

Regulatory and Other Committee

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

Report to:	Pensions Committee
Date:	09 January 2020
Subject:	Investment Management Report

Summary:

This report covers the management of the Lincolnshire Pension Fund assets over the period from 1 July 2019 to 30 September 2019.

The report covers:

1. Fund Summary – Asset Allocation and Performance
2. Hymans Robertson Manager Ratings
3. Individual Manager Updates

Recommendation(s):

That the Committee note this report.

Background

1. Fund Summary – Asset Allocation and Performance

- 1.1 Over the period covered by this report, the value of the Fund increased in value by £57.0m (2.3%) to £2,514.2m on 30 September 2019.

Asset Allocation

- 1.2 The Fund's overall position relative to its benchmark is set out in the table over the page. The most significant movements in the quarter were seen on global equities (-8.8% or -£98.9m) and Fixed Income (+50.2% or £144.1m). During September the Fund rebalanced global equities, by transferring £134m from Morgan Stanley Global Brands to fixed income (Blackrock Interim). This was to address the overweight position in global equities and the underweight position in fixed income seen in the previous quarter. At the end of September the remaining global equity holdings with Columbia Threadneedle, Schroders and Morgan Stanley Global Brands were transitioned into the Border to Coast Global Equity Alpha Fund.

Asset Class	Q3 2019 £m	Q2 2019 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	449.4	443.7	17.9	18.0	(0.1)
Global Equities	1,026.8	1,125.7	40.8	40.0	0.8
Alternatives	342.7	338.0	13.6	15.0	(1.4)
Property	202.8	202.2	8.1	9.0	(0.9)
Infrastructure	47.7	47.6	1.9	2.5	(0.6)
Fixed Income	431.2	287.1	17.2	15.5	1.7
Cash	13.5	12.8	0.5	0.0	0.5
Total	2,514.2	2,457.2		100.0	

1.3 Appendix A shows the Fund's distribution as at 30 September. At the end of September, following the asset changes described at paragraph 1.2 above, the Fund reviewed its Strategic Asset Allocations and has been able to amend the benchmarks for the following asset classes in line with the previous decisions by the Committee (in October 2018 and June 2019):

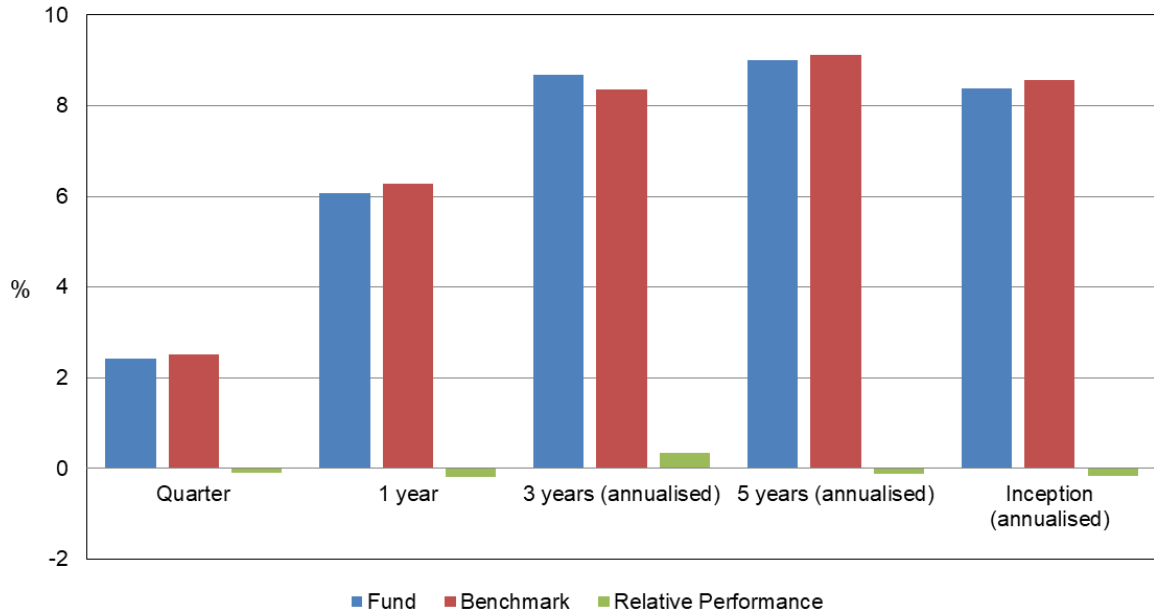
- A reduction in the UK Equities Benchmark from 20% to 18% (the ultimate target benchmark is 15%); and
- An increase in Fixed Income Benchmark from 13.5% to 15.5% (ultimate target is: 7.5% to Investment Grade Credit, 5.0% to Passive Index Linked Gilts and 3.5% to Multi Asset Credit).

1.4 Future transitions to the new Investment Grade Credit (7.5%) and Multi Asset Credit (3.5%) Sub-Funds with Border to Coast are planned for 2020. These will be funded from the current Blackrock Interim holding.

1.5 As at 30 September, at a portfolio level, Blackrock Interim (+1.25%) had breached its tolerance levels. At asset class level fixed income (+0.2%) had also breached its tolerance level. Rebalancing will not generally be undertaken ahead of the transitions to Border to Coast. Holdings in this fund/asset class will be transitioned into the Border to Coast Investment Grade Credit and Multi Asset Credit Sub-funds in 2020.

Fund Performance

- 1.6 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	2.42	2.52	(0.11)
1 year	6.08	6.27	(0.19)
3 years*	8.69	8.36	0.33
5 years*	9.00	9.11	(0.11)
Inception**	8.39	8.56	(0.17)

*Annualised from Yr 3. **Since Inception figures are from March 1987

- 1.7 Over the quarter, the Fund produced a return of 2.42% (as measured by Northern Trust), underperforming the benchmark by 0.11%. The Fund was also behind the benchmark over the one and five year periods and since inception, but ahead of the benchmark by 0.33% over the 3 year period.
- 1.8 Appendix B shows the market returns over the three and twelve months to 30 September 2019.

2. Hymans Robertson Manager Ratings

- 2.1 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 for managers appointed by the Lincolnshire Pension Fund.
- 2.2 During the quarter there have not been any changes to manager ratings. 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	
Aviva Pooled Property Fund			X		
Standard Life Pooled Property Fund			X		
Blackrock Property			X		
Infracapital Greenfield Partners I				X	
Pantheon Global Infrastructure					X

3. Individual Manager Update

- 3.1 The manager index returns for equity, fixed interest and alternative managers are shown in the table over the page. A detailed report on each manager outlining the investment process, performance, purchases and sales can be found after the table at 3.2.
- 3.2 Over the quarter, only one manager showed a positive return relative to their benchmark, Morgan Stanley Alternatives. Invesco, Columbia Threadneedle, Schroders, Morgan Stanley Global Brands and Blackrock Interim were behind their benchmarks, whilst Legal and General and Blackrock (fixed Interest) matched their benchmarks.

Manager Performance

Manager	3 months ended 30 Sept 2019			Previous 12 months			Since Inception**			Target p.a. %
	Manager Return %	Index Return %	Manager Return %	Index Return %	Relative Variance %*	Relative Variance %*	Manager Return %	Index Return %	Relative Variance %*	
Legal & General (UK Equities)	1.2	1.2	0.0	2.8	2.8	0.0	5.5	5.3	0.1	Match Index
Invesco (Global Equities (ex UK))	2.9	4.0	(1.0)	3.9	8.1	(3.9)	10.1	9.5	0.6	+1.0
Columbia Threadneedle (Global Equities)	3.0	3.4	(0.4)	11.9	7.9	3.8	11.4	10.0	1.3	+2.0
Schroders (Global Equities)	2.1	3.3	(1.1)	6.4	7.3	(0.8)	10.3	10.7	(0.3)	+3.0
Morgan Stanley Global Brands	2.9	3.8	(0.9)	15.7	7.8	7.3	16.1	14.7	1.2	n/a
Blackrock (Fixed Interest)	5.7	5.7	0.0	13.9	13.8	0.0	7.6	7.5	0.1	Match Index
Blackrock Interim (Fixed Interest)	1.0	1.1	(0.1)	3.7	3.7	0.0	1.6	1.6	0.1	Match Index
Morgan Stanley (Alternative Investments)	2.1	1.2	0.9	6.6	4.9	1.5	4.8	4.9	(0.1)	3M LIBOR + 4%

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

**Since Inception performance figures are annualised

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

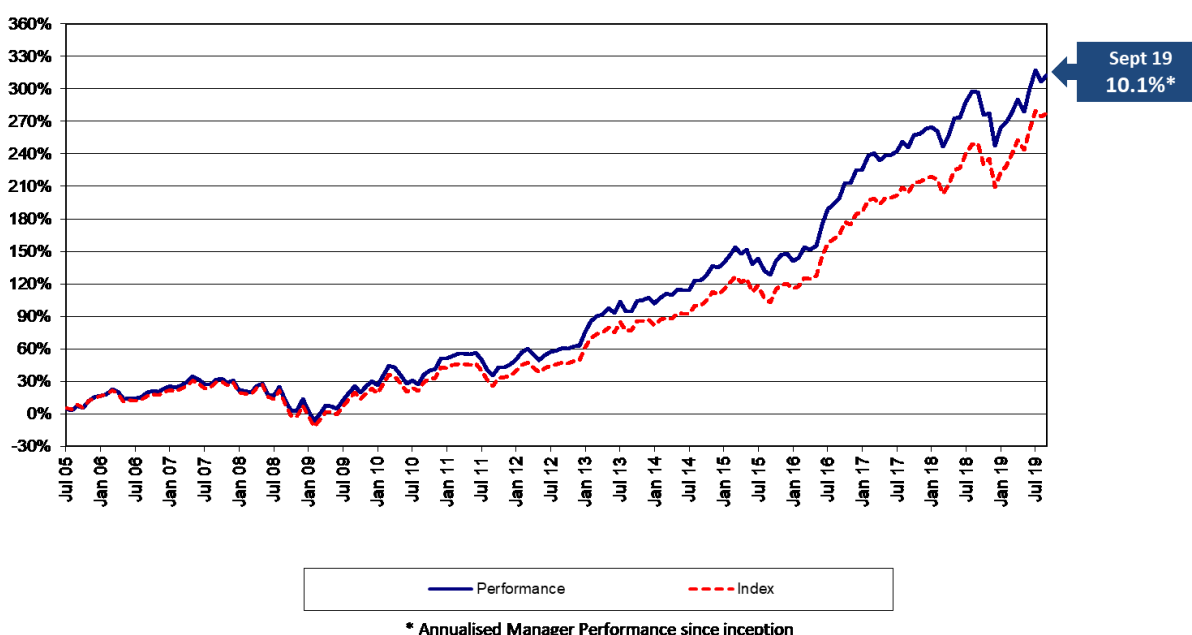
Portfolio Valuation

Value at 30.06.19	Value at 30.09.19
£578,157,999	£596,278,554

Performance

In this quarter the strategy underperformed its benchmark. The relative performance is based on different aspects: from a factor perspective, performance continued to be negatively impacted by weak returns from the Value factor. Despite a strong recovery in the first half of September, Value detracted significantly over the third quarter. On the other hand, Momentum was able to offset somewhat and added to active performance. Quality was able to contribute positively as well. Implied active sector weights had in total no significant impact on the active return, where slightly negative contributions from overweights in IT stocks were offset by positive contributions from underweights in materials stocks. Contributions from countries and currencies, a residual of the stock selection, had no significant influence on the relative performance as well. Impact from other factors was slightly negative, mainly driven by the exposures to stocks with a smaller average market capitalisation.

Invesco Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Invesco	2.9	3.9	11.4	13.1	10.1
MSCI World ex UK	4.0	8.1	12.5	13.6	9.6
Relative Performance	(1.0)	(3.9)	(1.0)	(0.4)	0.6

* annualised, inception date 01/07/2005

Turnover

Holdings at 30.09.19	Holdings at 30.06.19	Turnover in Qtr %	Turnover in Previous Qtr %
493	417	17.10	13.20

Purchases and Sales

During the last quarter, a number of stock adjustments were made to the portfolio as a result of the stock selection process. American Tower, Woolworths and SBA Communications were added, with trade weights of 0.34%, 0.27% and 0.26%, respectively. Furthermore, positions in Novartis and Home Depot were increased, with trade weights of 0.55% and 0.26%, respectively. On the other side, positions in L'Oreal, Kering, Roche, Starbucks and Aflac were decreased, with trade weights of 0.48%, 0.41%, 0.37%, 0.37% and 0.35%, respectively.

Largest Overweights

Citigroup	0.69%
Roche	0.67%
Peugeot	0.63%
Mitsui	0.58%
Starbucks	0.52%

Largest Underweights

Salesforce	(0.32%)
Toyota	(0.31%)
Wells Fargo	(0.31%)
Netflix	(0.30%)
Walt Disney	(0.30%)

* Measured against MSCI World ex UK (NDR)

Top 10 Holdings

1	Microsoft	£17,086,937
2	Apple	£15,876,189
3	Alphabet	£10,159,424
4	Amazon	£9,777,612
5	Procter & Gamble	£7,680,109

6	Roche	£6,986,893
7	Citigroup	£6,472,319
8	JP Morgan Chase	£5,962,623
9	Facebook	£5,899,776
10	Bank of America	£5,702,365

Hymans Robertson View

Invesco has announced that Chief Investment Officer of the Henley Investment Centre, Nick Mustoe will be stepping down after nine years in the role. He will be succeeded by Stephanie Butcher, who is a European equity portfolio manager. Jennifer Nerlich, former member of the Global Portfolio Analytics team, was promoted as Portfolio Manager. Helena Korczok-Nestorov, whose focus was on portfolio construction and trading, has retired. The portfolio continues to be team-managed.

Hymans Robertson continue to rate Invesco at 'Suitable'.

Risk Control

The ex-ante tracking error of the fund slightly decreased to 0.93% (ex post target 1%). With 96%, the major part of the active risk was associated with the stock selection factors.

Lincolnshire Pension Fund Global Equities – Schrodgers Quarterly Report September 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. Schrodgers believe that stock markets are inefficient and they can exploit this by undertaking fundamental research and taking a long term view.

Portfolio Valuation

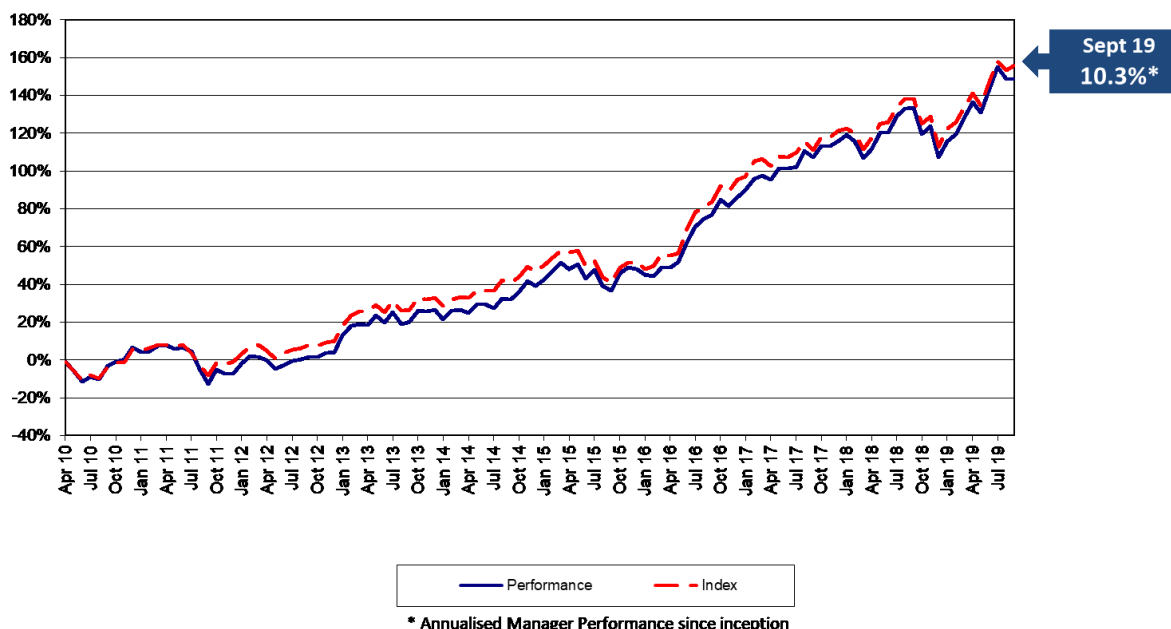
Value at 30.06.19	Value at 30.09.19
£145,304,605	£3,284,040

Note: This value represents remaining cash holdings following the transition of assets to Border to Coast Global Equity Alpha

Performance

The portfolio underperformed the benchmark in this quarter. By sector, positions in financials, industrials and technology detracted the most, the underweight position in the utilities sector also dragged performance. Communication services holdings were supportive. Performance was weak across most major regions in aggregate, with North American names lagging the most. The underweight position in emerging markets was supportive.

Schrodgers Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Schrodgers	2.1	6.4	12.0	13.5	10.3
MSCI ACWI (Net)	3.3	7.3	11.7	12.7	10.7
Relative Performance	(1.1)	(0.8)	0.4	0.8	(0.3)

*annualised, Inception date April 2010

Purchases and Sales

Amongst a number of trades enacted over the quarter Alibaba was purchased. The company's core e-commerce business is performing strongly and margins are likely to improve because of increased cost discipline. The company's most recent results showed strong growth in revenue and customer numbers. Discover Financial was also added after the US owner of Discover Bank and Diners Club International reported strong growth in revenue and profits in the second quarter.

Holdings in International Paper (IP) were sold as the thesis that the paper market would start to consolidate is not playing out. IP was thwarted in its bid to buy Smurfit Kappa Group in Europe and although free cash flows have been stable over the past few years, pricing in the US is now weaker than expected and volatility could increase.

Top 5 Contributions to Return

Alphabet Class A	0.3%
Proctor & Gamble	0.3%
Comcast	0.2%
Home Depot	0.1%
T-Mobile US	0.1%

Bottom 5 Contributions to Return

Anthem	(0.3%)
AIA Group	(0.3%)
Apple	(0.3%)
Cabot Oil & Gas	(0.2%)
Erste Bank	(0.2%)

Hymans Robertson View

Hymans Robertson continue to rate Schrodgers Global Alpha at 'Positive'.

The Fund's assets with the manager have been transferred to the Border to Coast Global Equity Alpha Sub-Fund from the end of 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 September 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

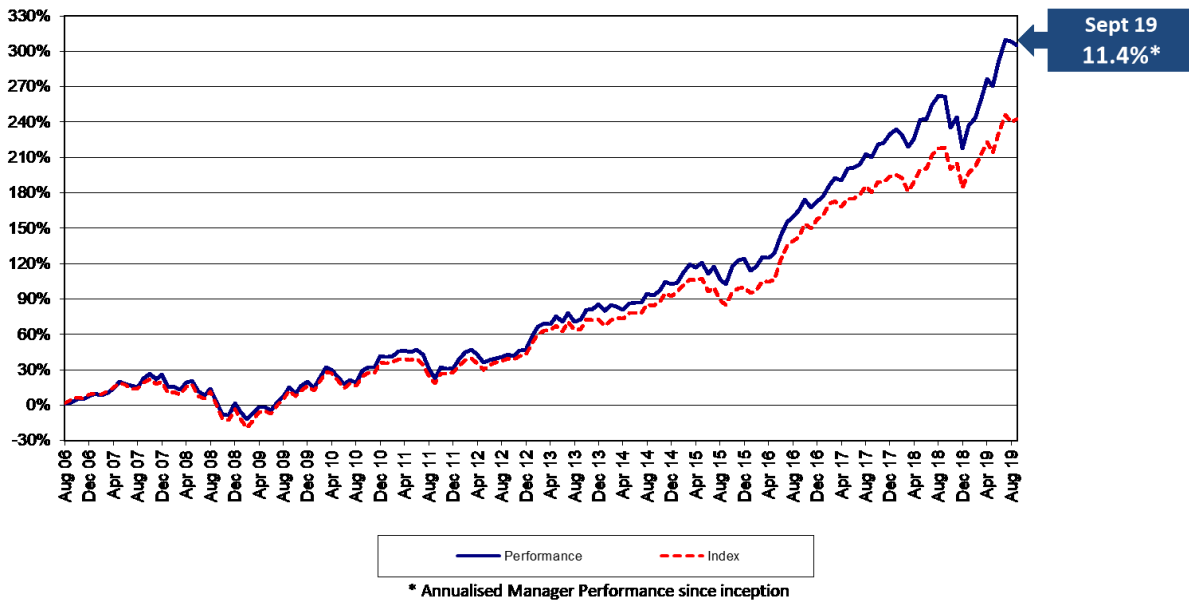
Value at 30.06.19	Value at 30.09.19
£163,679,286	£3,911,012

Note: This value represents remaining cash balance following the transition of assets to Border to Coast Global Equity Alpha

Performance

Gross of fees, the fund underperformed its index but remained well ahead of the benchmark over the year to date. Sector allocation was unhelpful, with the utilities underweight detracting most. Stock selection was slightly negative, as gains from our picks in communication services were offset by detraction from those in healthcare.

Columbia Threadneedle Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception * %
Columbia Threadneedle	3.0	11.9	15.1	15.9	11.4
MSCI ACWI	3.4	7.9	12.2	13.3	10.0
Relative Performance	(0.4)	3.8	2.6	2.3	1.3

* annualised, inception date 01/08/2006

Purchases and Sales

Positions were initiated in payments services provider Fidelity National Information Services (FIS). The firm's acquisition of Worldpay should shift it into high-growth markets and enhance its global distribution. FIS should benefit from trends in cashless transactions, e-commerce and wealth creation in emerging markets. Video-game publisher Electronic Arts (EA) was also purchased. EA boasts a robust sports franchises, and is well-placed to benefit from trends such as the move from packaged sales to digital. Medtronic was also added to the portfolio. The company has healthy market share in several fast-growing areas of its industry.

To fund these purchases Rio Tinto was sold, as its shares neared record highs and it is felt that iron ore prices could potentially decline. Additionally, profits were taken from RELX.

Top 5 Contributions to Return

Alphabet	0.53%
Equinix	0.35%
Trex Company	0.29%
Microsoft	0.26%
Lam Research	0.23%

Bottom 5 Contributions to Return

EOG Resources	(0.19%)
Diamondback Energy	(0.19%)
HDFC Bank	(0.22%)
Illumina	(0.24%)
Centene	(0.25%)

Hymans Robertson View

Mark Burgess, EMEA CIO and Deputy Global CIO, has resigned and will take a career break. William Davies, current Global Head of Equities, will become CIO EMEA reporting to Colin Moore, Columbia Threadneedle's Global CIO.

Hymans Robertson continue to rate Columbia Threadneedle at 'Positive'.

The Fund's assets with the manager have been transferred to the Border to Coast Global Equity Alpha Sub-Fund from the end of 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 September 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

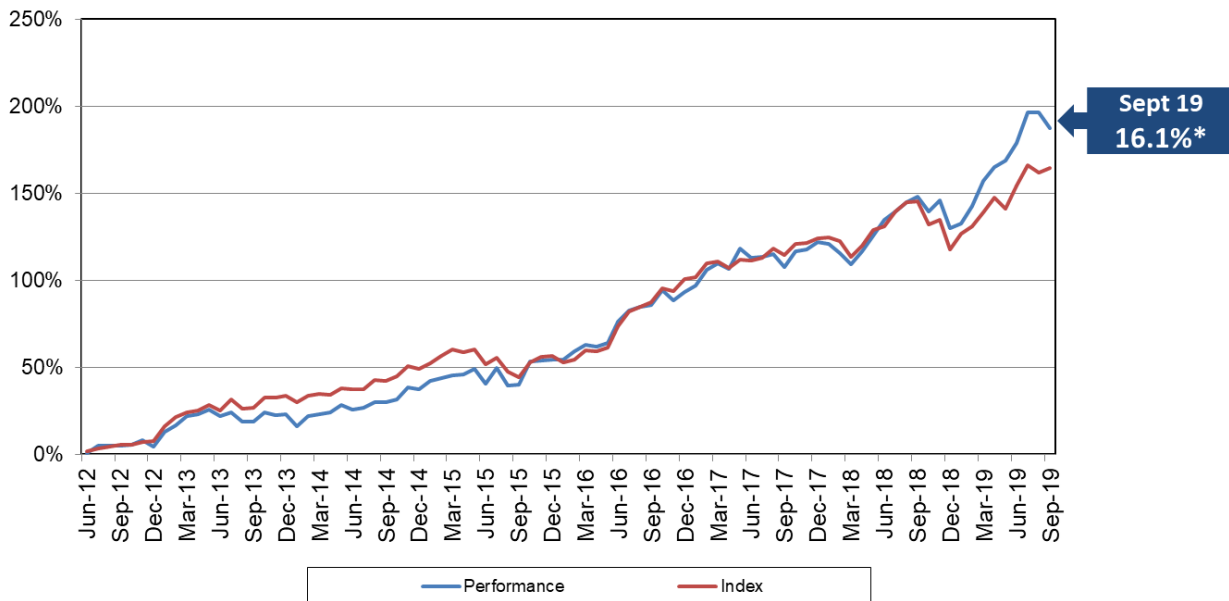
Value at 30.06.19	Value at 30.09.19
£238,555,342	£2,318,446

Note: This value represents remaining cash balance following the transition of assets to Border to Coast Global Equity Alpha

Performance

For the quarter, the portfolio returned 2.9%, against 3.8% for the MSCI World Index. Positive sector allocation was not enough to cancel out the negative stock selection. The primary source of positive sector allocation was the overweight in consumer staples, while the absence of energy stocks and the overweight in information technology also helped. In terms of the stock selection, the outperformance in health care and consumer discretionary was outweighed by the underperformance in consumer staples, information technology and communication services.

Morgan Stanley Global Brands Performance Since Inception



	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Morgan Stanley Global Brands	2.9	15.7	15.6	17.2	16.1
MSCI World Index	3.8	7.8	12.2	13.2	14.7
Relative Performance	(0.9)	7.3	3.1	3.5	1.2

*annualised, inception date 18/06/2012

Purchases and Sales

Overall portfolio activity was fairly quiet for the quarter. A position was initiated in Thermo Fisher Scientific, a life sciences company that is a key supplier to the health care industry, be it chemicals used in drug research and production, diagnostic tests or analytical instruments. The high percentage of consumables ensures that there is plenty of recurring revenue, while management has a proven track record of successful acquisitions, plugging new technologies and solutions into the massive client base.

The modest position in Clorox was sold, given the elevated multiple of 24x calendar year 2020 earnings.

Top Contributors to Return

Microsoft	0.58%
Zoetis	0.45%
Baxter International	0.42%

Bottom Contributors to Return

SAP	(0.68%)
Fox Corporation	(0.17%)
Factset Research Systems	(0.16%)

Top Ten Holdings

Company	Industry	% Weighting
Microsoft	Software	8.06
Reckitt Benckiser	Household Products	7.61
Philip Morris	Tobacco	6.93
Visa	IT Services	5.24
SAP	Software	5.20
Accenture	IT Services	4.69
Unilever	Personal Products	4.50
Baxter International	Health Care Equipment & Supplies	4.42
Danaher Corp	Health Care Equipment & Supplies	3.78
Coca-Cola	Beverages	3.68

Hymans Robertson View

Hymans Robertson continue to rate Morgan Stanley Global Brands at 'Suitable'.

The Fund's assets with the manager have been transferred to the Border to Coast Global Equity Alpha Sub-Fund from the end of the quarter.

**Lincolnshire Pension Fund
Global Equities – Border to Coast Global Equity Alpha
Quarterly Report September 2019**

Investment Process

The Border to Coast Global Equity Alpha Sub-Fund is designed to outperform the MSCI All Countries World Index by 2% per annum. The fund is made up of five high quality managers, which have been selected for their long term track record and blend of complementary investment styles and range of market caps. The fund will benefit from diversification due to low correlation between managers sources of outperformance. All five managers also consider responsible investment factors when making investment decisions.

Portfolio Valuation

Opening Value at 30.09.19
£420,969,096

Performance, information will be reported in the next quarterly report.

Lincolnshire Pension Fund
UK Equities – Legal & General (LGIM)
Quarterly Report September 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 30.06.19	Value at 30.09.19
£443,711,925	£449,373,212

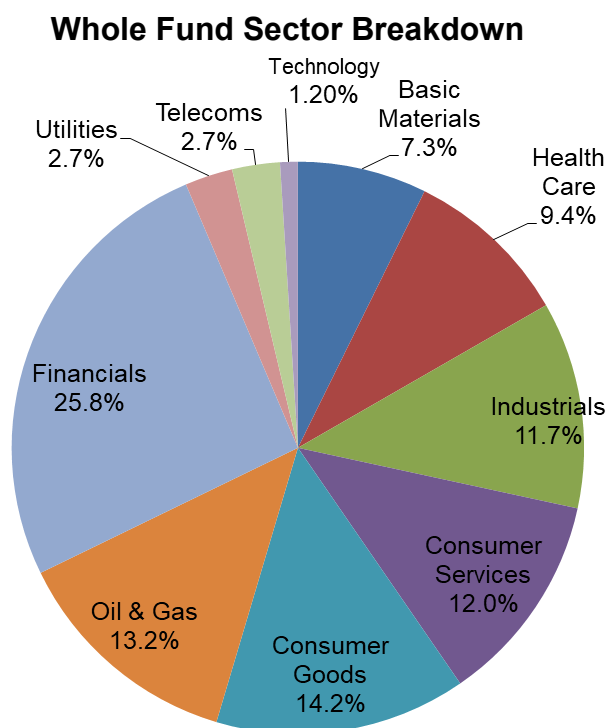
Performance

Over all periods the portfolio has performed as expected.

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
LGIM	1.2	2.8	N/A	N/A	5.5
Benchmark	1.2	2.8	N/A	N/A	5.3
Relative Performance	0.0	0.0	N/A	N/A	0.1

*annualised, inception date February 2017

Top Ten Holdings	
Company	% Weighting
HSBC	5.4
BP	4.4
Royal Dutch Shell A	4.2
AstraZeneca	4.1
Royal Dutch Shell B	3.9
Glaxosmithkline	3.7
Diageo	3.3
British American Tobacco	2.9
Unilever	2.3
Rio Tinto	2.0
Total	36.2



**Lincolnshire Pension Fund
Passive Bonds – Blackrock
Quarterly Report September 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	30.06.19 £	31.09.19 £
Corporate Bond All Stocks Index Fund	74,361,065	77,076,237
Over 5 Years UK Index-Linked Gilt Index Fund	43,134,061	46,942,860
All Stocks UK Gilts*	29,071,502	30,879,621
Cash (residual)	1	1
Total	146,566,629	154,898,719

*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	5.7	13.9	4.0	7.8	7.6
Composite Benchmark	5.7	13.8	3.9	7.6	7.5
Relative Performance	0.0	0.0	0.1	0.1	0.1

*annualised since inception 28/07/10

Hymans Robertson View

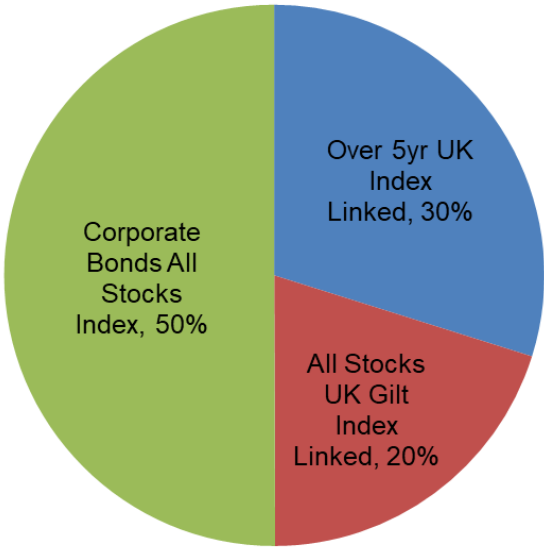
Hymans Robertson continue to rate Blackrock fixed interest at 'positive'.

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 30 September 2019.



Lincolnshire Pension Fund
Passive Bonds – Blackrock interim
Quarterly Report September 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 30.06.19	Value at 30.09.19
£140,528,868	£276,350,552

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	1.0	3.7	1.8	n/a	1.6
Benchmark	1.1	3.7	1.8	n/a	1.6
Relative Performance	(0.1)	0.0	0.0	n/a	0.1

*annualised since inception 14/09/16

Hymans Robertson View

Hymans Robertson continue to rate Blackrock fixed interest at 'positive'.

Lincolnshire Pension Fund
Alternative Investments – Morgan Stanley
Quarterly Report September 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.

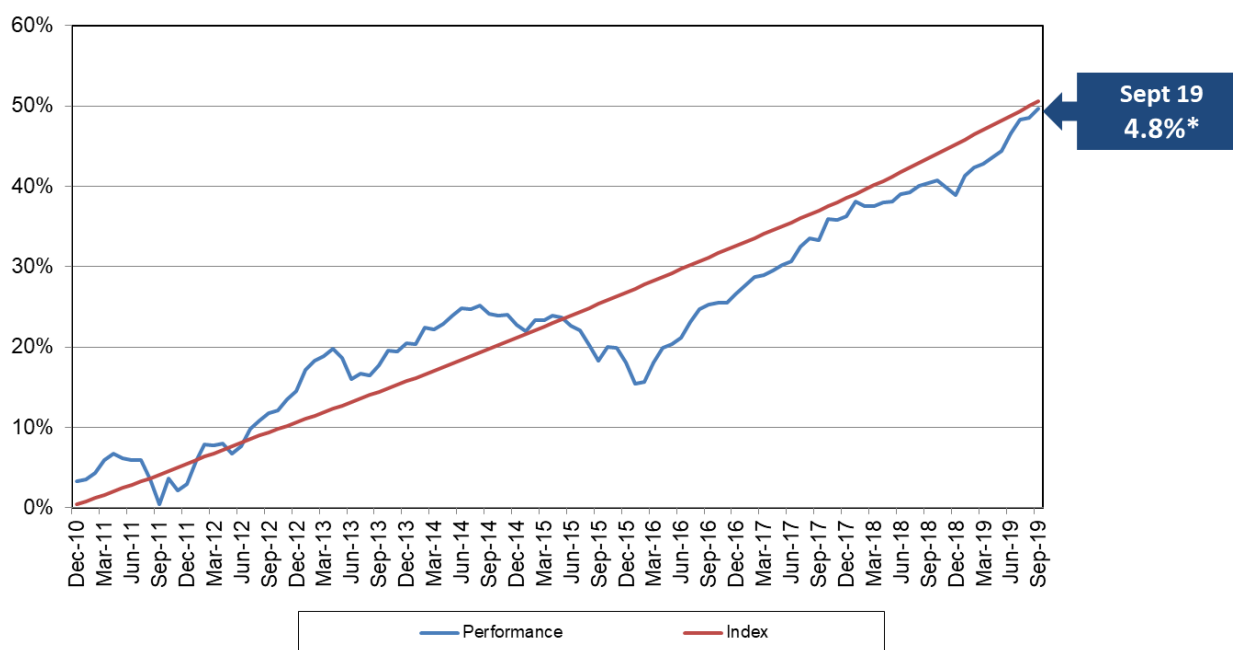
Portfolio Valuation

Value at 30.06.19	Value at 30.09.19
£314,418,318	£320,651,811

Performance

The total alternatives portfolio (excluding legacy private equity holdings) returned 2.1% during the quarter. Most asset classes contributed positively with absolute returns driven by private markets, hedge fund and credit allocations. Manager selection added to returns while tactical decisions were more muted for the period. Outperformance in private markets, commodities and hedge funds was particularly beneficial.

Morgan Stanley AIP Performance Since Inception



* Annualised Manager Performance since inception

	Quarter %	1 Year %	3 Year* %	5 Year* %	Inception* %
Morgan Stanley	2.1	6.6	6.1	3.8	4.8
3 Month LIBOR + 4%	1.2	4.9	4.7	4.7	4.9
Relative Performance	0.9	1.5	1.3	(0.8)	(0.1)

* 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:

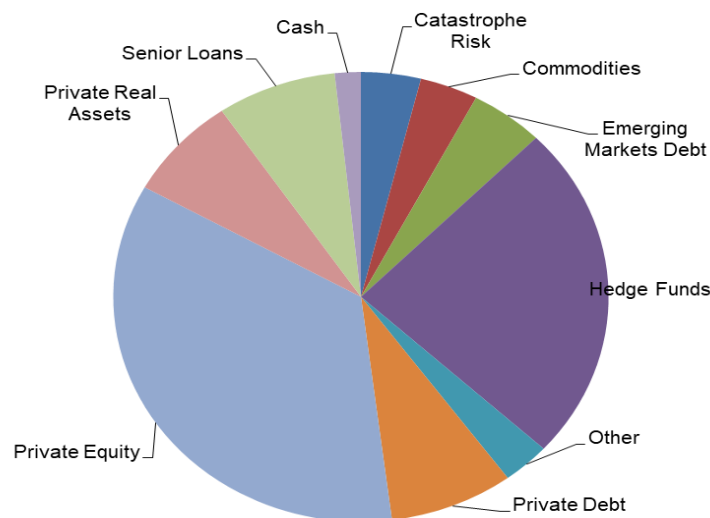
- **Alpha** These are pure return seeking products based on Manager skill. The Alpha investments include Hedge Funds, Global Tactical Asset Allocation (GTAA) and Active Currency.
- **Long Term Real Asset** These are long term investments that seek to access illiquidity premium. Investments include Private 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 30 September 2019.

Strategy

Alpha	28.26%
Credit	12.96%
Real Asset	55.23%
Discovery	2.30%
Cash	1.25%

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 3.42%, within the guidelines specified by the mandate.

Conclusion

This reporting period saw the value of the Fund increase by £57.0m to £2,514.2m. At the end of the period the asset allocation, compared to the strategic allocation, was:

- overweight fixed income and cash; and
- underweight UK equities, global equities, property, infrastructure and alternatives

Over the quarter, the Fund produced a positive return of 2.42%, underperforming the benchmark which returned 2.52%.

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.

Appendices

These are listed below and attached at the back of the report.	
Appendix A	Fund Distribution as at 30 September 2019
Appendix B	Market returns as at 30 September 2019

Background Papers

No Background Papers within the meaning of section 100D of the Local Government Act 1972 have been used in the preparation of this Report.

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