

**Open Report on behalf of Andrew Crookham,
Executive Director – Resources**

Report to:	Pensions Committee
Date:	18 July 2019
Subject:	Investment Management Report

Summary:

This report covers the management of the Lincolnshire Pension Fund assets over the period from 1 January 2019 to 31 March 2019.

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

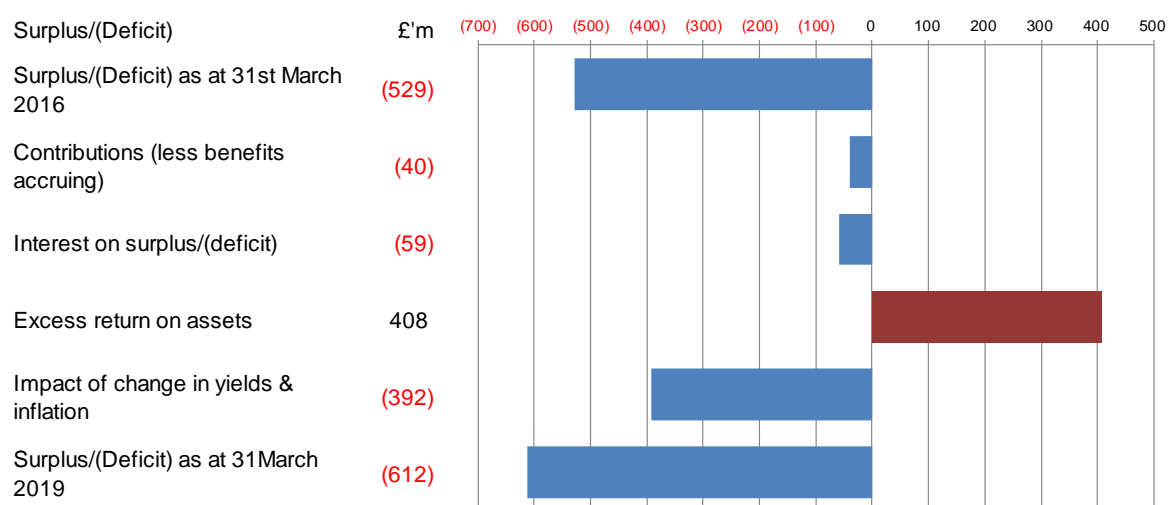
1. Funding Level Update

- 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, 31 March 2016, to the current quarter end, 31 March 2019. 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 31 March 2019, where the funding level has increased slightly to 79.8%.

Change in funding level since last valuation



1.3 Over the period 31 March 2016 to 31 March 2019 the deficit, in real money, has increased from £529m to £612m. The chart below shows the main impactors on the deficit. The excess return on assets no longer offsets the negative changes in yields and inflation, interest deficit and contributions (less benefits accruing) seen over this period.



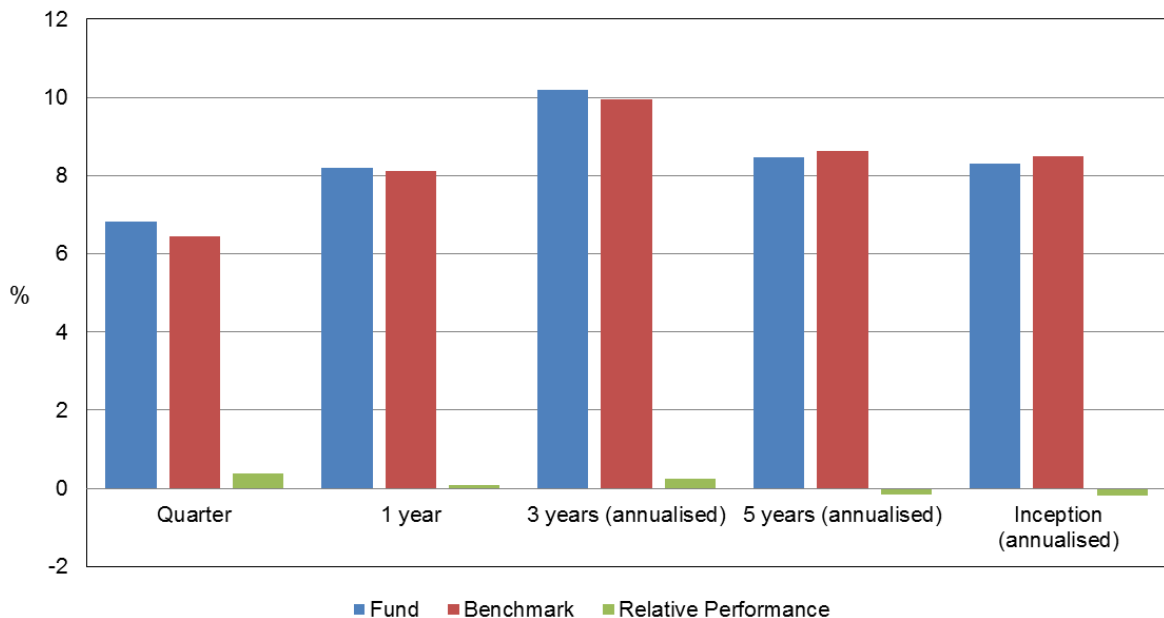
1.4 On a shorter term time horizon, looking at the last quarter, the funding level has increased from 79.0% to 79.8% between 31 December 2018 to 31 March 2019. The deficit has increased from £602.1m to £612.0m, this is due to a significant reduction to the impact of change in yields and inflation. At 31 December 2018 this was estimated to be -£256.1m by 31 March 2019 this had fallen to -£392.0m.

2. Fund Performance & Asset Allocation

- 2.1 The Fund increased in value by £151.8m during the quarter from £2,199.9m to £2,351.7m, as the table below shows. The most significant movements in the quarter were seen on equities, both global and UK equity holdings which increased in value significantly. Global Equities by 10.1% or £96.6m, and UK Equities by 9.4% or £37.0m.

Asset Class	Q1 2019 £m	Q4 2018 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	429.9	392.9	18.3	20.0	(1.7)
Global Equities	1,052.0	955.4	44.7	40.0	4.7
Alternatives	328.6	322.0	14.0	15.0	(1.0)
Property	203.0	205.3	8.6	9.0	(0.4)
Infrastructure	44.4	41.8	1.9	2.5	(0.6)
Fixed Interest	283.2	274.6	12.0	13.5	(1.5)
Cash	10.6	7.9	0.5	0.0	0.5
Total	2,351.7	2,199.9		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	6.83	6.44	0.39
1 year	8.20	8.11	0.09
3 years*	10.19	9.94	0.25
5 years*	8.47	8.64	(0.17)

Inception**	8.31	8.49	(0.18)
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*Annualised from Yr 3. **Since Inception figures are from March 1987

- 2.3 Over the quarter, the Fund produced a positive return of 6.83% (as measured by JPMorgan), outperforming the benchmark by 0.39%. The Fund was also ahead of the benchmark over the one and three year periods, but slightly behind the benchmark over the five year period and since inception.

3. Hymans Robertson Manager Ratings

- 3.1 Hymans Robertson, as the Fund's Investment Consultant, regularly meets managers to discuss current issues, management changes and performance. Each manager is then allocated one of four ratings between negative and preferred. The table below shows Hymans Robertson's rating of all managers that have been appointed by the Lincolnshire Pension Fund.
- 3.2 Hymans Robertson are continuing the process of focusing their manager research. This has led to a reduction in the number of manager of 'preferred' and 'positive' rating and fewer formal rating overall being maintained by the research team. Across property, the team will maintain formal ratings for most pooled and segregated UK managers, including fund-of-funds and global managers, but not for managers of regional overseas funds. Across infrastructure, formal ratings will only be maintained for leading managers, such as Infracapital and Pantheon, who are expected to be raising new funds on a regular basis. New fund launches from other managers will be assessed on a case-by-case basis, though close end funds with existing client investments will continue to be monitored.
- 3.3 The Fund has nineteen managers. During the quarter there has been one change to manager ratings, Blackrock Property has been downgraded from 'Positive' to 'Suitable'. There are two motivations for this downgrade. Firstly Hymans believes the size of the fund has a negative impact on its ability to deliver outperformance. Secondly, its high fee makes it one of the most expensive funds in the peer group, this is not justified given the quality of its approach.
- 3.4 Officers continue to monitor managers closely and arrange meetings to discuss any potential issues.

Manager	Rating				
	No Rating	Negative	Suitable	Positive	Preferred
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				

Manager	Rating				
	No Rating	Negative	Suitable	Positive	Preferred
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				
Igloo Regeneration Partnership	X				
Aviva Pooled Property Fund			X		
Royal London PAIF	X				
Standard Life Pooled Property Fund			X		
Blackrock Property			X		
Infracapital Greenfield Partners I				X	
Pantheon Global Infrastructure					X

(*) Hymans rate Invesco Global Equities at 'positive', however, the rating has been placed 'on watch' during the quarter due to concerns over its performance, specifically its low hit rate of ideas. The Hymans team have met with the team at Invesco and are currently reviewing the rating.

4. Individual Manager Update

- 4.1 The manager returns and index returns for equity, fixed interest and alternative managers are shown in the table over page. A detailed report on each manager outlining the investment process, performance, purchases and sales can be found after the table at 4.2.
- 4.2 Over the quarter, four managers showed a positive return relative to their benchmark: Columbia Threadneedle, Schroders, Morgan Stanley Global Brands and Morgan Stanley Alternatives. Three managers achieved the benchmark, Legal and General and both Blackrock funds, whilst Invesco was the only fund to show a negative return relative to their benchmark.

	3 months ended 31 March 2019			Previous 12 months			
Manager	Manager Return %	Index Return %	Relative Variance %*	Manager Return %	Index Return %	Relative Variance %*	Target p.a. %
Legal & General (UK Equities)	6.5	6.4	0.0	6.5	6.4	0.0	Match Index
Invesco (Global Equities (ex UK))	8.7	10.0	(1.1)	9.1	12.3	(2.8)	+1.0
Columbia Threadneedle (Global Equities)	12.9	9.8	2.9	12.3	11.0	1.1	+2.0
Schroders (Global Equities)	9.9	9.6	0.2	10.0	10.4	(0.4)	+3.0
Morgan Stanley Global Brands	11.8	9.9	1.7	22.9	12.0	9.7	n/a
Blackrock (Fixed Interest)	4.6	4.6	0.0	4.4	4.3	0.1	Match Index
Blackrock Interim (Fixed Interest)	1.6	1.6	0.0	2.2	2.2	0.0	Match Index
Morgan Stanley (Alternative Investments)	2.8	1.2	1.5	3.8	4.9	(1.1)	3M LIBOR + 4%

**Note: Relative Variance is the scale of the performance achieved. This measures the proportional out/under performance of a portfolio relative to the benchmark.*

Lincolnshire Pension Fund
Global Equities – Invesco (Global Ex UK Enhanced)
Quarterly Report March 2019

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 Expectations, Market Sentiment, Management & Quality and Value.

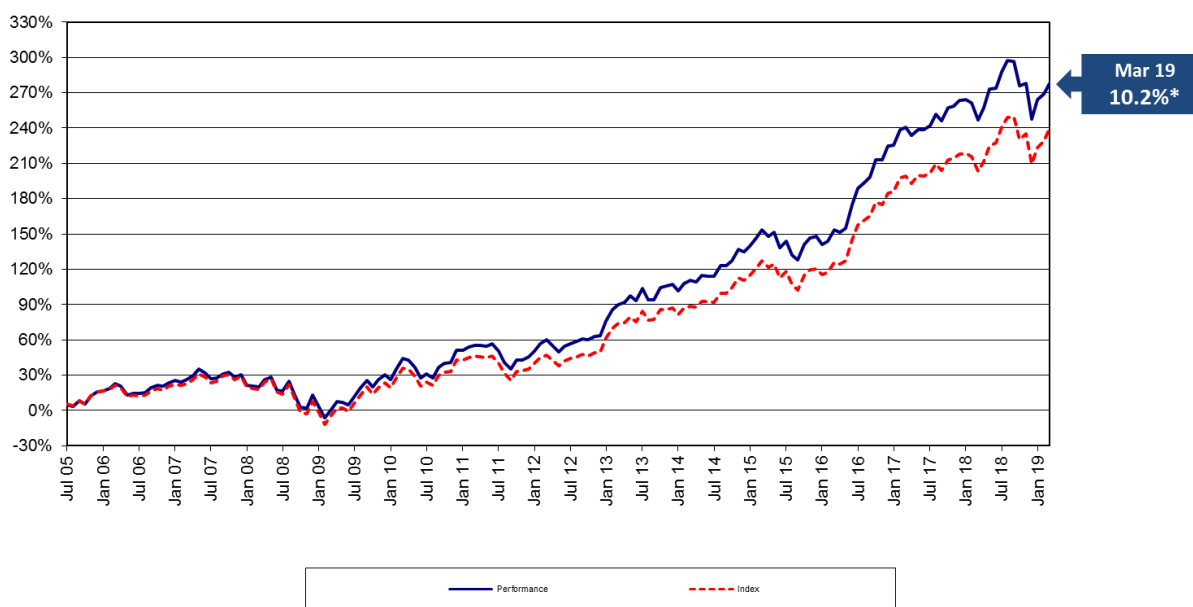
Portfolio Valuation

Value at 31.12.18	Value at 31.03.19
£502,820,032	£546,783,306

Performance

Stock selection weighed on performance during the first quarter. In the portfolio, Earnings Momentum was the only factor able to add value, while contributions from Price Momentum, Quality and Value were negative. Stock-specific events, which are not attributable to any other factor, further detracted from performance. Active sector and country weights, residuals from the multi-factor stock selection approach, did not have any significant impact on relative return. Other factors contributed negatively to active return which was largely driven by the exposure to smaller capitalized stocks.

Invesco Performance Since Inception



* Annualised Manager Performance since inception

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Invesco	8.7	9.1	14.2	12.4	10.2
MSCI World ex UK	10.0	12.3	14.7	12.5	9.3
Relative Performance	(1.1)	(2.8)	(0.4)	(0.1)	0.8

* annualised, inception date 01/07/2005

Turnover

Holdings at 31.12.18	Holdings at 31.03.19	Turnover in Qtr %	Turnover in Previous Qtr %
476	408	9.1	9.0

Purchases and Sales

During the last quarter, several stock adjustments were made to the portfolio because of the stock selection process. Walgreens Boots Alliance, Starbucks, Athene Holdings and Popular were added, with trade weights of 0.45%, 0.43%, 0.39% and 0.28%, respectively. Furthermore, a position in CP Railway with a trade weight of 0.31% was increased. On the other side, Verisign, BASF and Aristocrat Leisure with trade weights of 0.48%, 0.37% and 0.30%, respectively were sold out. Positions in VMware and Cigna with trade weights of 0.29% and 0.28%, respectively, were decreased.

Largest Overweights

L'Oreal	0.80%
Roche	0.78%
Mitsui	0.69%
Peugeot	0.63%
ConocoPhillips	0.63%

Largest Underweights

Alphabet	(0.63%)
Netflix	(0.41%)
Home Depot	(0.34%)
DowDuPont	(0.33%)
Abbott Labs	(0.32%)

* Measured against MSCI World ex UK (NDR)

Top 10 Holdings

1	Microsoft	£14,633,503
2	Apple	£12,341,174
3	Amazon	£9,844,997
4	Roche	£6,966,004
5	Cisco Systems	£6,152,428

6	Procter & Gamble	£6,075,952
7	Alphabet	£5,797,519
8	Bank of America	£5,486,282
9	L'Oreal	£5,277,117
10	Citigroup	£5,189,942

Hymans Robertson View

Hymans rate Invesco Global Equities at 'positive', however, the rating has been placed 'on watch' during the quarter due to concerns over its performance, specifically its low hit rate of ideas. The Hymans team have met with the team at Invesco and are currently reviewing the rating.

Risk Control

The ex-ante tracking error of the fund remained steady at 1.06% (ex post target 1%). With 96%, the major part of our active risk was associated with our stock selection factors.

Lincolnshire Pension Fund Global Equities – Schroders Quarterly Report March 2019

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.

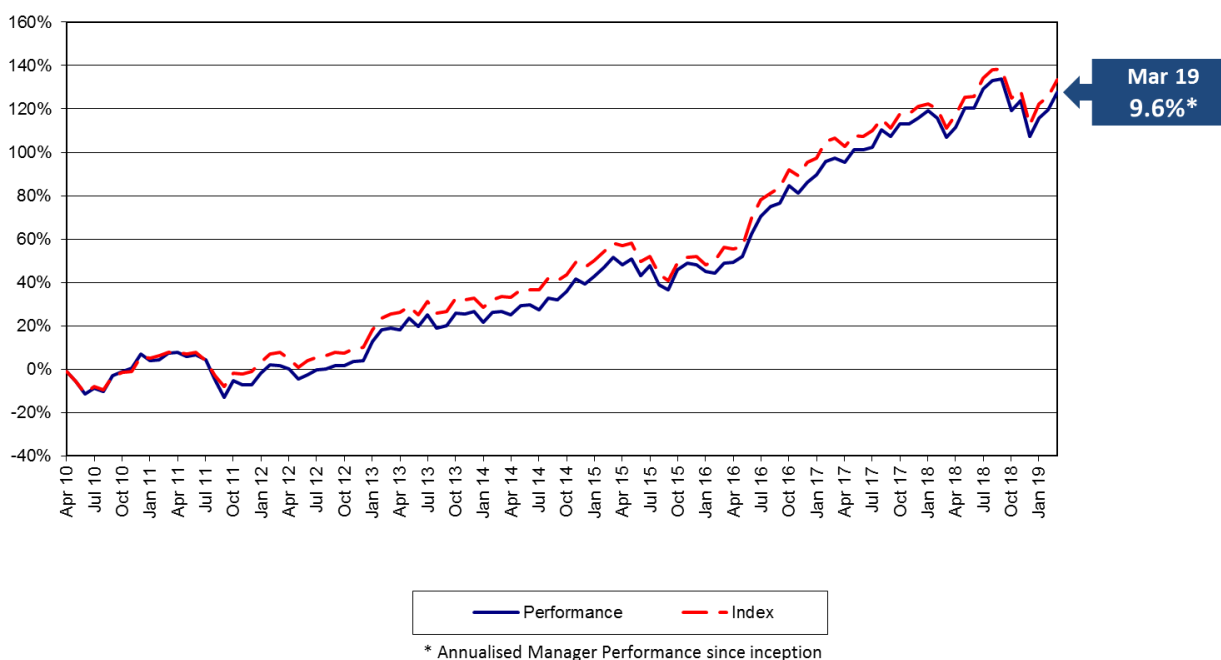
Portfolio Valuation

Value at 31.12.18	Value at 31.03.19
£123,911,170	£136,206,686

Performance

The portfolio outperformed the benchmark index in this quarter, this was due to the positive effect of stock selection. Consumer staples, industrials and healthcare positions added the most to relative returns, while technology names detracted. By region, performance was strongest in Japan, while North American names detracted overall.

Schroders Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Schroders	9.9	10.0	15.2	12.5	9.6
MSCI ACWI (Net)	9.6	10.4	14.3	11.8	9.9
Relative Performance	0.2	(0.4)	0.8	0.6	(0.3)

*annualised, Inception date April 2010

Turnover

Holdings at 31.12.18	Holdings at 31.03.19	Turnover in Qtr %	Turnover in Previous Qtr %
82	60	11.6	15.7

Purchases and Sales

Amongst a number of trades enacted over the quarter, Alcoa was sold. The difficulty in determining an appropriate level for aluminium and alumina is currently very challenging, with Rusal sanctions further clouding the supply outlook. This has reduced conviction and Schroders closed the position. Schlumberger was also sold, as the environment for offshore oil and gas services has grown less positive, adding instead to positions in onshore services providers Cabot and Occidental.

Some of these proceeds were used to build the position in Lloyds Banking. Lloyds is one of the few European banks showing positive earnings per share (EPS) revisions. While revenues are only growing slowly, its cost discipline and falling provisions has led to positive EPS surprises, which we expect to continue.

Top 5 Contributions to Return

Philip Morris	0.2%
Danaher	0.2%
AIA Group	0.1%
Visa	0.1%
LVMH Moet Hennessy	0.1%

Bottom 5 Contributions to Return

UnitedHealth Group	(0.3%)
Booking	(0.2%)
Bayerische Motoren	(0.2%)
Samsung	(0.2%)
Apple	(0.2%)

Top 10 Holdings

1	Alphabet	£4,802,927
2	Visa	£4,285,667
3	Amazon	£3,936,077
4	Nestle	£3,987,116
5	Comcast	£3,826,476

6	AIA	£3,412,296
7	Bank of America	£3,302,370
8	JP Morgan	£3,294,656
9	Novartis	£3,258,287
10	Phillip Morris	£3,244,168

Hymans Robertson View

Hymans Robertson rate Schroders Global Alpha at 'Positive'. Schroders announced that Rory Bateman has now assumed his responsibilities as Head of Equities and joined the Group Management Committee, replacing Nicky Richards. This move was announced in advance and there aren't any concerns over this appointment. Bateman has been a core figure within Schroders equity business since he joined the firm in 2008 and has over 20 years' experience of managing equity strategies. Schroders have stated they plan to appoint someone internal to fill the Head of UK and European Equities role.

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 March 2019**

Investment Process

The portfolio is designed to outperform the MSCI All Countries World Index by 2% per annum, gross of fees, over rolling three-year periods. The team focus on quality growth companies with high or rising returns on investor capital, and sustained or improving competitive advantage. The focus is on stock selection, with a well-diversified portfolio designed to deliver superior risk adjusted returns.

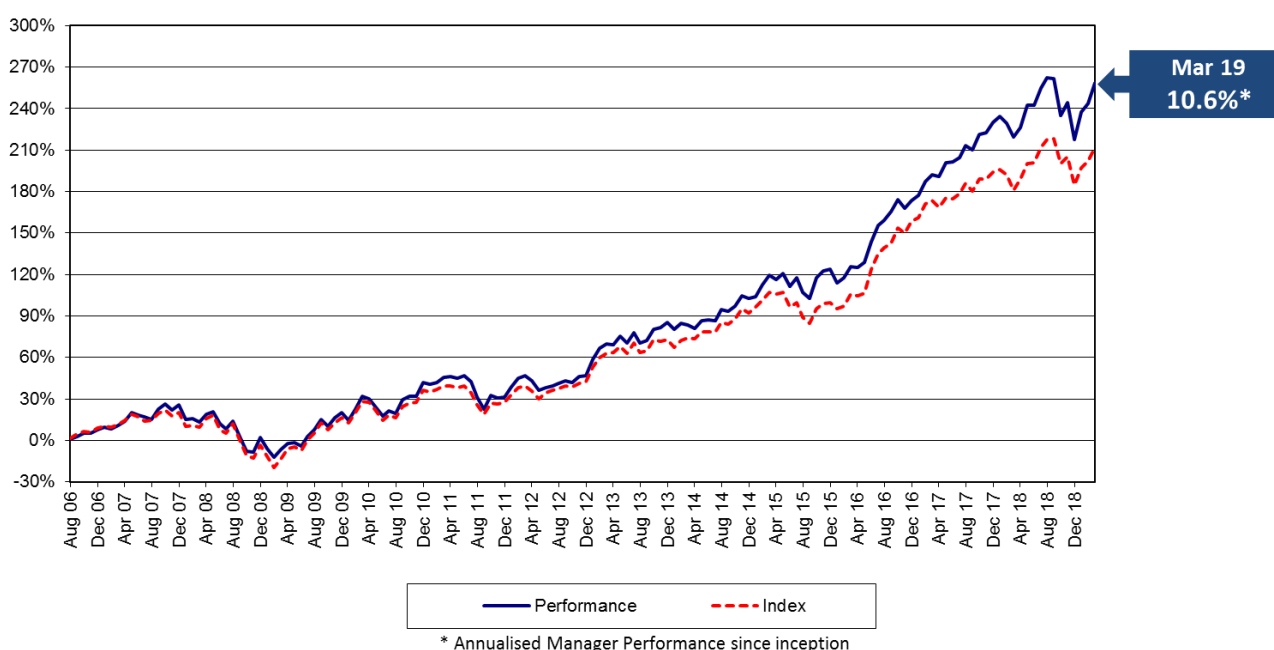
Portfolio Valuation

Value at 31.12.18	Value at 31.03.19
£132,269,695	£149,282,166

Performance

Gross of fees, the fund outperformed its benchmark in the first quarter of 2019. Strong stock selection drove returns, with picks in financials, communications, financials and healthcare sectors providing particularly helpful. Asset allocation detracted marginally, due to underweight positions in consumer staples and real estate.

Columbia Threadneedle Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Columbia Threadneedle	12.9	12.3	16.7	14.3	10.6
MSCI ACWI	9.8	11.0	15.0	12.4	9.4
Relative Performance	2.9	1.1	1.5	1.7	1.1

* annualised, inception date 01/08/2006

Turnover

Holdings at 31.12.18	Holdings at 31.03.19	Turnover in Qtr %	Turnover in Previous Qtr %
76	63	6.8	6.7

Purchases and Sales

Positions were initialled in visual computing technology developer NVIDIA, the stock had pulled back on concerns around demand for digital currency mining hardware, and in healthcare product provider Baxter International, the transitory weakness in its medication delivery and nutrition sales will improve and that new product launches can boost returns. During the quarter positions were also extended in video game publisher Activision Blizzard, which is well-placed to capitalise on the shift from packaged to digital sales and Comcast which is signalling momentum in its core cable segment.

To fund these purchases, Schlumberger, British American Tobacco, Bank of America and Sekisui Chemical were sold.

Top 5 Contributions to Return

Alibaba Group	0.71%
Mastercard	0.56%
Facebook	0.56%
Ping An Insurance	0.55%
Lam Research Corp	0.54%

Bottom 5 Contributions to Return

Essilor Luxottica	(0.20%)
CME Group	(0.19%)
Centene Corp	(0.19%)
OSRAM Licht	(0.11%)
Activision Blizzard	(0.05%)

Top 10 Holdings

1	Alphabet	£5,715,492
2	Amazon	£5,023,966
3	Microsoft	£4,892,467
4	Mastercard	£4,178,702
5	Ping An	£4,096,681

6	Alibaba	£3,999,805
7	Visa	£3,866,939
8	JP Morgan	£3,812,853
9	Facebook	£3,747,212
10	HDFC Bank	£3,588,051

Hymans Robertson View

Hymans Robertson rate Columbia Threadneedle at 'positive'. The company are searching for a new CEO for EMEA after Michelle Scrimgeour resigned to join competitor LGIM in summer 2019. She will work closely with Ted Truscott, CEO over the coming months. Columbia Threadneedle is yet to announce its expected timeline for appointing Scrimgeour's successor and Hymans will monitor this closely and provide updates on developments.

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 2019

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.

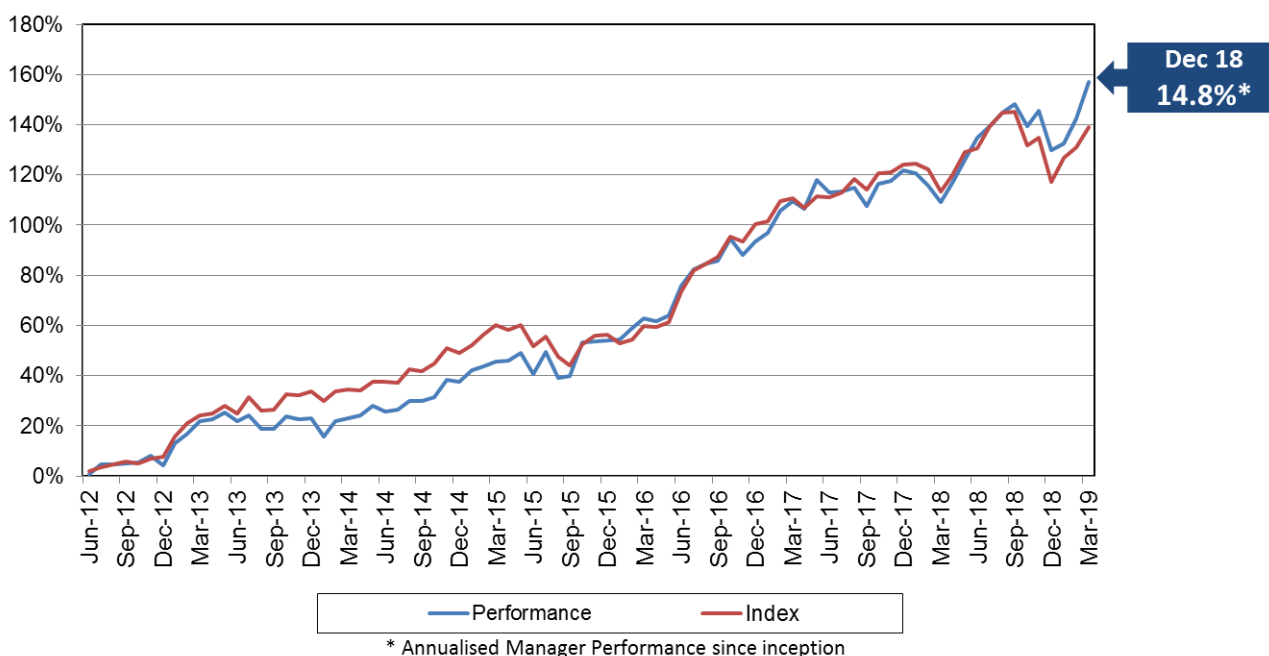
Portfolio Valuation

Value at 31.12.18	Value at 31.03.19
£196,420,114	£219,728,687

Performance

For the first quarter of 2019, the portfolio outperformed despite the strong markets. Stock selection was very strong for the quarter, as sector-beating performance in health care, consumer staples and financials had far more impact than the underperformance in communication services, industrials and information technology. Sector allocation was positive, with the benefits of the overweight in information technology and the underweight in financials stronger than the costs of the consumer staples' slight lag to the market and the drag from cash holdings.

Morgan Stanley Global Brands Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Morgan Stanley Global Brands	11.8	22.9	16.4	15.9	14.8
MSCI World Index	9.9	12.0	14.4	12.2	13.6

Relative Performance	1.7	9.7	1.8	3.3	1.1
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*annualised, inception date 18/06/2012

Purchases and Sales

It was a quiet quarter for portfolio activity. Aside from the completion of the Disney acquisition of 21st Century Fox in late March, where the resulting cash was spread around seven existing holdings, there was only one strategic trade. That was exiting Altria, with funds being put into the existing Philip Morris International position. The tobacco industry is undergoing significant disruption due to the emergence of 'next generation products' (NGP) with reduced risks, aggravated in the U.S. by regulatory pressure. By contrast Philip Morris International is the clear leader in heated-tobacco products

Top Contributors to Return

Philip Morris	171bps
Microsoft	97bps
Accenture	95bps

Bottom Contributors to Return

Coca-Cola	(10bps)
Fox	(7bps)
Altria	(6bps)

Top Ten Holdings

Company	Industry	% Weighting
Reckitt Benckiser	Household Products	8.48
Microsoft Corp	Software	7.15
Philip Morris	Tobacco	6.78
Sap	Software	5.13
Unilever	Personal Products	4.99
Visa	IT Services	4.98
Accenture	IT Services	4.83
Baxter International	Health Care Equipment & Supplies	4.30
Heineken Holdings	Beverages	3.68
Danaher Corp	Health Care Equipment & Supplies	3.62

Hymans Robertson View

Hymans Robertson rate Morgan Stanley Global Brands at 'suitable'. There has been no change in rating from the previous quarter.

Lincolnshire Pension Fund
UK Equities – Legal & General (LGIM)
Quarterly Report March 2019

Investment Process

This pooled fund employs a tracking strategy, aiming to replicate the performance of the FTSE All-Share Index to within +/-0.25% p.a. for two years out of three. The fund follows a pragmatic approach to managing an index fund, either investing directly in the securities of that index or indirectly through other LGIM funds. The fund may also hold index and single stock futures for efficient portfolio management.

Portfolio Valuation

Value at 31.12.18	Value at 31.03.19
£392,746,958	£429,761,712

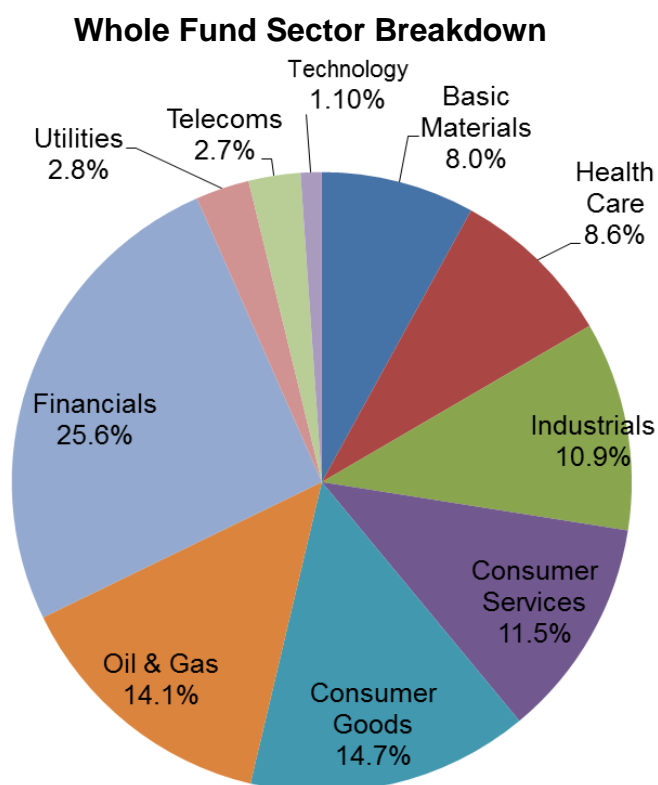
Performance

Over all periods the portfolio has performed as expected.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
LGIM	6.5	9.5	N/A	N/A	0.3
Benchmark	6.4	9.5	N/A	N/A	0.1
Relative Performance	0.0	0.0	N/A	N/A	0.1

*annualised, inception date February 2017

Top Ten Holdings	
Company	% Weighting
Royal Dutch Shell	8.8
HSBC Holdings	5.4
BP	4.8
AstraZeneca	3.7
Glaxosmithkline	3.5
Diageo	3.3
British American Tobacco	3.2
Rio Tinto	2.2
Unilever	2.1
Lloyds	2.1
Total	39.0



**Lincolnshire Pension Fund
Passive Bonds – Blackrock
Quarterly Report March 2019**

Investment Process

Blackrock manage a passive bond mandate for the Pension Fund. The 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

Portfolio	31.12.18 £	31.03.19 £
Corporate Bond All Stocks Index Fund	70,035,194	72,881,347
Over 5 Years UK Index-Linked Gilt Index Fund	39,805,842	42,337,249
All Stocks UK Gilts*	27,743,408	28,685,461
Cash (residual)	1	1
Total	137,584,346	143,904,473

*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	4.6	4.4	6.3	7.2	7.1
Composite Benchmark	4.6	4.3	6.3	7.1	7.0
Relative Performance	0.0	0.1	0.1	0.1	0.1

*annualised since inception 28/07/10

Hymans Robertson View

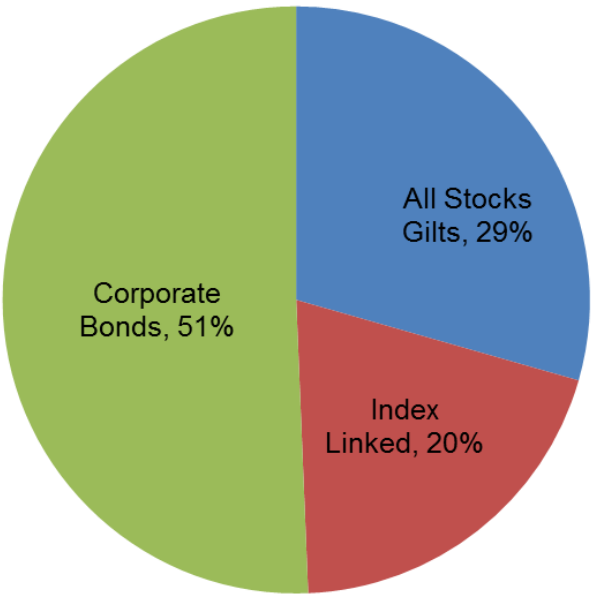
Hymans Robertson rate Blackrock fixed interest at 'positive'.

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 31 March 2019.



Lincolnshire Pension Fund
Passive Bonds – Blackrock interim
Quarterly Report March 2019

Investment Process

Since the termination of BMO's Absolute Return bond fund, that element of the Fund's asset allocation has been temporarily housed in an interim Blackrock fund of short dated corporate bonds. The fund is managed passively, and aims to achieve index returns in line with the iBoxx Sterling Non-Gilts 1-5 Year Index.

Portfolio Valuation

Value at 31.12.18	Value at 31.03.19
£137,042,880	£139,253,249

Note: An additional £10m was invested in July 2018

Performance

Over all periods the portfolio has performed as expected.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Blackrock Interim	1.6	2.2	n/a	n/a	1.4
Benchmark	1.6	2.2	n/a	n/a	1.4
Relative Performance	0.0	0.0	n/a	n/a	0.1

*annualised since inception 14/09/16

Hymans Robertson View

Hymans Robertson rate Blackrock fixed interest at 'positive'.

Lincolnshire Pension Fund
Alternative Investments – Morgan Stanley
Quarterly Report March 2019

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 the existing Fund allocation. The manager has a target to beat the return of 3 Month LIBOR + 4%. Morgan Stanley also manage the legacy private equity investments, however they are excluded from this report.

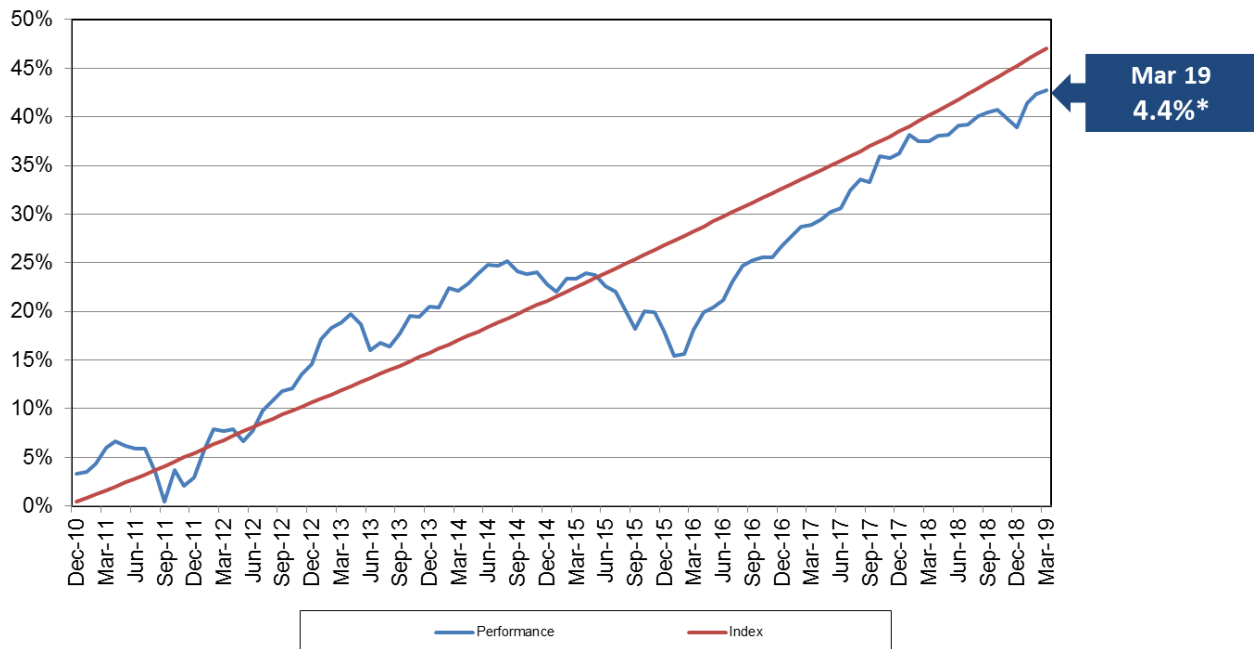
Portfolio Valuation

Value at 31.12.18	Value at 31.03.19
£294,067,078	£303,945,932

Performance

The total alternatives portfolio (excluding legacy private equity holdings) returned 2.8% during the quarter. Absolute returns were driven by hedge funds and expanded credit allocations. All asset classes contributed positively, with the exception of catastrophe risk. Morgan Stanley's tactical decisions benefitted returns, particularly the reintroduction of the frontier equity allocation which benefitted from the broad-based equity market rally. In contrast, manager selection modestly detracted.

Morgan Stanley AIP Performance Since Inception



* Annualised Manager Performance since inception

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Morgan Stanley	2.8	3.8	6.5	3.2	4.4
3 Month LIBOR + 4%	1.2	4.9	4.7	4.7	4.7

Relative Performance	1.5	(1.1)	1.8	(1.4)	(0.4)
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* annualised since inception date 24/11/2010 (excludes legacy PE portfolio assets)

Allocation

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

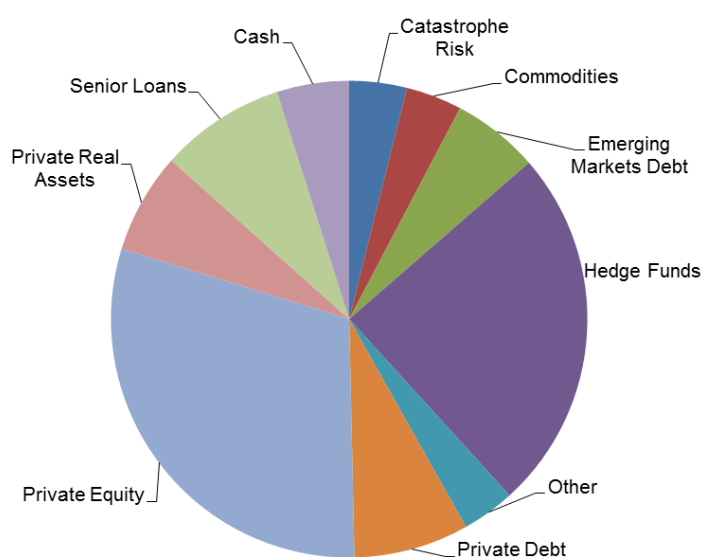
- **Alpha** These are pure return seeking products based on Manager skill. The Alpha investments include Hedge Funds, Global Tactical Asset Allocation (GTAA) and Active Currency.
- **Long Term Real Asset** These are long term investments that seek to access illiquidity premium. Investments include Private 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 table and pie chart below show the strategy and asset class positions of the Morgan Stanley portfolio as at 31 March 2019.

Strategy

Alpha	28.47%
Credit	14.44%
Discovery	2.61%
Real Assets	49.95%
Cash	4.53%

Asset Class



Hymans Robertson View

Hymans Robertson rate Morgan Stanley Alternatives at 'suitable'. There has been no change in rating from the previous quarter.

Risk Control

Portfolio volatility since inception is 3.49%, within the guidelines specified by the mandate.

Conclusion

Over the quarter, the Fund produced a positive return of 6.83%, outperforming the benchmark which returned 6.44%.

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 Claire Machej, who can be contacted on 01522 553641 or claire.machej@lincolnshire.gov.uk.

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