Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director of Finance and Public Protection

Report to:	**Pensions Committee**
Date:	**5 October 2017**
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 2017.

Recommendation(s):

That the committee note this report.

Background

This report is split into four areas:

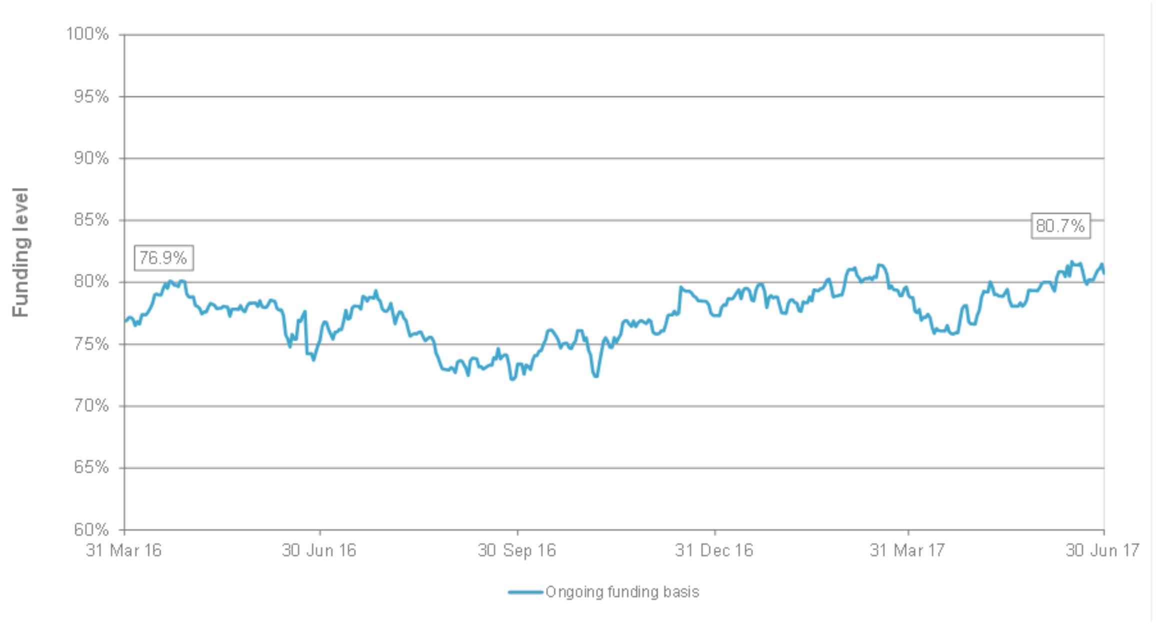
- Funding Level Update
- Fund Performance & Asset Allocation
- Hymans Robertson Manager Ratings
- Individual Manager Update

1. Funding Level Update

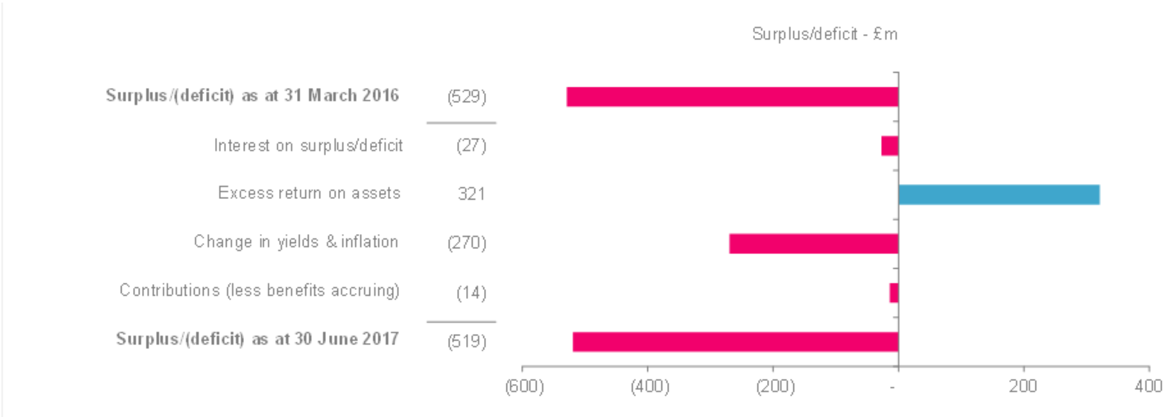
1.1 The funding update is provided to illustrate the estimated development of the funding position of the Lincolnshire Pension Fund from the latest formal valuation, 31st March 2016, to the current quarter end, 30th June 2017. The accuracy of this type of funding update is expected to decline over time, as the period since the last valuation increases. This is because the funding update does not allow for changes in individual members' data since the last valuation. It is, however, a useful tool to assist the Committee to identify whether the time is right to reduce the overall risk in the asset allocation of the Fund, as it approaches a 100% funding level.

1.2 The graph below shows the funding level at the latest formal valuation, at 76.9%, and its movement to 30th June 2017, where the funding level has increased to 80.7%.

Change in funding level since last valuation



1.3 Over that same time period the deficit, in real money, has decreased from £529m to £519m. The chart below shows the main impactors on the deficit, with the excess return in assets offsetting the negative changes in yields and inflation.



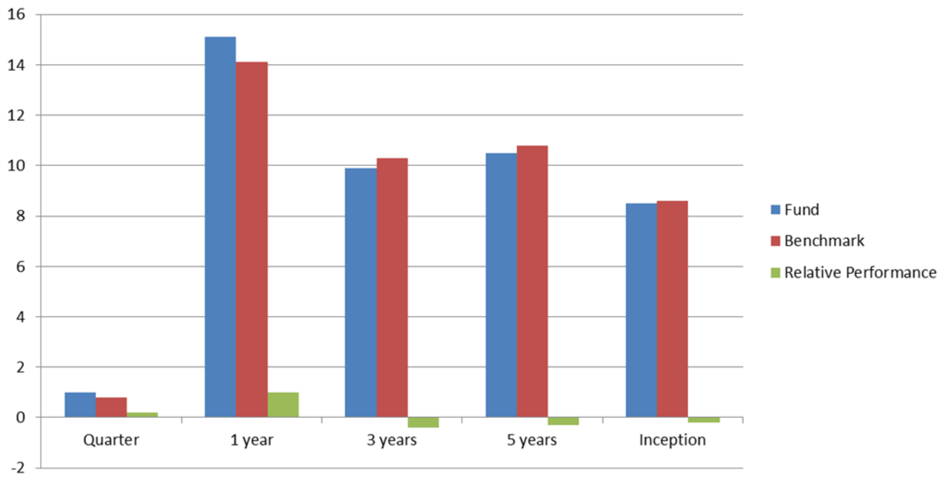
1.4 On a shorter term time horizon, looking at the last quarter, the funding level increased from 78.9% to 80.7% between 31st March 2017 and 30th June 2017, and the deficit reduced from £574m to £519m.

2. Fund Performance & Asset Allocation

2.1 The Fund increased in value by £21.8m during the quarter from £2,099.9m to £2,121.7, as the table below shows.

Asset Class	Q2 2017 £m	Q1 2017 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	404.1	398.5	19.0	20.0	(1.0)
Global Equities	917.6	911.1	43.2	40.0	3.2
Alternatives	298.0	291.9	14.0	15.0	(1.0)
Property	198.1	194.6	9.3	9.0	0.3
Infrastructure	31.4	31.4	1.5	2.5	(1.0)
Fixed Interest	261.4	262.2	12.3	13.5	(1.2)
Cash	11.1	10.4	0.5	0.0	0.5
Total	**2,121.7**	**2,099.9**	**100.0**	**100.0**	

2.2 The graph and table 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.



	Fund	Benchmark	Relative Performance
Quarter	1.0	0.8	0.2
1 year	15.1	14.1	1.0
3 years	9.9	10.3	(0.4)
5 years	10.5	10.8	(0.3)
Inception	8.5	8.6	(0.2)

* Since Inception figures are from March 1987

2.3 Over the quarter, the Fund produced a positive return of 1.04% (as measured by JPMorgan), outperforming the benchmark by 0.27%, which returned 0.77%. The Fund was ahead of the benchmark over the quarter and one year period, but behind its benchmark over three and five years, and since inception.

3. Hymans Robertson Manager Ratings

3.1 Hymans Robertson, as the Fund's Investment Consultant, regularly meet managers to discuss current issues, management changes and performance. Each 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	
Columbia 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	

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 good quarter for the Fund with all managers producing a positive absolute return. Only two managers underperformed their benchmark over that period, Invesco and Blackrock. Over the 12 month period, all managers have produced a positive absolute return, with only Columbia Threadneedle and Morgan Stanley Global Brands having underperformed their benchmark.

	3 months ended 30/06/17			Previous 12 months			
Manager	Manager Return %	Index Return %	Relative Variance %	Manager Return %	Index Return %	Relative Variance %	Target p.a. %
Legal & General (UK Equities)* *From February 17	1.4	1.4	0.0	N/A	N/A	N/A	Match Index
Invesco (Global Equities (ex UK))	(0.5)	0.1	(0.6)	23.3	22.0	1.1	+1.0
Columbia Threadneedle (Global Equities)	3.0	0.6	2.4	23.6	22.9	0.6	+2.0
Schroder's (Global Equities)	1.9	0.4	1.5	23.9	22.2	1.4	+3.0
Morgan Stanley Global Brands	1.6	0.1	1.5	21.0	21.7	(0.5)	n/a
Blackrock (Fixed Interest)	(0.7)	(0.7)	0.1	4.9	4.8	0.2	Match Index
Blackrock Interim (Fixed Interest) *From Sept 2016	0.2	0.2	0.0	N/A	N/A	N/A	Match Index
Morgan Stanley (Alternative Investments)	1.3	1.1	0.2	7.8	4.5	3.2	3M LIBOR + 4%

Currency Mandates

4.3 At the January Committee meeting, as part of the Investment Strategy Review, it was decided that the currency overlay mandates would be terminated, and that this would be done through a phased wind-down, with Officers having delegated authority to manage the process. Having discussed the most appropriate approach with the managers involved and the Investment Consultant, it was agreed that HSBC would terminate their positions in June 2017 and Record would reduce their program at one third every three months, starting in March 2017, to have been fully closed by February 2018.

4.4 Officers have been monitoring the performance of Record, and in August it was decided that the withdrawal of the programme should be brought forward. The cashflow from the programme had been predominantly negative since February, as rates had traded in a narrow corridor where Record's systematic hedging process doesn't work. In order for them to be successful they need repeatable patterns of behaviour, where currency is trading in a particular direction.

4.5 Given exchange rate expectations, and particularly due to the uncertainty of Brexit and the ECB's tapering off of quantitative easing (QE), it was envisaged more outflows would be required over the coming months. Discussion was had with Record, and Officers requested the value to crystalise exposures immediately. The value at that point was a negative cashflow of approximately £1.3m. Given what had been paid out over the past months, and the potential for similar considerable amounts over the coming months, it was felt that the certainty of the £1.3m loss was a better outcome than the potentially larger losses that may occur over the coming months.

Infrastructure

4.6 Also approved as part of the same report at the January Committee, was an increase in the strategic allocation to infrastructure, and authority delegated to Officers to identify new investments to commit to. Following research and due diligence undertaken by Officers and the Investment Consultant, it was agreed to commit £15m to Infracapital Greenfield Partners I.

4.7 Infracapital Greenfield Partners I (IGP I) is targeting £1 billion in capital commitments to create a diversified portfolio of European greenfield economic infrastructure investments, in order to provide investors with capital appreciation and yield. It will focus on later stage development, construction and / or expansion of long-term infrastructure through projects and corporates. Projects in later stage development are in the post planning and post feasibility stages, undertaking activities such as final design, contracting and supply chain arrangement, capital fund raising, due diligence and structuring activities necessary to reach financial close. Such projects have business economics substantially defined and clear visibility over secure cash flows. The manager believes that the targeted stage of later development / construction provides the potential to deliver premium risk-adjusted returns and an opportunity to mitigate key risks.

4.8 IGP I will target eight to fifteen investments, based on an equity investment in the range of £25 million to £200 million, including buy and build investments or roll out strategies. The fund has a 25 year term and is targeting a mid-teens gross IRR over the entire life of the Fund. There are two phases to the fund's life – an initial period where significant capital appreciation is expected, and an operating period during which high teens yield is expected to be delivered. Investors will have the opportunity to exit after the initial period, or (with more than 66.6% investor support) continue to the operating period.

4.9 Progress on this investment will be included in the annual property and infrastructure report that is brought to the Committee each July.

Lincolnshire Pension Fund
Global Equities – Invesco (Global Ex UK Enhanced)
Quarterly Report June 2017

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.

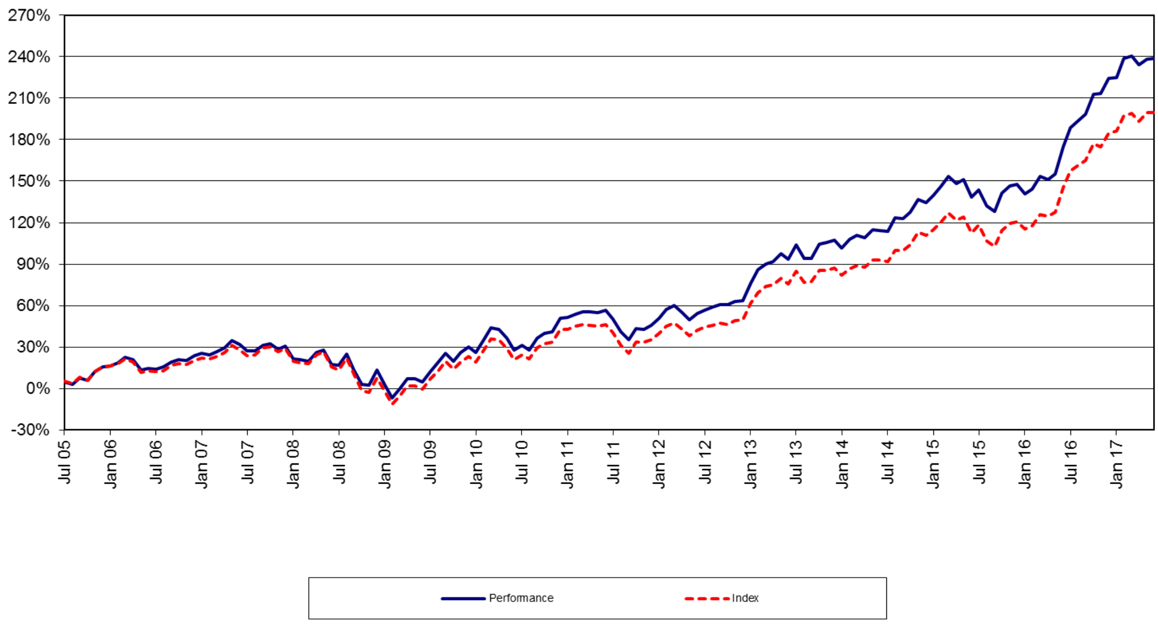
Portfolio Valuation

Value at 31.03.17	Value at 30.06.17
£492,283,815	£489,896,500

Performance

During the quarter Invesco's strategy underperformed its benchmark. All of the underperformance came in May, and was partially offset by outperformance in April and June. Stock selection caused the drag on performance, whilst style factors, sectors, countries and currencies were near neutral as expected. Within stock selection, the stocks with high value scores were the main detractors. Performance over the longer term continues to be above the target return of +1%.

Invesco Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Invesco	(0.5)	23.3	16.5	17.0	10.7
MSCI World ex UK	0.1	22.0	15.8	16.0	9.6
Relative Performance	(0.6)	1.1	0.6	0.9	1.0

* annualised, inception date 1st July 2005

Turnover

Holdings at 31.03.17	Holdings at 30.06.17	Turnover in Qtr %	Turnover in Previous Qtr %
506	471	9.3	8.7

Purchases and Sales

During the quarter, Invesco made a number of stock adjustments to the portfolio. Top purchases over the quarter included adding Deere, Chevron and New Zealand Banking Group into the portfolio, and increasing their positions in Canadian National Railways, Humana and American Tower. Top sales over the quarter were in selling out of their positions in ANZ Banking Group and Yahoo, and decreasing their positions in Verizon Communications and Qualcomm.

Largest Overweights

Citigroup	0.90%
Walmart	0.85%
Boeing	0.71%
JP Morgan Chase	0.65%
Canadian National Rail	0.58%

Largest Underweights

Visa	(0.51%)
Amazon	(0.49%)
Exxon Mobil	(0.39%)
Alphabet	(0.38%)
Medtronic	(0.35%)

* Measured against MSCI World ex UK (NDR)

Top 10 Holdings

1	Apple	£13,026,828
2	JP Morgan Chase	£7,772,964
3	Microsoft	£7,386,132
4	Citigroup	£6,971,543
5	Johnson & Johnson	£5,841,523

6	Wal-Mart	£5,753,763
7	AT&T	£5,253,037
8	Procter & Gamble	£5,106,147
9	Boeing	£5,067,614
10	Bank of America	£4,839,337

Hymans Robertson View

In April, Invesco announced the acquisition of Source, a specialist ETF provider. The plan is to combine Source into Invesco's existing PowerShares ETF business. The deal is due to complete in Q3 2017, subject to regulatory approval. There are no concerns that this will impact the mandate.

Risk Control

The predicted tracking error of the portfolio slightly decreased to 1.02%, compared to a target of 1%, with 93% of the active risk associated with Stock Selection Factors.

Lincolnshire Pension Fund
Global Equities – Schroders
Quarterly Report June 2017

Investment Process

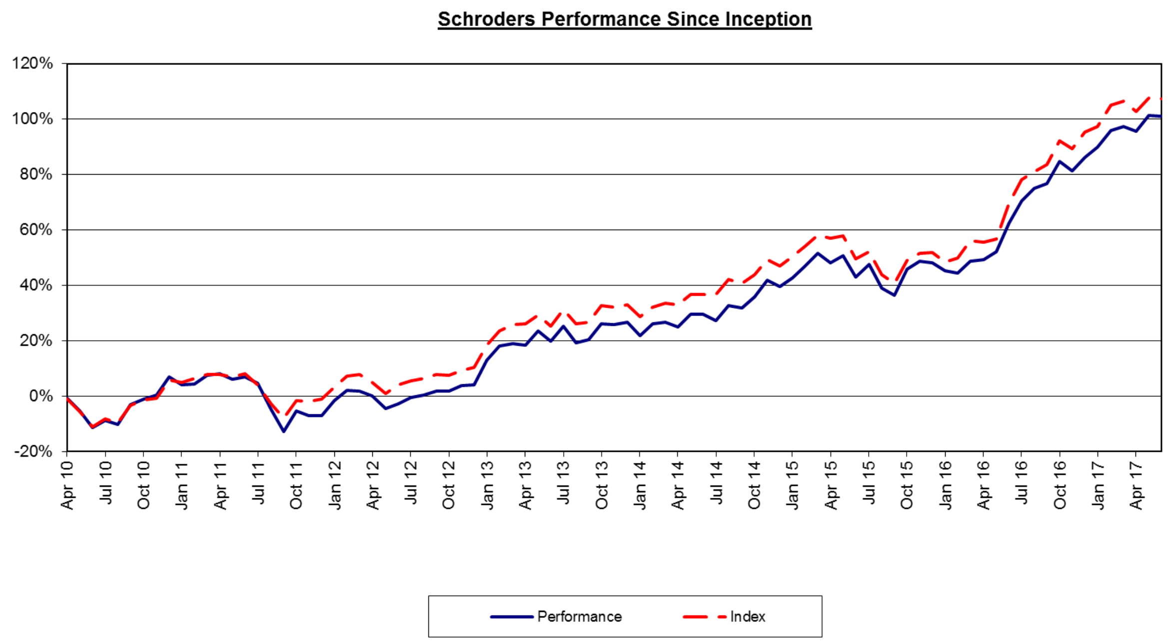
This portfolio is mandated to outperform the MSCI All Countries World Daily Net Index by 2% to 4% over rolling three year periods, gross of fees. This is achieved through an investment approach that is designed to add value relative to the benchmark through both stock selection and asset allocation decisions. 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 31.03.17	Value at 30.06.17
£117,950,863	£120,218,612

Performance

The portfolio outperformed over the quarter, with stock selection the primary factor driving the outperformance. Financials and IT positions shared the plaudits for the robust relative return. Energy and telecom names detracted marginally, though the portfolio's underweight in energy offset much of the sector headwind. Performance was strong in portfolio's North America, Asia ex Japan and emerging markets names, and only a modest headwind from Europe prevented all regions from contributing positively.



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Schroders	1.9	23.9	15.8	15.6	10.1
MSCI ACWI (Net)	0.4	22.2	14.9	14.8	10.6
Relative Performance	1.5	1.4	0.8	0.7	(0.4)

*annualised, Inception date April 2010

Turnover

Holdings at 31.03.17	Holdings at 30.06.17	Turnover in Qtr %	Turnover in Previous Qtr %
78	77	9.1	7.2

Purchases and Sales

Several positions were closed during the quarter, as either the investment thesis played out or the stock deviated from Schroders expectations for the business. Proceeds were rotated into higher conviction ideas. The portfolio's position in Statoil was sold over the quarter, and a position was built in SKF, a component manufacturer. In addition, the manager also bought Mitsubishi UFJ Financial, a well-diversified bank by geography and business line, with a capable management team focused on "reimaging" the business.

Top 5 Contributions to Return

Citigroup	0.2%
Alibaba Group	0.2%
Nestle	0.2%
Taiwan Semiconductor	0.2%
HDFC Bank	0.2%

Bottom 5 Contributions to Return

Cimarex Energy	(0.3%)
Schlumberger	(0.2%)
T-Mobile	(0.2%)
Synchrony Financial	(0.1%)
Walgreens Boots Alliance	(0.1%)

Top 10 Holdings

1	Citigroup	£4,055,432
2	Alphabet	£3,838,691
3	Comcast	£3,459,500
4	JP Morgan Chase	£2,983,853
5	Taiwan Semiconductor	£2,917,782

6	Amazon	£2,754,732
7	United Health	£2,753,388
8	Nestle	£2,748,244
9	Dow Chemical	£2,679,465
10	Reckitt Benckiser	£2,666,347

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 – Columbia Threadneedle
Quarterly Report June 2017

Investment Process

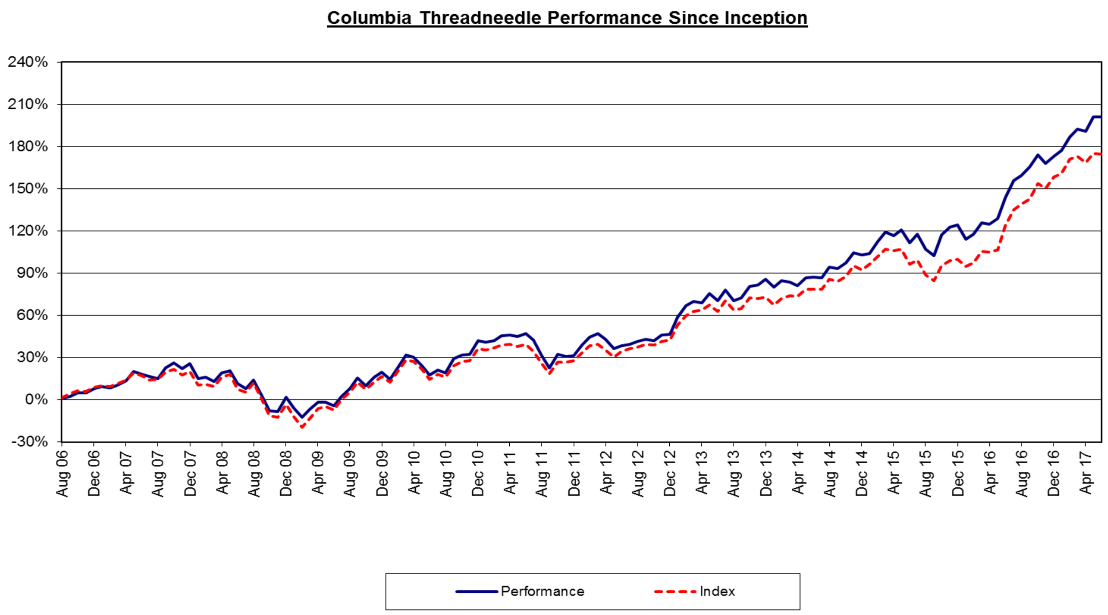
This portfolio is mandated to outperform the MSCI All Countries World Index by 2% per annum, gross of fees over rolling three year periods. This is achieved through investment managers who can draw on their own knowledge and that of other parts of the organisation to implement a thematic approach to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

Portfolio Valuation

Value at 31.03.17	Value at 30.06.17
£121,818,723	£125,484,056

Performance

Columbia Threadneedle outperformed its benchmark strongly over the quarter. Stock selection drove returns: in sector terms, technology, financials and the consumer sectors led the way, while at the regional level, the manager's picks in emerging markets, East Asia, Japan and the US all proved particularly positive. Technology stocks were the key contributors over the quarter, continuing their strong run from the first three months of the year. Ecommerce giant Alibaba Group surged after forecasting revenue growth in excess of 45% for 2018, while Tencent rallied after Deutsche Bank predicted a 46% rise in the company’s quarterly revenues. Nintendo also benefited from buoyant demand for its Switch console, while Activision Blizzard traded higher on robust sales.



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Columbia Threadneedle	3.0	23.6	17.2	16.9	10.6
MSCI ACWI	0.6	22.9	15.5	15.4	9.7
Relative Performance	2.4	0.6	1.5	1.3	0.8

* annualised, inception date 01/08/2006

Turnover

Holdings at 31.03.17	Holdings at 30.06.17	Turnover in Qtr %	Turnover in Previous Qtr %
85	86	7.0	12.5

Purchases and Sales

During the quarter Threadneedle initiated new positions in Halliburton, Pepsico, Nvidia, Diamondback Energy and Illumina. Positions in Align Technology, Royal Dutch Shell and Bank of Ireland were fully sold.

Top 5 Contributions to Return

Tencent Holdings	0.38%
Nintendo	0.37%
Alibaba	0.30%
PT Bank Rakyat Ind	0.23%
Activision	0.21%

Bottom 5 Contributions to Return

United Rentals	(0.18%)
EOG Resources	(0.16%)
Diamondback Energy	(0.15%)
TJX Companies	(0.12%)
Suncor Energy	(0.10%)

Top 10 Holdings

1	Alphabet	£4,266,212
2	Amazon	£2,949,902
3	Facebook	£2,898,799
4	Schwab (Charles)	£2,788,440
5	Unilever	£2,537,334

6	Tencent Holdings	£2,524,868
7	PT Bank Rakyat Ind	£2,506,725
8	Mastercard	£2,451,253
9	Anheuser-Busch	£2,386,585
10	Visa	£2,371,628

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 – Morgan Stanley Global Brands
Quarterly Report June 2017

Investment Process

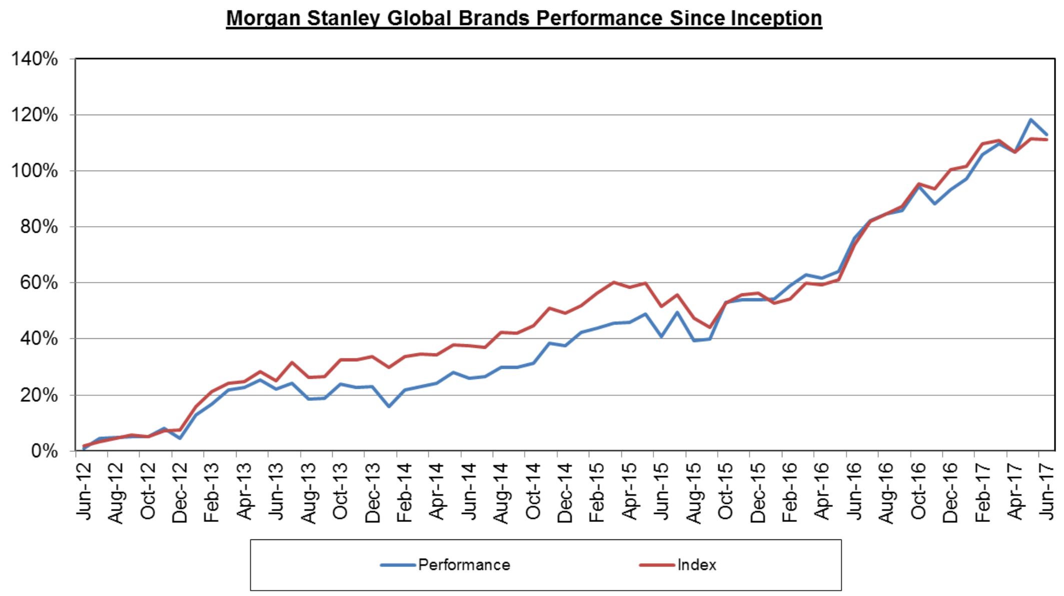
The Global Brands Fund is an open-ended investment company incorporated in the United Kingdom. The aim of the Fund is to provide long term capital appreciation through investing in a concentrated high quality global portfolio of companies with strong “intangible assets”. The Fund is benchmarked against 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 31.03.17	Value at 30.06.17
£170,016,235	£181,969,012

Performance

During the quarter, the Morgan Stanley Global Brands Fund performed strongly, despite a very poor performance in June. Over the quarter sector allocation was neutral, having been strongly positive in the first quarter (1Q17), with the fund's zero weighting of Energy stocks still providing some support. The main source of outperformance was again in Staples where the holdings performed 4.57% better than the sector, driven by Reckitt Benckiser and Unilever. The largest contributors to absolute performance during the quarter were Reckitt Benckiser, Unilever and Zoetis. Top absolute detractors were Twenty-First Century Fox, Walt Disney and Automatic Data Processing.



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Morgan Stanley Global Brands	1.6	21.0	19.2	16.1	16.0
MSCI World Index	0.1	21.7	15.3	15.7	15.8
Relative Performance	1.5	(0.5)	3.3	0.4	0.2

*annualised, inception date 18/06/2012

Purchases and Sales

There were no initial purchases or final sales in the portfolio in the second quarter. The fund further reduced positions in Nestlé, now below 1.50%, down from a top three position at the end of 2015. Over time, the manager has become increasingly concerned about strategic inertia and growing centralization at Nestlé. Bringing in a new CEO from outside should help the company. In terms of valuation, Nestlé is amongst the names with the lowest free cash flow yield in the portfolio. During the period, positions were added to and reduced in select Information Technology, Consumer Staples, Materials, Industrials, Consumer Discretionary and Health Care names, for quality or valuation reasons.

Top Contributors to Return

Reckitt Benckiser	69bps
Unilever	61bps
Zoetis	36bps

Bottom Contributors to Return

Twenty-First Century Fox	(76bps)
Walt Disney	(34bps)
Automatic Data Processing	(9bps)

Top Ten Holdings

Company	Industry	% Weighting
Unilever	Personal Products	9.65
Reckitt Benckiser	Household Products	8.92
Microsoft	Software	6.75
Philip Morris	Tobacco	6.53
L'Oreal	Personal Products	5.41
Accenture	IT Services	4.86
British American Tobacco	Tobacco	4.55
Twenty-First Century	Media	4.50
Altria	Tobacco	4.47
Reynolds American	Tobacco	4.38

Hymans Robertson View

Morgan Stanley recently announced that Christian Derold, a Portfolio Manager within the International Equity Team, will be retiring at the end of the year. Nathan Wong has been hired as a replacement and Christian's sector research responsibilities will be shared across the team. Hymans do not consider this a material change, as Christian Derold did not cover any stocks in the Global Brands portfolio and a replacement has been hired.

Lincolnshire Pension Fund
Passive Bonds – Blackrock
Quarterly Report June 2017

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 All Stocks UK Gilt Index Fund	Sampled

Portfolio Valuation at 30th June 2017

Portfolio	**31.03.17 £**	**30.06.17 £**
Corporate Bond All Stocks Index Fund	67,580,423	67,467,917
Over 5 Years UK Index-Linked Gilt Index Fund	41,896,507	40,885,768
All Stocks UK Gilts*	26,763,537	26,990,517
Cash (residual)	1	1
Total	**136,240,468**	**135,344,203**

*Switched from Overseas Bond Index Fund in February 17

Performance

Over all periods the portfolio has performed as expected.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Blackrock	(0.7)	4.9	9.6	7.2	7.7
Composite Benchmark	(0.7)	4.8	9.4	7.0	7.7
Relative Performance	0.1	0.2	0.2	0.1	0.1

*annualised since inception 28/07/10

Hymans Robertson View

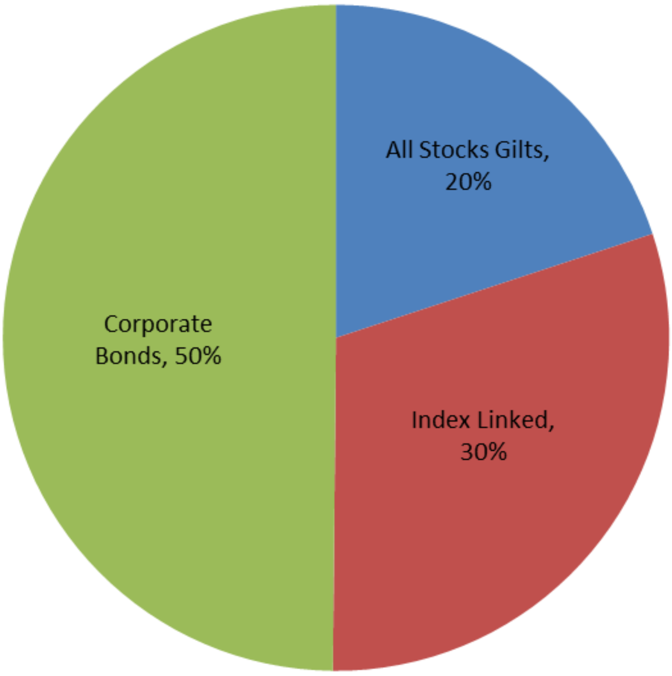
There were no significant developments within the Index Fixed Income team over the quarter.

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 All Stocks UK Gilt Index Fund	20%

The pie chart below shows the allocation as at 30th June 2017.



Lincolnshire Pension Fund
Alternative Investments – Morgan Stanley
Quarterly Report June 2017

Investment Process

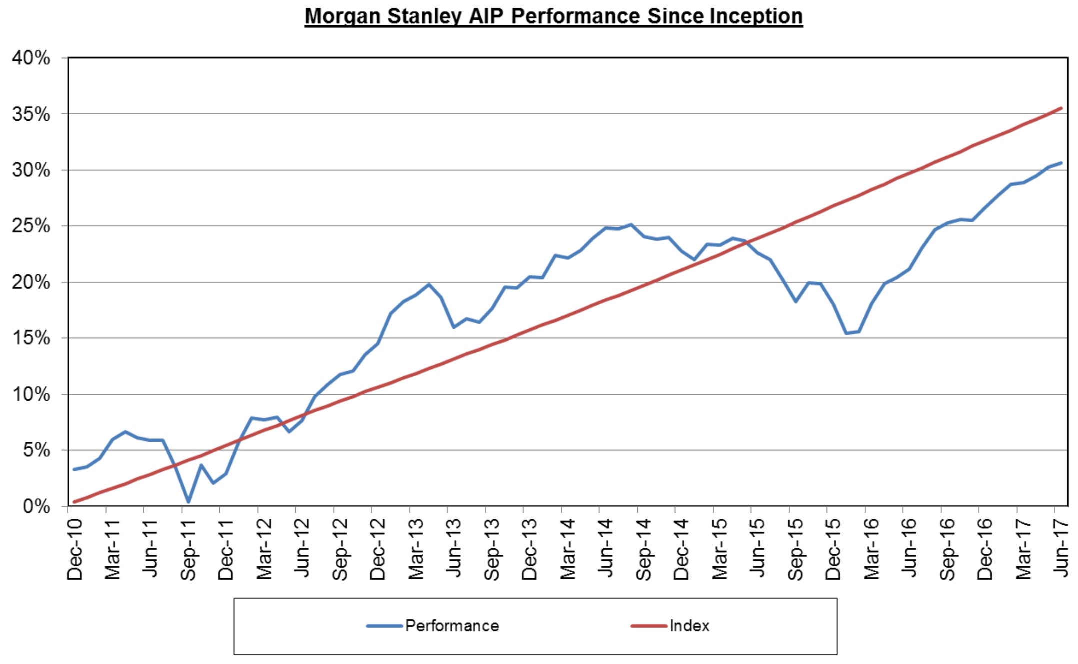
Morgan Stanley manages a bespoke absolute return alternative investment mandate for the Fund. The portfolio is invested in alternatives only, with no exposure to traditional equities or bonds. Investments are made to complement our existing Fund allocation. The manager has a target to beat the return of 3 Month LIBOR + 4%. Morgan Stanley also manages the legacy private equity investments, however they are excluded from this report.

Portfolio Valuation

Value at 31.03.17	Value at 30.06.17
£246,459,818	£256,042,873

Performance

The portfolio outperformed during the second quarter. Private market investments and frontier equities drove absolute returns, offsetting losses from listed real assets and commodities.



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Morgan Stanley	1.3	7.8	1.5	3.9	4.1
3 Month LIBOR + 4%	1.1	4.5	4.6	4.6	4.7
Relative Performance	0.2	3.2	(2.9)	(0.7)	(0.6)

* 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;

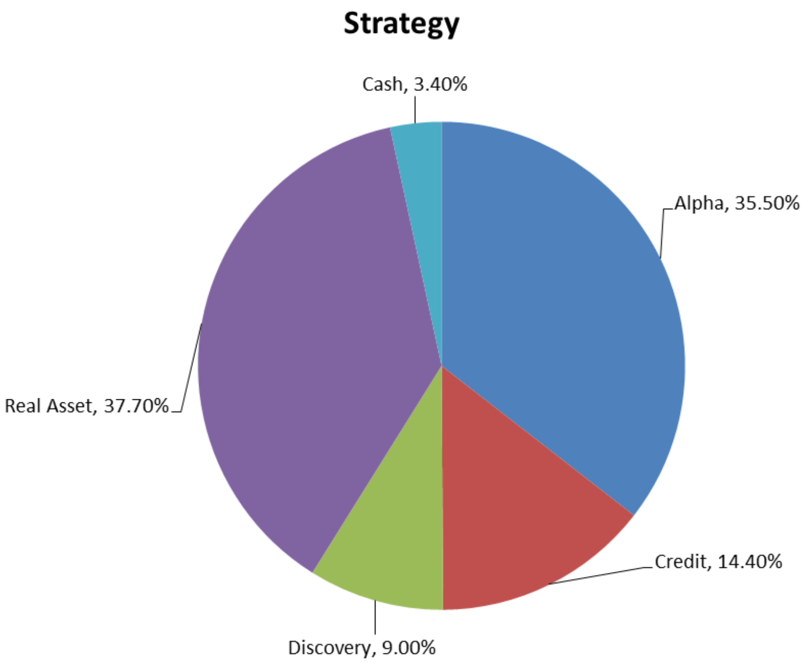
Alpha These are pure return seeking products based on Manager skill. The Alpha investments include Hedge Funds, Global Tactical Asset Allocation (GTAA) and Active Currency.

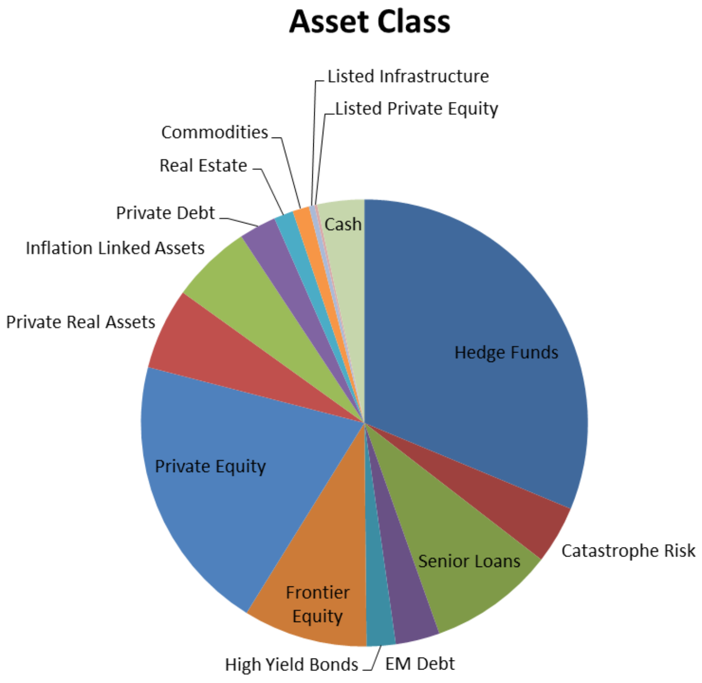
Long Term Real Asset These are long term investments that seek to access illiquidity premium. Investments include Private Equity, Infrastructure, Real Estate, Commodities and Inflation – linked strategies.

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 pie charts below shows the strategy and asset class positions of the Morgan Stanley portfolio as at 30th June 2017.





Portfolio Positioning

MS continue to believe the environment for stock picking is improving. They maintain a preference in hedge funds with relatively lower beta due to elevated valuations and the presence of a wide range of risks which may be under-priced in the market. Europe continues to look relatively appealing from a valuation and event perspective.

On the liquid side, MS maintain a tactical underweight based predominantly on valuation levels. The credit allocation is comprised of senior loans, high yield and EM debt, where they continue to favour senior loans and keep a relatively low duration exposure. Listed private equity offers liquid exposure to private small and medium sized companies with a significant yield advantage, but prices have recovered to long term averages and weaker earnings could put some pressure in dividend coverage.

MS continue to build out the private markets portfolio. They remain disciplined in their small and mid-cap private equity bias and see an increasing amount of attractive co-investment opportunities with their high quality partners. This quarter, MS completed their diligence on farmland opportunities in Australia and have added this complementary southern hemisphere exposure alongside previous commitments to U.S. farmland.

Hymans Robertson View

There were no significant developments over the quarter.

Risk Control

Portfolio volatility since inception is 3.77%, within the guidelines specified by the mandate.

Conclusion

Over the quarter, the Fund produced a positive return of 1.04%, outperforming the benchmark which returned 0.77%.

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.

This report was written by Jo Ray, who can be contacted on 01522 553656 or jo.ray@lincolnshire.gov.uk.