI World ex UK	7.3	28.9	14.9	16.0	9.5

Relative Performance	1.3	1.5	1.1	1.2	1.2
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\* annualised, inception date 1<sup>st</sup> July 2005

## Turnover

Holdings at 30.09.16	Holdings at 31.12.16	Turnover in Qtr %	Turnover in Previous Qtr %
530	529	11.4	16.1

## Purchases and Sales

During the quarter, Invesco made a number of stock adjustments to the portfolio. They added Atlas Copco and Sandvik and increased their position in Inditex, Wellcare Health Plans and BASF. These were funded by selling out of Lowe's and decreasing their positions in Goldman Sachs, Johnson & Johnson, JP Morgan Chase and Facebook.

## Largest Overweights

Verizon	0.68%
Citigroup	0.67%
JP Morgan Chase	0.62%
AT&T	0.62%
Intel	0.57%

## Largest Underweights

Exxon Mobil	(0.75%)
Chevron	(0.71%)
Alphabet	(0.61%)
Visa	(0.47%)
Amazon	(0.40%)

\* Measured against MSCI World ex UK (NDR)

## Top 10 Holdings

1	Apple	£9,761,441	6	Verizon	£6,337,408
2	JPMorgan Chase	£7,458,831	7	Citigroup	£5,651,153
3	Microsoft	£6,766,428	8	Procter & Gamble	£5,184,398
4	AT&T	£6,691,172	9	Intel	£5,165,947
5	Johnson & Johnson	£6,553,940	10	Cisco Systems	£4,274,054

## 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 1.13% (actual target 1%).

**Lincolnshire Pension Fund  
Global Equities – Schroders  
Quarterly Report December 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 30.09.16	Value at 31.12.16
£105,594,640	£111,053,310

**Performance**

During the quarter the portfolio underperformed the benchmark. Stock selection was a detractor to performance but the key detractor was the market's bias to value – apparent within all global sectors and all regions. This significantly affected the performance of stocks across the portfolio given Schroder's relative bias towards growth characteristics. At a stock level, there was little stock specific news flow over the quarter that gave Schroder's significant cause for concern about their portfolio holdings or positioning.

**Manager Meeting**

In February, the Pension Fund Manager visited the offices of Schroders and met with the investment team. Reassurance was given that underperformance in 2016 was not due to investment process but markets conditions during the year.

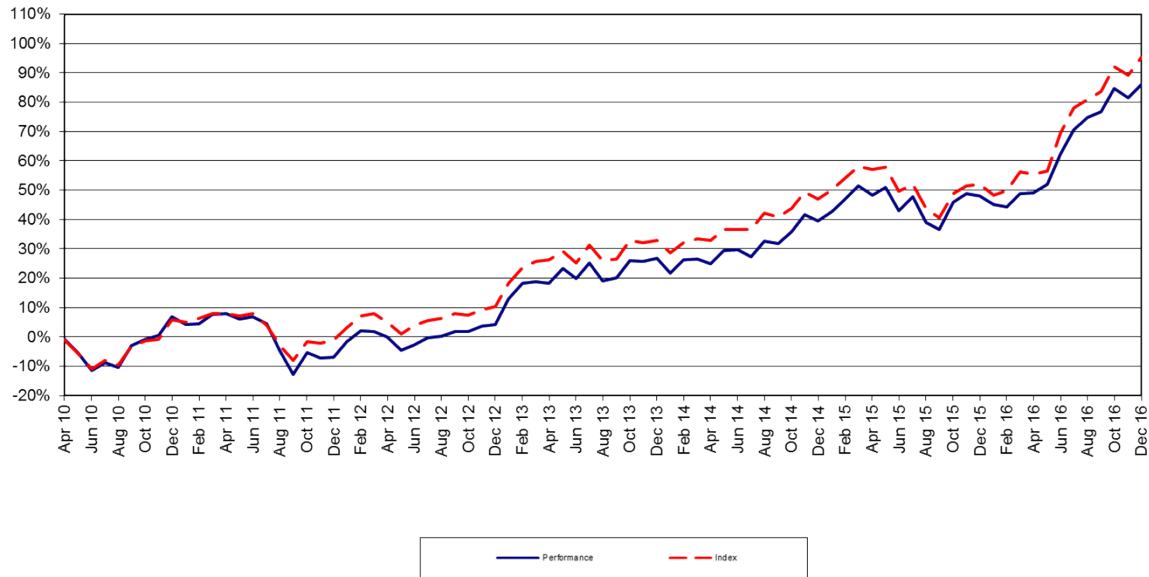
They acknowledged that the performance in 2016 had been disappointing and that the team's approach had not been rewarded due to:

- Style and factor returns being extreme throughout 2016 and have dominated share price performance.
- Value was the predominant factor throughout the year, largely at the expense of Growth.
- Failure of positive earnings to contribute to share price performance.

Schroders believe that we are at a point of change in the investment environment which will see the re-emergence of earnings fundamentals as the primary source of alpha generation over an extended time horizon.

They have complete confidence that the investment philosophy and processes employed by the team are capable of delivering positive alpha and reassured the Pension Fund Manager that they expect this to happen by August 2017.

### Schroders Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Schroders	5.3	25.6	13.7	14.9	9.6
MSCI ACWI (Net)	6.4	28.7	13.7	14.6	10.4
Relative Performance	(1.0)	(2.4)	(0.1)	0.3	(0.7)

\*annualised since Inception April 16 2010

### Turnover

Holdings at 30.09.16	Holdings at 31.12.16	Turnover in Qtr %	Turnover in Previous Qtr %
81	80	5.3	7.7

### Purchases and Sales

The extreme moves over the quarter due to style rotation and continued conviction in the portfolio holdings have curbed trading activity. The limited trades were reduced to the purchase of LVMH and BASF whilst selling out of Teva Pharma and Capita.

### Top 5 Contributions to Return

Citigroup	0.5%
JPMorgan Chase	0.4%
US Bancorp	0.3%
T-Mobile US	0.3%
United Health	0.2%

### Bottom 5 Contributions to Return

KDDI	(0.3%)
HDFC Bank	(0.2%)
Estee Lauder	(0.2%)
Medtronic	(0.2%)
Reckitt Benckiser	(0.2%)

## Top 10 Holdings

1	Alphabet	£3,446,565	6	United Health	£2,500,289
2	Citigroup	£3,444,357	7	Nestle	£2,384,350
3	Comcast	£3,068,158	8	Amazon	£2,322,929
4	JPMorgan Chase	£2,850,535	9	TWN Semicont	£2,277,058
5	US Bancorp	£2,664,003	10	T-Mobile US	£2,260,001

## Hymans Robertson View

There were no significant developments over the quarter.

## 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 December 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**

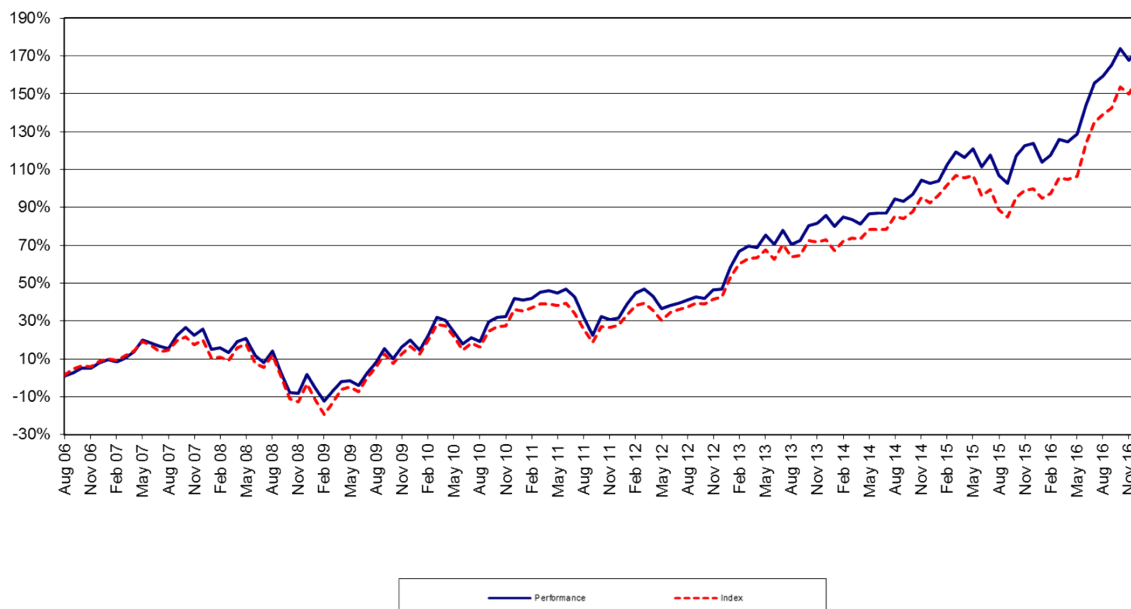
Value at 30.09.16	Value at 31.12.16
£110,601,734	£113,866,498

**Performance**

Threadneedle underperformed its benchmark in the quarter. Stock selection was the main detractor, despite financials being the best performer over the quarter, their selections in the sector weighed on relative returns, largely due to well performing stocks that Threadneedle didn't hold.

Threadneedle continue to focus on quality growth, seeking competitively advantaged businesses exposed to a secular growth story or ones that can deliver company led growth.

Threadneedle Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Threadneedle	3.0	22.0	13.8	15.7	10.1
MSCI ACWI	6.5	29.4	14.3	15.1	9.5
Relative Performance	(3.3)	(5.7)	(0.5)	0.5	0.5

\* annualised, inception date 01/08/2006

## Turnover

Holdings at 30.09.16	Holdings at 31.12.16	Turnover in Qtr %	Turnover in Previous Qtr %
84	88	6.4	8.1

## Purchases and Sales

During the quarter Threadneedle initiated new positions in Micron Technology and Costco and exited their position in Bristol-Myers Squibb.

### Top 5 Contributions to Return

JPMorgan Chase	0.66%
BB&T Corp	0.49%
Spirit Airlines	0.43%
Charles Schwab	0.42%
Micron Technology	0.32%

### Bottom 5 Contributions to Return

Activision Blizzard	(0.30%)
Nintendo	(0.29%)
Anheuser-Busch	(0.25%)
Unilever	(0.24%)
Nielsen Holdings	(0.22%)

### Top 10 Holdings

1	Alphabet	£3,658,888	6	Visa	£2,270,002
2	JPMorgan Chase	£3,014,791	7	Activision	£2,256,755
3	Amazon	£2,681,656	8	Pfizer	£2,249,886
4	BB&T Corp	£2,449,957	9	Mastercard	£2,191,310
5	Unilever	£2,332,547	10	Union Pacific	£2,167,698

## Hymans Robertson View

Threadneedle have announced that Michelle Scrimgeour will join in 2017 as CEO of its EMEA business. Scrimgeour has been M&G's Chief Risk Officer since 2012 and before that held senior positions at BlackRock and Merrill Lynch Investment Managers.

## 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 December 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.

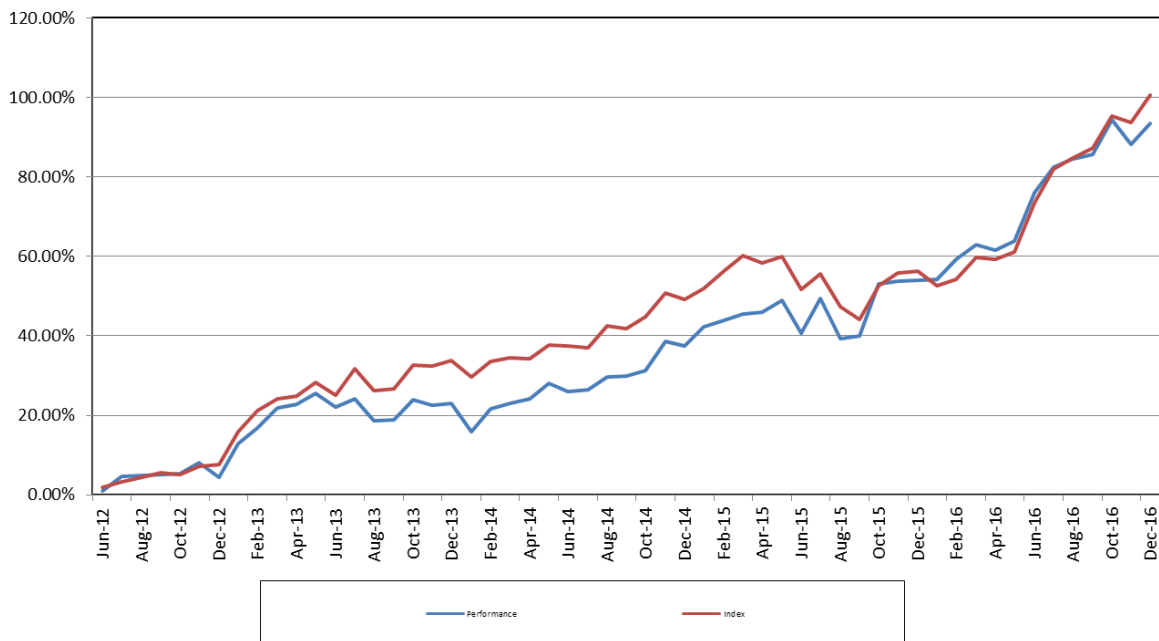
**Portfolio Valuation**

Value at 30.09.16	Value at 31.12.16
£158,690,970	£165,210,491

**Performance**

During the quarter, a decidedly risk-on period, Morgan Stanley Global Brands lagged the benchmark. This resulted in the portfolio ending the year with a positive return of 25.5% but relatively lagging the index return of 28.2%. The overweight position in Consumer Staples and the underweight in Financials hurt performance most, though not owning Healthcare was a positive.

**Morgan Stanley Global Brands Performance Since Inception**





	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Morgan Stanley Global Brands	4.1	25.5	16.3	N/A	15.5
MSCI World Index	7.1	28.2	14.5	N/A	16.4
Relative Performance	(2.8)	(2.1)	1.6	N/A	(0.8)

\*annualised, inception date 18/06/2012

### Purchases and Sales

During the quarter Morgan Stanley sold their holding in Japan Tobacco and significantly reduced their position in Reynolds American. No new positions were started during the quarter but Morgan Stanley added significantly to Reckitt Benckiser.

### Top 3 Contributions to Return

Microsoft	1.13%
SAP	0.62%
Visa	0.60%

### Bottom 3 Contributions to Return

Reynolds American	0.45%
21 <sup>st</sup> Century Fox	0.26%
Altria	0.22%

### Top Ten Holdings

Company	Industry	% Weighting
British American Tobacco	Tobacco	7.64
Microsoft	Software	7.61
Reckitt Benckiser	Household Products	7.49
Unilever	Personal Products	6.97
L'Oreal	Personal Products	6.81
Accenture	IT Services	4.81
Nestle	Food Products	4.70
Reynolds American	Tobacco	4.50
Visa	IT Services	4.45
Altria	Tobacco	4.40

### Hymans Robertson View

There were no relevant business issues reported over the period.

**Lincolnshire Pension Fund  
Passive Bonds – Blackrock  
Quarterly Report December 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.

<b>Pooled Fund</b>	<b>Indexing Method</b>
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 30<sup>th</sup> September 2016**

<b>Portfolio</b>	<b>30.09.16 £</b>	<b>31.12.16 £</b>
Corporate Bond All Stocks Index Fund	68,193,938	66,383,698
Over 5 Years UK Index-Linked Gilt Index Fund	41,049,074	41,083,739
Overseas Bond Index Fund	28,521,202	26,477,489
Cash (residual)	10	10
<b>Total</b>	<b>137,764,224</b>	<b>133,944,936</b>

**Performance**

Over all periods the portfolio has slightly outperformed the benchmark.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Blackrock	(2.8)	18.2	10.7	7.3	8.2
Composite Benchmark	(2.8)	18.1	10.5	7.2	8.1
Relative Performance	0.1	0.1	0.2	0.1	0.1

\*annualised since inception 28/07/10

**Hymans Robertson View**

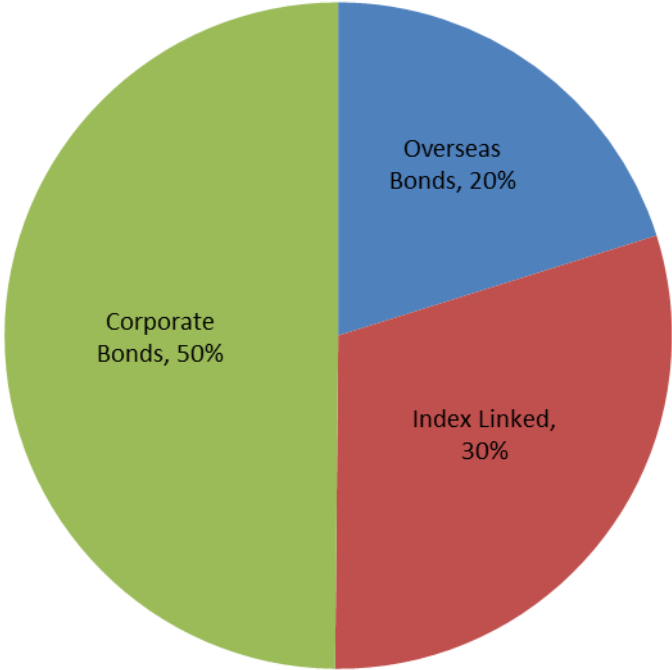
There were no significant developments within the Index Fixed Income team over the quarter; as such Hymans continue to rate Blackrock as one of their preferred passive fixed income managers.

**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 30<sup>th</sup> December 2016.



**Lincolnshire Pension Fund  
Alternative Investments – Morgan Stanley  
Quarterly Report December 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 30.09.16	Value at 31.12.16
£212,351,228	£219,318,494

**Performance**

The portfolio returned 1.1% during the quarter. Most asset classes generated positive performance. Private equity drove absolute returns, followed by hedge funds and leverage finance (high yield and senior loans). Manager selection added to relative returns, while tactical decisions were muted for the quarter. During the quarter a further £20m was invested with Morgan Stanley when rebalancing the portfolio.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Morgan Stanley	1.1	7.3	1.7	4.2	4.0
3 Month LIBOR + 4%	1.1	4.6	4.6	4.7	4.7
Relative Performance	0.0	2.6	(2.8)	(0.4)	(0.8)

\* 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;

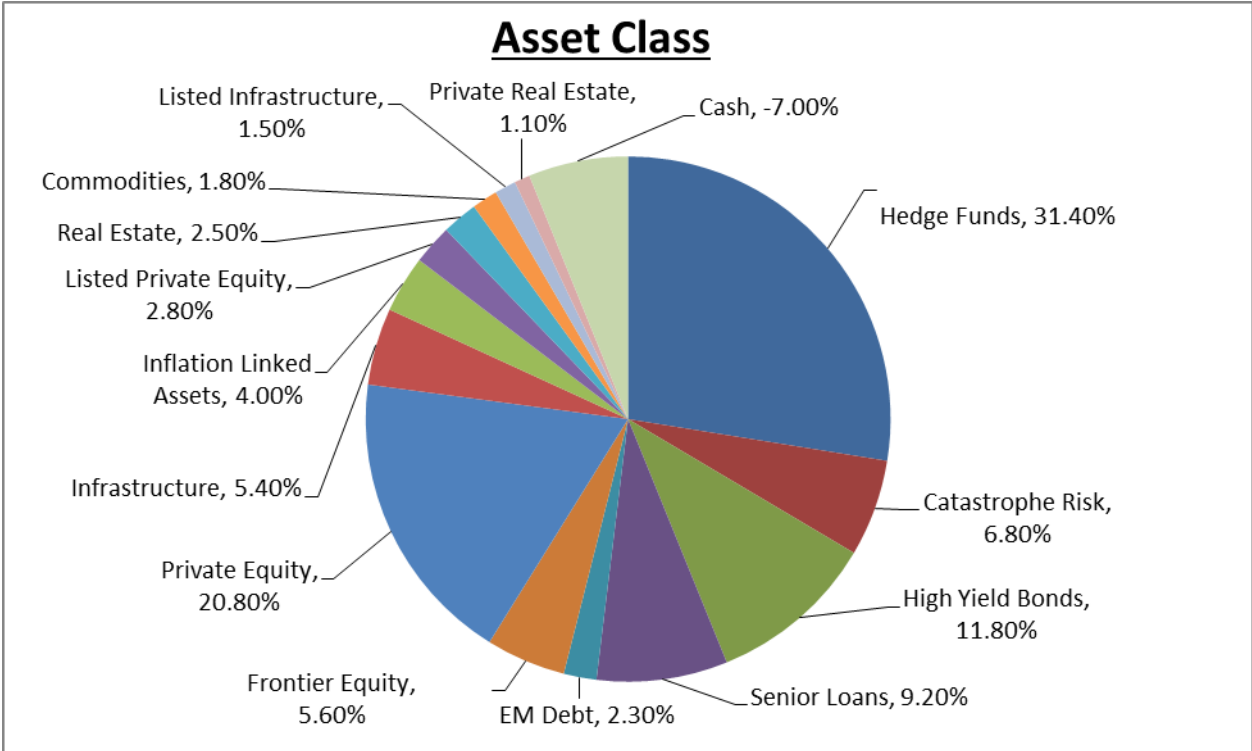
Alpha – These are pure return seeking products based on Manager skill. The Alpha investments include Hedge Funds, Global Tactical Asset Allocation (GTAA) and Active Currency.

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.

The chart below shows the investment position of the Morgan Stanley portfolio as at 31 December 2016.



**Portfolio Positioning**

As 2016 closed, the market narrative had completely changed. A couple of months ago, 2% represented a very bearish forecast for the 10-year U.S. Treasury. Now, markets are focusing on higher growth and higher inflation. Since the Republicans control both the executive and legislative branches, chances of infrastructure spending and tax cuts look much more likely than the previous base case – a Hillary Clinton presidency with a divided Congress. If Trump focuses on business-friendly reforms, such as a corporate tax cut, business confidence and capital expenditures could rebound, boosting productivity and growth. This, along with a better global economic environment and modest interest rate increases in 2017, should be supportive of global equities and negative for fixed income. On the other hand, Emerging Markets (EM) were negatively impacted by the protectionist aspect of Trump’s rhetoric – spreads have widened and currencies, such as the Mexican peso, have sold off. Although China’s economy seems to have stabilized, the rising threat of protectionism in advanced economies could cloud the outlook for global growth and EM economies relying on trade. As such, Morgan Stanley have taken a

market by market and segment by segment approach, both in public and private EM markets, and will be looking for attractive entry points as valuations in many markets are more attractive relative to Developed Markets (DM). They believe we could be entering a period of not only higher growth and higher inflation, but also higher volatility. They see plenty of political risk events ahead – the aftermath of the Italian referendum, as well as elections in the Netherlands, France and Germany. 2016 has shown that people who are dissatisfied with the current order could actually be a silent majority. Thus, they think more shocks, such as from politics, could be a source of potential volatility ahead, supporting the case for diversification and alternative investments.

### **Hymans Robertson View**

There were no significant changes over the quarter.

### **Risk Control**

Portfolio volatility since inception is 3.92% within the guidelines specified by the mandate.

## **Conclusion**

Over the quarter the Fund has produced a positive return of 2.98% which is behind the benchmark which returned 3.81%.

## **Consultation**

### **a) Have Risks and Impact Analysis been carried out??**

Yes

### **b) Risks and Impact Analysis**

The Pension Fund has a Risk Register which can be obtained by contacting the author of this report.

## **Background Papers**

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