

ORDER OF BUSINESS – PART 1 AGENDA

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The public are welcome to attend our Committee meetings, however, occasionally, committees may have to consider some business in private. Copies of reports can be made available in additional formats on request.

Agenda Item 1

PENSIONS INVESTMENT COMMITTEE		
Report Title	APPOINTMENT OF CHAIR AND VICE CHAIR	
Key Decision		Item No. 1
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 13 JUNE 2012

Recommendation

To elect a Chair and Vice Chair of the Committee for the municipal year 2012/13.

Agenda Item 2

PENSIONS INVESTMENT COMMITTEE		
Report Title	MINUTES	
Key Decision		Item No. 2
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 13 June 2012

Recommendation

That the Minutes of that part of the meeting of the Committee, which was open to the press and public, held on 23 February 2012 be confirmed and signed.

MINUTES OF THE PENSIONS INVESTMENT COMMITTEE
Thursday, 23 February 2012 at 7.00 pm

Present: Councillor Maslin (Vice-Chair)(In the Chair), Councillors Muldoon, Patisson and Wise

Apologies for absence were received from Councillors Allison, Best Fletcher and Whittle.

1. Minutes

RESOLVED that the Minutes of the meeting of the Pensions Investment Committee, held on 17 November 2011, be confirmed and signed.

2. Declaration of interests

Councillor Maslin declared that he is a Director of Hales Gallery Limited and UBS is an occasional customer of the Gallery. Since there were no decisions to be made regarding UBS that evening, Councillor Maslin did not need to leave the meeting at any point.

3. Harbourvest presentation

- 3.1 Kathleen Bacon and Hannah Tobin attended the meeting and made their presentation on behalf of HarbourVest.
- 3.2 Ms Bacon said that HarbourVest were a private equity specialist and she outlined the achievements of the company. Ms Tobin explained the investments that had been made over the last quarter and the strong return to the fund.
- 3.3 Ms Bacon referred to HVPE on page 23 of the presentation, she said that discount was at 46% to NAV and HarbourVest had considered how this could be closed down. As a result, a corporate officer had recently been appointed; he would be talking to shareholders, promoting the product and encouraging trading type of investors to buy the product. Ms Bacon said that HVPE was a great product but was suffering because of the discount. Councillor Muldoon asked what would happen if the discount gets worse. Ms Bacon said that there would only be a problem if net asset value continues to appreciate. She did not believe that the discount would get worse. She said that the information she had received was that the \$6.10 share price was going to increase. The challenge would be communicating this information and getting the message out to the market.
- 3.4 The Chair thanked Ms Bacon and Ms Tobin for their informative presentation and they left the meeting.

RESOLVED that the report be noted

4. Fauchier Presentation

- 4.1 Dan Higgins and Peter Vincent attended the meeting and made their presentation on behalf of Fauchier.

- 4.2 Mr Vincent said that it had been two years since they had made a presentation to this Committee. The markets had been eventful during this time. He reminded members why they had originally invested in this Hedge Fund .
- 4.3 Mr Vincent said that they had been a fund manager for Lewisham since 1 September 2008. They originally achieved first base and protected the capital. However, performance had fallen well short of the target.
- 4.4 Mr Vincent said that timing had played an important part in the performance of the portfolio because the account was agreed days before the Lehman crisis.
- 4.5 Mr Higgins said that the first two months performance of the portfolio was the worst in Fauchier's history. They agreed not to put the capital at risk to claw back this loss. Markets then stabilised and they had been treading water for the last eighteen months. He said that Fauchier could not justify this type of performance again and they believe that from that day things would be different and they could make a good return for Lewisham.
- 4.6 Mr Higgins referred to page 7 in the presentation which summarised why it had been difficult to make money in the markets over the last 18 months. When Fauchier recognised that they could be investing in a difficult environment they dispensed with the services of over diversified hedge fund managers.
- 4.7 Mr Higgins said that there is a school of thought that believes that Hedge Funds can only make money when markets are strong but that fees would be too high to make any real profit. He strongly disagreed with this.
- 4.8 Mr Higgins said that big money was made over the last 12-18 months with long Government bonds. He expected big returns on commodities and had just identified new funds all of which were expected to return 10-15% net return.
- 4.9 Mr Higgins said that there was still dispersion in the market. The difference between the top and bottom shares was huge and investors can take advantage of this situation.
- 4.10 Mr Higgins accepted that Fauchier did not let the over diversified hedge fund managers go quickly enough and this had had a significant affect on the portfolio. He said that Fauchier were now well placed with their staff to make successful investments. He said that as a hedge fund company, they were turnaround specialists and could add value to poorly managed high quality companies. They also intended to take advantage of the announcement this week that bank disposal programmes were now underway.
- 4.11 Mr Donaldson said that their presentation seemed to say that Fauchier were slow to react to a changing environment. Mr Higgins said that in 2010

they could have had more success; they did not take part in the credit market. Three managers were dismissed. There is not a change from mid 2010 that they have regretted. The market had been very difficult and a few good managers got things wrong and the decision taken to dismiss them had been slow because they were good managers. However, having made several good decisions since this time, Fauchier were ready to make money for Lewisham.

- 4.12 The Chair thanked Mr Higgins and Mr Vincent for attending the meeting and they left.

RESOLVED that the report be noted

5. Investment Performance Report for Quarter Ended 30 December 2011

- 5.1 Mr Donaldson said that during the last quarter equity and bonds had performed well. This was an unusual occurrence because one usually outperformed the other. The Chair referred to HarbourVest's performance. He said that the benchmark had not performed well to equities. Mr Donaldson said that this was probably because the inception dates were slightly different to other managers.
- 5.2 Councillor Muldoon said that it was unusual for bonds to outperform equities, he asked whether there was any data that disproved this. Mr Donaldson said that there was about 100 years worth of data proving that equities outdate bonds. He hoped that long term there would be better returns from equities.

RESOLVED that the report be noted

6. Exclusion of the press and public

RESOLVED that under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraphs 3, 4 and 5 of Part 1 of Schedule 12(A) of the Act, as amended by the Local Authorities (Executive Arrangements) (Access to information) (Amendments) (England) Regulations 2006 and the public interest in maintaining the exemption outweighs the public interest in disclosing the information:

7. Minutes
8. Fauchier
9. Passive Manager Selection
10. Transition Manager Selection

The following is a summary of the items considered in the closed part of

the meeting.

7 Minutes

RESOLVED the Minutes of the meeting of the Pensions Investment Committee, held on 11 November 2011, which was not open to the press and public be confirmed and signed.

8 Fauchier

RESOLVED that the contract with Fauchier be terminated and officers submit a report to the next meeting of this Committee outlining options for the reinvestment of this 3% of the fund.

9. Passive Manager Selection

This report will be submitted to a future meeting of this Committee.

10. Transition Manager Selection

RESOLVED that the Northern Trust be appointed as transition manager for the purpose of restructuring the fund from active to passive fund management subject to a successful interview carried out by Hymans Robertson.

11. **Shareholder Voting Rights**

11.1 Members agreed that this was an item that was of public interest, and should, therefore, be discussed in public.

11.2 The Chair said that he had asked for this item to be included in this agenda because the issue of CEOs' pay and bonuses in banks and financial institutions and how it relates to corporate governance and responsibility, was the subject of huge public concern. Vince Cable, Secretary of State for Business, Innovation and skills had spoken in Westminster in January about the fact that shareholders should hold binding votes on executive pay and do their bit to ensure that there was transparency over pay deals.

11.3 The Chair recommended that a letter be written to all fund members asking what their view was on this subject and what actions they would be taking in the future. It should then be clear whether managers meet the expectations of this Committee and any manager could be invited to explain their views on this subject if required by members.

11.4 Mr Donaldson said that managers of a fund are obliged to act in the best interest of the shareholder but this can cause a conflict with ethical issues. He considered, therefore, that it would be a good decision to write to fund managers to ask them about their practises particularly with regard to ESG (Economic Social Governance). Councillor Wise agreed, she said that although this Committee may not have as much control as desired in the companies invested by this Council's Pension Fund, it was important that it

is made clear to fund managers that ethical issues investment is of importance to this Committee.

- 11.5 The Chair said that a draft letter could be sent to all members and members should send back any comments to officers, it could then be sent out to present and possible future fund managers.

RESOLVED that letters be sent out to all present and possible future fund managers as set out above.

The meeting ended at 8.55 p.m.

Chair

Agenda Item 3

PENSIONS INVESTMENT COMMITTEE		
Report Title	DECLARATIONS OF INTERESTS	
Key Decision		Item No. 3
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 13 June 2012

Declaration of interests

Members are asked to declare any personal interest they have in any item on the agenda.

Personal interests

There are two types of personal interest :-

- (a) an interest which you must enter in the Register of Members' Interests*
- (b) an interest where the wellbeing or financial position of you, (or a "relevant person") is likely to be affected by a matter more than it would affect the majority of inhabitants of the ward or electoral division affected by the decision.

*Full details of registerable interests appear on the Council's website.

("Relevant" person includes you, a member of your family, a close associate, and their employer, a firm in which they are a partner, a company where they are a director, any body in which they have securities with a nominal value of £25,000 and (i) any body of which they are a member, or in a position of general control or management to which they were appointed or nominated by the Council, and (ii) any body exercising functions of a public nature, or directed to charitable purposes or one of whose principal purpose includes the influence of public opinion or policy, including any trade union or political party) where they hold a position of general management or control,

If you have a personal interest you must declare the nature and extent of it before the matter is discussed or as soon as it becomes apparent, except in limited circumstances. Even if the interest is in the Register of Interests, you must declare it in meetings where matters relating to it are under discussion, unless an exemption applies.

Exemptions to the need to declare personal interest to the meeting

You do not need to declare a personal interest where it arises solely from membership of, or position of control or management on:

- (a) any other body to which you were appointed or nominated by the Council
- (b) any other body exercising functions of a public nature.

In these exceptional cases, unless your interest is also prejudicial, you only need to declare your interest if and when you speak on the matter .

Sensitive information

If the entry of a personal interest in the Register of Interests would lead to the disclosure of information whose availability for inspection creates or is likely to create a serious risk of violence to you or a person living with you, the interest need not be entered in the Register of Interests, provided the Monitoring Officer accepts that the information is sensitive. Where this is the case, if such an interest arises at a meeting, it must be declared but you need not disclose the sensitive information.

Prejudicial interests

Your personal interest will also be prejudicial if all of the following conditions are met:

- (a) it does not fall into an exempt category (see below)
- (b) the matter affects either your financial interests or relates to regulatory matters - the determining of any consent, approval, licence, permission or registration
- (c) a member of the public who knows the relevant facts would reasonably think your personal interest so significant that it is likely to prejudice your judgement of the public interest.

Categories exempt from being prejudicial interest

- (a) Housing – holding a tenancy or lease with the Council unless the matter relates to your particular tenancy or lease; (subject to arrears exception)
- (b) School meals, school transport and travelling expenses; if you are a parent or guardian of a child in full time education, or a school governor unless the matter relates particularly to the school your child attends or of which you are a governor;
- (c) Statutory sick pay; if you are in receipt
- (d) Allowances, payment or indemnity for members
- (e) Ceremonial honours for members
- (f) Setting Council Tax or precept (subject to arrears exception)

Effect of having a prejudicial interest

If your personal interest is also prejudicial, you must not speak on the matter. Subject to the exception below, you must leave the room when it is being discussed and not seek to influence the decision improperly in any way.

Exception

The exception to this general rule applies to allow a member to act as a community advocate notwithstanding the existence of a prejudicial interest. It only applies where members of the public also have a right to attend to make representation, give evidence or answer questions about the matter. Where this is the case, the member with a prejudicial interest may also attend the meeting for that purpose. However the member must still declare the prejudicial interest, and must leave the room once they have finished making representations, or when the meeting decides they have

finished, if that is earlier. The member cannot vote on the matter, nor remain in the public gallery to observe the vote.

Prejudicial interests and overview and scrutiny

In addition, members also have a prejudicial interest in any matter before an Overview and Scrutiny body where the business relates to a decision by the Executive or by a committee or sub committee of the Council if at the time the decision was made the member was on the Executive/Council committee or sub-committee and was present when the decision was taken. In short, members are not allowed to scrutinise decisions to which they were party.

Agenda Item 4

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Draft Pension Fund accounts – Year Ending 31 March 2012		
KEY DECISION	No	Item No:	4
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	Date:	13 June 2012

1. Purpose

- 1.1 This report sets out the draft Pension Fund accounts for the financial year ending 31 March 2012.
- 1.2 Members are asked in accordance with best practice to note the draft accounts prior to them being signed off by the Chief Financial Officer as being available for external audit.

2. Recommendation

It is recommended that the Pensions Investment Committee note the draft Pension Fund accounts for the year ended 31 March 2012, as set out at Appendix 1.

3. Draft Pension Fund Accounts

- 3.1 The Council as an administering authority under the Local Government Pension Scheme Regulations, is required to produce a separate set of accounts for the schemes financial activities and assets and liabilities.
- 3.2 The contents and format of the accounts are determined by statutory requirements and mandatory professional standards as established by the Chartered Institute of Public Finance (CIPFA) in their Statement of Recommended Practice (SORP).
- 3.3 The Pension Fund Accounts will be subject to a separate audit by the Council's external auditors the Audit Commission which must be completed by the 30 September 2012.
- 3.4 There is a related requirement for Councils to publish an annual report which incorporates elements of the financial accounts, before the 1 December 2012. This document will be the subject of a further report to this Committee when the audit is substantially complete.
- 3.5 The accounts comprise two main statements with supporting notes. The main statements are:

- Dealings with Members Employers and Others which is essentially the Fund's revenue account
- The Net assets Statement which can be considered as the Fund's balance sheet

3.6 The 'Dealings with Members Employers and Other' sets out the movement in the net worth of the Fund in the year by analysing the relevant financial transactions and movements in the market value of the investment portfolio.

The statement has two main sections:

- The financial transactions relating to administration of the Fund.
- The transactions relating to its role as an investor.

3.7 The administration section principally relates to the receipt of contributions from employers and active members and the payment of pensions. This section indicates that the Fund is cash negative, in that the benefits payable, exceed the contributions receivable by £6.4m.

3.8 The investment section details the income received from the investment portfolio and the impact of managers activities and investment markets on the value of investments.

3.9 The section indicates that the value of investments has increased by £11m as a result of improved conditions in investment markets. The performance of the portfolio and the investment is the subject of another report elsewhere on this agenda.

3.10 The net asset statement represents the net worth of the Fund as the 31 March 2012. The statement reflects how the transactions outlined in the other statement have impacted on the value of the Fund's assets.

3.11 Members should note that these accounts are draft and may be subject to change between now and the final sign off by the Chief Financial Officer. Any such changes will be detailed in working papers for presentation to external audit.

4. Financial Implications

4.1 This entire report relates to the draft Pension Fund accounts for 2011/12, the details of which have been attached at Appendix 1.

5. Legal Implications

5.1 The Accounts and Audit Regulations (England) 2011 as amended, specify the process by which the Authority's accounts are initially approved and then examined by the external auditor. This process and the dates by which the various stages have to be achieved are set out in Regulations and are binding on the Authority.

6. Crime and Disorder Implications

6.1 There are no crime and disorder implications directly arising from this report.

7. Equalities Implications

7.1 There are no equalities implications directly arising from this report.

8. Environmental Implications

8.1 There are no environmental implications directly arising from this report.

Background papers

None

If there are any queries on this report or you require further information, please contact either:

Selwyn Thompson, Group Manager Budget Strategy on 020 8314 6932 or
Shola Ojo, Principal Accountant, Budget Strategy on 020 8314 4778

**DRAFT
PENSION
FUND
ACCOUNTS**

2011/12

DRAFT PENSION FUND ACCOUNTS

INTRODUCTION

The London Borough of Lewisham Pension Fund ('the Fund') is part of the Local Government Pension Scheme. The Fund is a contributory defined scheme administered by the London Borough of Lewisham to provide benefits to London Borough of Lewisham employees and former employees and admitted and scheduled bodies. These benefits include retirement allowances and pensions payable to former employees and their dependants, lump sum death gratuities and special short-term pensions. The Fund is financed by income from investments and contributions from employees, the Council and other admitted and scheduled bodies.

ORGANISATION

The Fund is operated under various sets of regulations made under the Superannuation Act 1972. The fund is administered with the following secondary legislation:

- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- The Local Government Pension Scheme (Administration) Regulations 2008 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

Formal responsibility for investment management of the Pension Fund is delegated to the Council's Pensions Investment Committee (PIC), which monitors the external investment managers. Each investment manager has an individual performance target and benchmark tailored to balance the risk and return appropriate to the fund. The investment managers also have to consider the PIC's views on socially responsible investments. Details of this policy are contained in the Statement of Investment Principles (see web address below).

A statement of the Fund's corporate governance, funding strategy and investment principles can be found on the authority's website, at the following address:

["www.lewisham.gov.uk/CouncilAndDemocracy/Finances/PensionsDocuments.htm"](http://www.lewisham.gov.uk/CouncilAndDemocracy/Finances/PensionsDocuments.htm)

ACCOUNTING POLICIES

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in Note (k) below.

Pension Fund Accounts

The Local Government Pension Scheme (Amendment) (No. 3) Regulations 2007 also requires administering authorities in England and Wales to prepare a Pension Fund Annual Report which must include the Fund Account and a Net Assets Statement with supporting notes prepared in accordance with proper practices. The Code summarises the Pension SORP and the minimum disclosure requirements.

The date for publishing the Pension Fund Annual Report is on or before 1 December the following year, up to five months after a local authority must approve its Statement of Accounts. The Council will be taking its Annual Report to its Pensions Investment Committee in order to comply with this deadline.

The accounting policies and the basis of preparation of the accounts are shown below:

- (a)** Basis of Preparation - The accounts have been prepared on an accruals basis, i.e. income and expenditure attributable to the financial year have been included, even where payment has not actually been made or received, excepting Transfer Values which are prepared on a cash basis. The financial statements do not take account of liabilities to pay pensions and other benefits due after the period end; these are reported upon separately in the Actuary's report and reflected in the council's income and expenditure account. The accounts are prepared on a going concern basis for accounting purposes.
- (b)** Investments - Investments in the Net Assets Statement are shown at market value based on bid prices, as required by the 2011/12 Local Authority SORP and the IAS 26 Retirement Benefit Plans. The market value of equity investments is based on the official closing data, in the main, with last trade data being used in a small number of countries. Unitised equities are quoted based on last trade or official closing price. Northern Trust, the Fund's custodian, sets out its pricing policies in a document entitled "Asset pricing guidelines" which details its pricing process and sets out preferred pricing sources and price types.
- (c)** The change in market value of investments during the year comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.
- (d)** Private equity investments are valued in accordance with United States generally accepted accounting principles, including FAS 157, which is consistent with the International Private Equity and Venture Capital Valuation Guidelines. These guidelines set out that all investments are carried at fair value and they recommend methodologies for measurement.
- (e)** The Pension Fund's Hedge Fund assets are held in the Jubilee Absolute Return Fund, which is a collective investment scheme structured as a protected cell of Jubilee Absolute Return Fund PCC Limited, an open ended investment company listed on the Irish Stock Exchange. The Jubilee Absolute Return Fund produces an official single-priced NAV and hence there are no bid-offer prices for subscriptions or redemptions. The official single-priced NAV is produced on a monthly basis by the independent administrator, HSBC Securities Services (Ireland) Limited ("HSBC").

Pension Fund Accounts

- (f) Property – The Fund does not have any direct investments in property, but does use a property Fund of Funds manager, Schroders, to invest in pooled property funds. The Schroders funds are all currently valued at least quarterly. The majority of property assets to which the fund has exposure to are located in the UK. They are valued in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards and are valued on the basis of their open market value (OMV).

The only non UK funds are the Continental European Fund 1 and Lend Lease Real Estate Partners 3. Their net asset values are derived from the net asset values of the underlying funds. Like the UK, the values of the underlying assets are assessed by professionally qualified valuers. Valuation practices will vary between countries according to local Generally Accepted Accounting Practices. The frequency of independent valuations does however vary. All the funds are independently valued on a rolling basis at least annually.

- (g) The fair value of the M&G financial instruments is based on their quoted market prices at the statement of financial position date without any deduction for estimated future selling costs.
- (h) The fair value of the Investec commodities is based on their quoted market prices at the Balance Sheet date. If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for a non-exchange traded financial instrument, the fair value of the instrument is estimated using valuation techniques.
- (i) Contributions – there are seven employee contribution bands (revised annually in line with inflation) ranging from 5.5% for members earning under £13,500 a year to 7.5% for members earning over £85,300 a year. The employer's contribution is reviewed every three years and is determined as the rate necessary to ensure that the Fund is able to meet its long-term liabilities. This is assessed at each triennial actuarial revaluation.

Full time pay for the post	Contribution rate
Up to £13,500	5.5%
£13,501 to £15,800	5.8%
£15,801 to £20,400	5.9%
£20,401 to £34,000	6.5%
£34,001 to £45,500	6.8%
£45,501 to £85,300	7.2%
More than £85,300	7.5%

- (j) Actuarial – The adequacy of the Fund's investments and contributions in relation to its overall and future obligations is reviewed every three years by an Actuary appointed by the Council. The council's Actuary, Hymans Robertson, assesses the Fund's assets and liabilities in accordance with Regulation 77 of the Local Government Scheme Regulations 1997. The contribution rate required for benefits accruing in future is assessed by considering the benefits which accrue over the course of the three years to the next valuation.

Pension Fund Accounts

- (k) The most recent actuarial valuation carried out under Regulation 36 of the LGPS (Administration) Regulations 2008 was as at 31 March 2010.

The valuation was based on the projected unit valuation method. This assesses the cost of benefits accruing to existing members during the year following valuation and allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities (allowing for future salary increases) and the market value of assets.

In order to value liabilities which have accrued at the valuation date and those accruing in respect of future service the Actuary has assumed that the Fund's assets will generate a return of 6.1% per annum (5.8% 2007). The Actuary set the employer contribution accordingly to recover the deficit over future periods.

The actuarial review carried out for 31 March 2010 resulted in an increase to the Council's contribution rate from 20% to 20.5%, with effect from 1st April 2011 and annual increases of 0.5% for the subsequent two years. The next actuarial valuation of the Fund will have an effective date of 1 April 2013, with new employer contribution rates taking effect from 2014/15.

The Actuary has calculated the actuarial present value of retirement benefits (on an IAS 26 basis) to be £1,158 million as at 31st March 2012 (£1,044 million 31st March 2011).

Actuarial Present Value of Promised Retirement Benefits

The triennial valuation on the 31st March 2010 revealed that the Fund's assets, which at 31 March 2010 were valued at £715 million, were sufficient to meet 75.4% (87.4% 2007) of the liabilities valued at £949 million (£840 million 2007) accrued up to that date. The resulting deficit at the 2010 valuation was £234 million (£106 million 2007).

- (l) Investment Management and Administration - paragraph 42 of the Local Government Pension Scheme (Administration) Regulations 2008, permit the Council to charge the scheme's administration costs to the Fund. A proportion of relevant Council officers' salaries, including related on-costs, have been charged to the Fund on the basis of actual time spent on scheme administration and investment-related business. The fees of the Fund's general investment managers are charged on a quarterly basis and are generally calculated as a set percentage of the market value funds under management as at the end of those quarters. The Council's administrative costs are shown in the Fund Account as part of expenditure.
- (m) Foreign currency transactions are made using the WM/ Reuters exchange rate in the following circumstances:
- Purchase and sales: the foreign exchange rate applicable on the day prior to the trade date is used.
 - Stock holdings: the converted foreign exchange rate is used at stock valuation date.

Pension Fund Accounts

- Dividend receipts: the rate applicable on the day prior to the date the dividend is received is used.

(n) 2011/12 Financial Year Summary of Fund Value

Fund Manager	Assets	Assets Value 31st March 2012 £000	Assets Value 31st March 2011 £000	Proportion of the Fund 31st March 2012 (%)
UBS	Bonds	138,140	124,672	17.82
Alliance Bernstein	Global Equities	165,817	177,416	21.40
RCM	Global Equities incl. UK	171,255	169,067	22.10
Schroders Property	Property	68,846	68,386	8.88
HarbourVest (*Incl Legacy Stock)	Private Equity	31,234	30,020	4.03
UBS passive equity	UK Tracker fund	128,474	125,728	16.58
Fauchier	Hedge Fund of Fund	21,077	22,054	2.72
Investec	Commodities	37,587	40,062	4.85
M&G	Credit	10,827	5,314	1.40
Securities Lending	Securities Lending	8	150	0
Lewisham	Cash and Net Current Assets	1,735	-74	0.22
Total Fund		£775,000	£762,795	100

Pension Fund Accounts
FUND ACCOUNT FOR THE YEAR

The fund account shows the surplus or deficit on the fund for the year.

2010/11 Restated £'000s	<u>FUND ACCOUNT FOR THE YEAR ENDED</u> <u>31st MARCH 2012</u>	2011/12 £000s	2010/11 £000s	Note
	<u>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS</u> <u>DIRECTLY INVOLVED WITH THE SCHEME</u>			
	Contributions Receivable:			
28,898	- from Employer	26,583	29,504	1
9,330	- from Employees	9,072	9,330	1
606	- Reimbursement for Early Retirement	1,951		
3,266	Transfer Values In	2,936	3,266	
0	Other Income	8	0	
42,100	Sub-Total: Income	40,550	42,100	
	Benefits Payable:			
27,724	- Pensions	30,041	27,724	2
4,757	- Lump Sums: Retirement allowances	8,826	4,757	
535	- Lump Sums: Death grants	1,167	535	
	Payments to and on account of leavers:			
1	- Refunds of Contributions	1	1	
8,210	- Transfer Values Out	6,059	8,210	
1,021	Administrative and other expenses borne by the scheme	860	1,021	3
42,248	Sub-Total: Expenses	46,954	42,248	
(147)	Total Net additions (withdrawals) from Dealings with Scheme Members	(6,404)	(147)	
	<u>RETURNS ON INVESTMENTS</u>			

Pension Fund Accounts

11,800	Investment Income	11,280	11,800	4
40,118	Change in market value of investments (Realised and Unrealised)	11,052	40,243	
	Investment Expenses:			
(1,649)	- Fund Managers' Fees	(3,211)	(1,649)	
(739)	- Tax on Dividends	(514)	(739)	
(1,735)	- Other Direct Expenses		(1,735)	
47,795	Total Net Returns on Investments	18,607	47,920	
47,648	NET INCREASE / (DECREASE) IN THE FUND DURING THE PERIOD	12,203	47,773	
715,146	OPENING NET ASSETS OF THE SCHEME	762,794	715,146	
762,794	CLOSING NET ASSETS OF THE SCHEME	774,997	762,919	

Pension Fund Accounts
NET ASSETS STATEMENT

The Net Assets Statement shows the market value of the investments and other assets held by the Pension Fund as at 31 March 2012.

2010/11 Restated £'000s	<u>NET ASSETS STATEMENT AT 31 MARCH 2012</u>	31st March 2012 £000s	31st March 2011 £000s	Note
-	EQUITIES			5
36,454	Equities: UK	41,716	36,454	
282,468	Equities: Global	271,495	282,468	
318,922		313,211	318,922	
	MANAGED FUNDS			5
62,831	Property	66,993	62,831	
149,430	Equity	151,512	149,430	
82,110	Fixed Interest	88,581	82,110	
42,516	Index Linked	49,552	42,516	
93,217	Other Assets	96,245	93,342	
430,104		452,883	430,229	
13,332	CASH DEPOSITS	6,196	13,332	9
	DERIVATIVE CONTRACTS			7
203	Assets	4	203	
(249)	Liabilities	(21)	(249)	
	OTHER INVESTMENT BALANCES			8
3,333	Debtors: Investment Transactions	2,164	3,333	
(2,777)	Creditors: Investment Transactions	(1,174)	(2,777)	
762,868	TOTAL INVESTMENTS	773,263	762,993	
	NET CURRENT ASSETS AND LIABILITIES			
547	Debtors	489	547	8
(663)	Creditors	(2,273)	(663)	8
41	Cash in Hand	3,518	41	9
762,794	TOTAL NET ASSETS	774,997	762,919	

The Net Assets Statement does not take account of the liability to pay pensions or benefits after the period end. This liability is included within the Authority's balance sheet.

Pension Fund Accounts

NOTES TO THE PENSION FUND ACCOUNTS

1. CONTRIBUTIONS RECEIVABLE

<u>Employer Contributions</u>	2011/12 £000s	2010/11 £000s
Administering: Normal	22,752	24,344
Admitted: Normal	984	817
Scheduled	2,847	3,738
	26,583	28,899

<u>Employee Contributions</u>	2011/12 £000s	2010/11 £000s
Administering	7,448	8,241
Admitted	322	206
Scheduled	1,302	883
	9,072	9,330

<u>2. BENEFITS PAYABLE</u>	2011/12 £000s	2010/11 £000s
Administering	17,910	16,642
Admitted	192	174
Scheduled	730	745
Dependants Pensions	1,224	1,225
Pensions Increases	9,985	8,938
	30,041	27,724

<u>3. ADMINISTRATION COSTS</u>	2011/12 £000s	2010/11 £000s
Lewisham Administration	547	466
Advisory Costs Incl. Audit Fees	310	550
Bank Charges	3	5
	860	1,021

<u>4. INVESTMENT INCOME</u>	2011/12 £000s	2010/11 £000s
Cash	195	160
Equity	7,608	6,311
Fixed Interest	618	2,594
Managed Funds Incl. Property	2,067	2,535
Securities Lending	140	200
Other*	652	0
	11,280	11,800

* Includes Commodities, Hedge Fund, Venture Capital and Credit Mandates

Pension Fund Accounts

5. INVESTMENT ANALYSIS

The only (non UK Government) security forming over 5% of the portfolio is an investment in a UBS UK Equity Tracker pooled fund. This pooled fund is sufficiently diversified to ensure that overall exposure to a single UK security will not exceed 5%.

An analysis of investment movements is set out below:

Investments	Value at 31/03/2011 £000s	Purchases at Cost £000s	Sales Proceeds £000s	Change in Market Value £000s	Value at 31/03/2012 £000s
UK Equities	36,454	17,005	(9,064)	(2,679)	41,716
Global Equities	282,468	121,728	(130,245)	(2,456)	271,495
Equities	149,430	1,830	0	252	151,512
Property	62,831	12,517	(8,785)	430	66,993
Fixed Interest Securities	82,110	613	(3,855)	9,713	88,581
Index Linked Securities	42,516	0	(2,145)	9,181	49,552
Other*	93,217	8,496	(2,049)	(3,419)	96,245
Derivatives	(46)	0	0	29	(17)
	748,980	162,189	(156,143)	11,052	766,077
Cash deposits	13,332				6,196
Other Investment Balances	556				990
	762,868				773,263

The Pension Fund's bond investments are held with UBS in the form of pooled funds. The fund denoted Index Linked above is comprised wholly of UK Government index linked gilts. The remaining funds are comprised of various government and corporate bonds.

(The amounts in respect of derivative payments and receipts represent the cost at inception of the contract).

**EQUITY HOLDINGS
ANALYSIS**

	31 st March 2012		31 st March 2011	
	UK £000	Overseas £000	UK £000	Overseas £000
EQUITY				
Listed	41,716	271,495	36,454	282,468
Unlisted	0	0	0	0
	41,716	271,495	36,454	282,468
TOTAL EQUITY		313,211		318,922

Pension Fund Accounts				
EQUITY MANAGED FUNDS	UK	Overseas	UK	Overseas
*Unit Trust Equities	151,512	0	149,430	0
TOTAL EQUITY MANAGED FUNDS		151,512		149,430
TOTAL EQUITY INVESTMENTS		464,723		468,352

FINANCIAL INSTRUMENTS

The following categories of financial instruments are carried in the Net Asset Statement

2011/12		2010/2011
£'000		£'000
(794)	Loans and receivables	441
766,094	Available-for-sale financial assets	749,026
4	Financial assets at fair value through profit or loss	61
(21)	Financial liabilities at fair value through profit or loss	(107)
9,714	Cash	13,373
774,997		762,794

FINANCIAL RISK MANAGEMENT

As an investment fund, the Lewisham Pension Fund's objective is to generate positive investment returns for a given level of risk. Therefore the Fund holds financial instruments such as securities (equities, bonds), collective investment schemes (pooled funds), and cash equivalents. In addition, debtors and creditors arise as a result of its operations. The value of these financial instruments is reflected in the financial statements at their fair value.

The main risks from the Fund's holding of financial instruments are market risk, credit risk and liquidity risk.

Market risk includes price risk, interest rate risk and currency risk. The Fund's investments are managed on behalf of the Fund by the appointed investment managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus. The Lewisham Pension Investment Committee (PIC) has determined that the

Pension Fund Accounts

investment management structure is appropriate and is in accordance with its investment strategy. The Committee regularly monitors each investment manager, and its investment consultant (Hymans) advises on the nature of the investments made and associated risks.

The Fund's investments are held by Northern Trust, who act as custodian on behalf of the Fund. As the Fund adopts a long term investment strategy, the high level risks described below will not alter significantly during any one year unless there are significant strategic or tactical changes to the portfolio.

i) Market Risk

Market risk represents the risk that fair value of a financial instrument will fluctuate because of changes in market prices, interest rates or currencies. The Fund is exposed, through its investments in equities, bonds and investment funds, to all these market risks. The aim of the investment strategy is to manage and control market risk within acceptable parameters while optimising the return from the investment portfolio. In general, market risk is managed through the diversification of the investments held by asset class, investment mandate guidelines and investment managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the PIC.

a) Market Price Risk

Market price risk represents the risk that the value of a financial instrument will fluctuate as a result of factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting the market in general. Market price risk arises from uncertainty about the future value of the financial instruments that the Fund holds. All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The investment managers mitigate this risk through diversification in line with their own investment strategies and mandate guidelines. The Council and its investment advisors also undertake appropriate monitoring of market conditions and benchmark analysis. The Fund has a long term view on expected investment returns which smooths out short term price volatility.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's advisors, the council has determined that the following movements in market price risk are reasonably possible for the 2012/13 reporting period.

Asset Type	Potential Market Movement +/- (%p.a.)
UK Equities	14.6
Overseas Equities	17.0
UK Bonds	5.6
Index Linked	6.9
Cash	0.1
Property	8.0

Pension Fund Accounts

The potential volatilities are broadly consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix as follows:

Asset Type	Final Market Value £'000	Percentage Change	Value on Increase £'000	Value on Decrease £'000
UK Equities	193,228	14.6	221,441	165,018
Overseas Equities	271,495	17.0	317,650	225,342
UK Bonds	88,581	5.6	93,542	83,620
Index Linked	49,552	6.9	52,971	46,133
Cash	6,196	0.1	6,203	6,190
Other Assets	96,245	9.0	104,906	87,582
Property	66,993	8.0	72,352	61,633
Total Assets*	772,290		869,065	675,518

* This figure excludes derivatives and other investment balances.

b) Interest Rate Risk is the risk to which the Pension Fund is exposed to changes in interest rates and relates to its holdings in bonds and cash. Based on interest received on bonds held on a segregated basis and cash held by investment managers, a 1% change in the interest rate would result in an approximate change in income of £68,146.

c) Currency Risk is the risk to which the Pension Fund is exposed to fluctuations in foreign currency exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The global equity managers Alliance Bernstein and RCM are instructed to operate a half currency hedge to mitigate the effect on returns of appreciation or depreciation of sterling against the local currencies of assets held. In practice, this is achieved by the use of futures and forward foreign exchange contracts, which entitle and oblige the seller and holder to exchange assets or currency on a future date at a predetermined price or rate. The former are tradable on exchanges, the latter are "over the counter" agreements, which neither the purchaser or the seller may transfer. As at

31 March 2012, forward foreign exchange contracts were the only derivative contracts held. There is no cost on entering into these contracts but the market value is established as the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date.

Following analysis of historical data in consultation with the Fund's advisors, the council considers the likely volatility associated with foreign exchange rate movements to be 10.6%.

Pension Fund Accounts

This volatility is applied to the fund's overseas assets as follows:

Asset Type	Asset Value @ 31/12/12 £'000	+10.6% £'000	-10.6% £'000
Overseas Equities	271,496	300,148	242,844
Other Assets	64,344	71,134	57,553
Total	335,840	371,282	300,397

ii) Credit Risk Credit risk represents the risk that the counterparty to a financial instrument will fail to meet an obligation and cause the Fund to incur a financial loss. This is often referred to as counterparty risk. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities. The Fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection of and monitoring of counterparties including brokers, custodian and investment managers minimises credit risk that may occur through the failure to settle transactions in a timely manner.

The Pension Fund is exposed to credit risk through Securities Lending and Forward Currency Contracts. The Securities Lending programme is run by the Fund's custodian Northern Trust who assign four different risk management oversight committees to control counterparty risk, collateral risk and the overall securities lending programme. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending on the type of transaction. To further mitigate risks, the collateral held on behalf of the Pension Fund is ring fenced from Northern Trust. Securities lending is capped by investment regulations and statutory limits are in place to ensure no more than 25% of eligible assets can be on loan at any one time.

Forward Currency Contracts are with Alliance and Bernstein and RCM who operate a half currency hedge to mitigate the effect on returns of appreciation or depreciation of sterling against the local currencies of assets held. The Fund manages its risk by monitoring the credit quality and financial position of its fund managers. The investment managers' research process for selecting and monitoring securities or funds for investment mitigates the risk of fraud.

The Financing Fund is also exposed to credit risk. The fund gains exposure by investing in private placements. This risk is managed by assigning a credit analyst to all investments, who continually monitors the asset, its direct peers and its sector.

iii) Liquidity Risk – This is the risk that the Pension Fund will have difficulties in paying its financial obligations. The fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2012 these assets totalled approximately £604m, with a further £6.2m held in cash by fund managers.

Pension Fund Accounts

6. PRIOR YEAR ADJUSTMENT

Some Private Equities held with Harbourvest were previously included in the accounts at mid value of instead of bid value. These assets have been restated at bid value in 2010/11 resulting in a reduction in value of £125k as at 31st March 2011.

The Council makes a cash re-imburement to the fund as a contribution towards early retirement benefits paid during the year. In 2010/11, this was included in the Employer Contributions, but has now been restated as a separate item in the accounts. This totalled £606k in 2010/11.

7. DERIVATIVE CONTRACTS

The global equity managers Alliance Bernstein and RCM are instructed to operate a half currency hedge to mitigate the effect on returns of appreciation or depreciation of Sterling against the local currencies of assets held. This is achieved by the use of futures and forward foreign exchange contracts, which entitle and oblige the seller and holder to exchange assets or currency on a future date at a predetermined price or rate. The former are tradable on exchanges, the latter are "over the counter" agreements, which neither the purchaser or the seller may transfer.

At 31 March 2012, forward foreign exchange contracts were the only derivative contracts held. Forward foreign exchange contracts are disclosed in the accounts at market value which is the gain or loss that would arise from closing out the contract at the balance sheet date by entering into an equal and opposite contract at that date.

Foreign Exchange Gains	
Total Gains	4
Foreign Exchange Losses	
Total Losses	(21)
Total Unrealised Gains/(Losses)	(17)

8. DEBTORS & CREDITORS

These comprise the following amounts:

Debtors	2011/12 £000s	2010/11 £000s
Contributions due from Admitted / Scheduled Bodies	489	547
Equity Dividends / Income from Managed Funds	484	483
Interest and Other Income	0	151
Pending Trades	1,680	2,699
	2,653	3,880
Creditors	2011/12 £000s	2010/11 £000s

Pension Fund Accounts		
Fund Manager and Custody Fees	(516)	(662)
Consultancy / Advisory Fees (Incl Audit Fee)	(27)	0
Pension Payments Due to Employees	(167)	0
Taxes Due	0	0
Pending Trades	(1,174)	(2,777)
LB Lewisham	(1,563)	0
	<u>(3,447)</u>	<u>(3,439)</u>

The pending trades relate to purchases and sales by managers which have yet to be the subject of cash settlement. Pending trade sales and purchases at the year end are treated as investment debtors and creditors.

9. CASH DEPOSITS

The Northern Trust Company is the fund global custodian and the cash is held in an interest bearing account to meet the cash flow requirements of our fund managers. The total cash held for this purpose as at 31st March 2012 was £6.19m. Approximately £1.72m of this cash was held for Schroders, £0.8m for Alliance Bernstein and £3.35m for RCM. The Lewisham cash balance represents Pension Fund contributions held in the Pension Fund bank account as at 31st March 2012.

Cash in Hand

The increase in the cash in hand figure from 2010/11 to 2011/12 is mainly due to the Fund operating its own bank account, which necessitates the availability of cash. The cash in hand figure includes a figure of £1.5m owed by the Fund to the council for items described in note 13b below.

10. TRANSACTION COSTS

The following direct costs were incurred in relation to individual investment transactions:

	2011/12 £000s	2010/11 £000s
Total Purchases	130	167
Total Sales	138	239
Total transactions	<u>268</u>	<u>406</u>

11. POST YEAR END EVENTS

A restructure of the Fund's investment portfolio will take place in 2012/13. The Fund will move from being actively managed to being passively managed. This will result in the change of some fund managers.

Since March 2012, there has been a marked decline in the global stock markets which would impact upon the market value of the fund's investments were they to be valued as at the date these accounts were prepared.

These changes are deemed to be non-adjusting post balance sheet events. There have been no events since March 2012, and up to the date when these accounts were prepared, that require any adjustment to these accounts.

Pension Fund Accounts

12. COMMITMENTS

The Pension Fund was committed to the following capital contributions as at the 31st March 2012:

Harbourvest

HarbourVest Partners VIII – Venture Fund £1,632,029

HarbourVest Partners VIII – Buyout Fund £4,189,394

HarbourVest International Private Equity Partners V – Partnership Fund £3,355,240

HarbourVest International Private Equity Partners V – Direct Fund £215,694

Total HarbourVest Commitments - £9,392,357

M&G - £9,107,145

13. RELATED PARTY TRANSACTIONS

There have been no material transactions with related parties in the financial year. There were no provisions for doubtful debt and amounts written off in the period.

Eight Councillors sit on the Pensions Investment Committee which oversees the Fund. Five Councillors of this Committee are members of the pension scheme. At each meeting of the Pensions Investment Committee Councillors are asked to make declarations of interest which are minuted at the meeting. During the year no trustees or Council chief officers with direct responsibility for pension fund issues have undertaken any declarable transactions with the Pension Fund.

The Council, the administering body, had the dealings with the Fund as follows:

- a) Recharges from the Council for the in-house administration costs and other expenses borne by the scheme were transacted for £547k (see note 3).
- b) Some cash transactions relating to pension activities are currently effected through the Council's bank account and consequently pension fund cash

balances are held by the Council from time to time and vice versa. Any interest receivable/payable on such balances is paid to/from the Pension Fund annually at an interest rate equating to that earned by the Council on temporary investments.

14. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Contributing members have the right to make additional voluntary contributions (AVCs) to enhance their pension. The fund has two AVC providers: Clerical Medical and Equitable Life. The value of AVC investments is shown below, the contributions are held by the providers and do not form part of the Lewisham fund's assets.

Pension Fund Accounts

	£000s
Value at 1 April 2011	1,441
Contributions and Transfers Received	248
Investment Return	52
Paid Out	222
Value at 31 March 2012	1,519

16. SCHEDULED BODIES

The following are scheduled bodies to the fund:

Christ The King Sixth Form College
 Haberdashers' Aske's Knights Academy
 Lewisham Homes
 St Matthew Academy

17. ADMITTED BODIES

The following are admitted bodies to the fund:

National Car Parks Ltd
 Excalibur Tenant Management Project
 PLUS
 Housing 21
 Lewisham Nexus Services
 Lewisham Way Youth and Community
 Centre
 SAGE Educational Trust
 CIS Securities
 Wide Horizons
 Phoenix
 INSPACE
 T Brown & Sons
 Quality Heating
 Blenheim CDP
 RSM Tenon formerly RSM Bentley
 Jennison
 Broomleigh Housing Association
 Penrose
 Skanska
 One Housing
 Fusions Leisure Management
 3 C's Support

18. STOCK LENDING

The Statement of Investment Principles permits the Fund to enter into stock lending (whereby the Fund lends other bodies stocks in return for a fee and collateral whilst on loan). The council entered into stock lending transactions during the financial year

Pension Fund Accounts

earning £0.14million net of direct expenses. At the balance sheet date the value of aggregate stock on loan was £25.5m and the value of collateral held was £27.2m.

19. MEMBERSHIP

	Employees		Deferred Beneficiaries		Retired Former Employees	
	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11
Administering Authority Scheduled Bodies Admitted Bodies	5,035	5,436	6,958	6,694	6,448	6,201
	666	642	243	194	39	91
	162	128	66	51	106	35
	5,863	6,206	7,267	6,939	6,593	6,327

Agenda Item 5

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Investment Performance for the quarter end 31 March 2012		
KEY DECISION	No	Item No	5
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	Date:	13 June 2012

1. Summary

- 1.1 This report sets out the performance of the Pension Fund investment portfolio and that of the individual managers for the quarter ended 31 March 2012.
- 1.2 The report comprises the following sections:
 2. Recommendation
 3. Background
 4. Portfolio Summary
 5. Conclusions
 6. Financial Implications
 7. Legal Implications
 8. Crime and disorder implications
 9. Equalities Implications
 10. Environmental Implications

2. Recommendation

It is recommended that the Pensions Investment Committee note the contents of the report.

3. Background

- 3.1 The existing management arrangements for the Pension Fund investment portfolio have been operational for approximately four years and this report sets out the performance for the quarter ended 31 March 2012 and since inception, as provided by the Fund's investment advisors Hymans Robertson.
- 3.2 The full report and performance commentary will be provided at the meeting by the investment advisors.

4. Portfolio Summary

- 4.1 The Pensions Fund had an overall market value of £773.2m for the quarter ended 31 March 2012. The Fund's value has increased by £23.1m over the quarter, with the Fund's equity managers posting large positive absolute returns. The Fund has out performed its benchmark, returning 5.2%, relative to the benchmark return of 5.0%.
- 4.2 The Fund currently employs nine specialist managers with mandates corresponding to the principal asset classes. The managers and the associated performance targets are as set out below in Table 1.

Table 1 – Portfolio Summary

Manager	Mandate	Asset Value 2011/12 £m	Asset Value 2010/11 £m	Proportion of the Fund 2011/12 %
Alliance Bernstein	Global Equities	165.8	177.4	21.4
Fauchier	Hedge Fund	21.1	22.1	2.7
Harbourvest	Venture Capital	31.2	30.0	4.0
Investec	Commodities	37.6	40.1	4.8
M&G	UK Financing Fund	10.8	5.3	1.4
RCM	Global Equities	171.3	169.1	22.1
Schroders Property	Property	70.0	68.4	9.0
UBS UK Equity	UK Tracker Fund	127.7	125.7	16.5
UBS (Bonds)	Fixed Interest	137.7	124.7	17.8
Total Fund		773.2	762.8	100

- 4.3 Members of the Pensions Investment Committee have approved the move to a more passive investment strategy. This will fundamentally change the balance of the Council's Pension Fund, and further details have been set out in a report elsewhere on this agenda.
- 4.5 The performance of the individual managers relative to the appropriate benchmarks is as set out in Table 2. This indicates the volatility of returns and the continuing mixed performance of all mandates.

Table 2: Managers Performance Relative to Target

Manager	Quarter Ended 31 March 2012	Year Ended 31 March 2012	Since Inception
Alliance Bernstein	0.2%	-4.2%	-2.2%
Fauchier	-0.7%	-8.7%	-5.6%
Harbourvest	-9.8%	-2.1%	0.3%
Investec	4.2%	11.8%	1.5%
M&G	-0.7%	1.3%	1.1%
RCM	2.3%	5.3%	-1.4%
Schroders Property	-1.1%	-1.4%	-0.9%
UBS (Equity)	0.0%	0.1%	0.2%
UBS (Bonds)	0.3%	-0.7%	1.4%

4.6 The performance of individual managers will be analysed and appraised by the Council's Investment Advisor, Hymans Robertson, at the meeting.

5. Conclusion

5.1 All managers, with the exception of the equity and commodities mandates, continue to under-perform.

6. Financial Implications

6.1 The comments of the Executive Director for Resources & Regeneration have been incorporated into the report.

7. Legal Implications

7.1 As the administering authority for the Fund, the Council must review the performance of the Fund's investments at regular intervals and review the investments made by Fund Managers quarterly.

7.2 The Pension Regulations require that the Council has regard to the proper advice of its expert independent advisers in relation to decisions affecting the Pension Fund. They must also have regard to the separate advice of the Chief Financial Officer who has statutory responsibility to ensure the proper administration of the Council's financial affairs, including the administration of the Pension Fund.

8. Crime and Disorder Implications

8.1 There are no crime and disorder implications directly arising from this report.

9. Equalities Implications

9.1 There are no equalities implications directly arising from this report.

10. Environmental Implications

10.1 There are no environmental implications directly arising from this report.

Background Papers

None

If there are any queries on this report or you require further information, please contact Selwyn Thompson, Group Manager Budget Strategy on 020 8314 6932.

London Borough of Lewisham Pension Fund

Review of Investment Managers' Performance for First Quarter of 2012

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➤ Prepared By:
Scott Donaldson - Partner
Albert Chen - Investment Analyst

For and on behalf of Hymans Robertson LLP
May 2012

Real people. Real skills. Real results.

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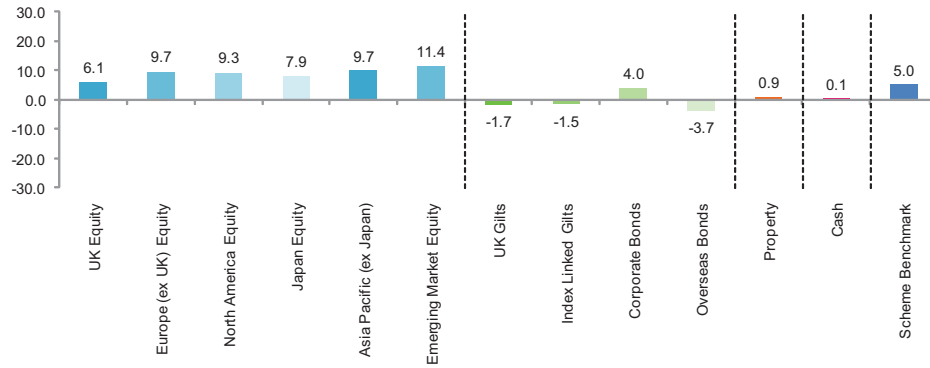
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Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

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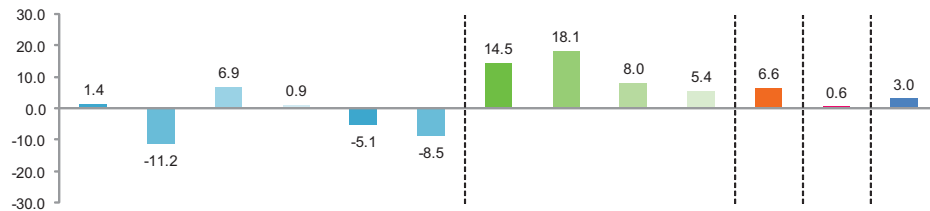
Historic Returns for World Markets to 31 March 2012

3 Months (%)

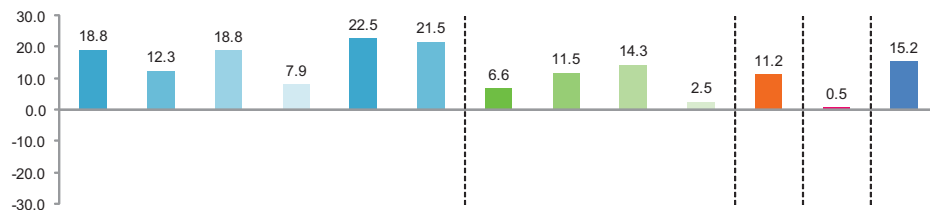


12 Months (%)

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3 Years (% p.a.)



Historic Returns - Comment

Equity markets performed well during the first quarter of 2012, adding to the gains made over the closing months of 2011. Investor sentiment was mildly optimistic and it is interesting to reflect on the reasons for this. The United States is a good first 'port of call'. The economy is expanding, unemployment is falling and policy makers have made some optimistic comments in their public pronouncements. In Europe, the immediate sense of crisis in the Eurozone passed, as Greece secured a second bailout (€130bn) after prolonged and intense negotiations. In addition, there were indications of some stability in the global banking sector.

Notwithstanding the more positive tone in markets, central bankers warned of continuing downside risks to the global economic outlook. If events prove them to be correct, the current regime of loose monetary policy and record low interest rates is likely to persist throughout 2012 and well into 2013. Many commentators made the point that the European debt crisis is not so much resolved as deferred, as further remedial action will be required.

In the UK, the downward revision to economic growth during the final quarter of 2011, announced in late March 2012, highlighted the challenges faced by the government and provided ammunition to critics of the coalition's austerity measures.

Key events during the quarter:

Global Economy

- UK and European central banks provided further liquidity to money markets.
- Moody's and Fitch placed the UK's top credit rating on negative outlook.
- Short-term interest rates were unchanged in the UK, US and Eurozone.
- Chinese economic growth slowed on weaker demand from overseas markets.
- The price of oil rose to record levels on concerns over possible supply interruptions.
- The US was the only 'major' to report growth during Q4 2011; all others (UK, Eurozone and Japan) contracted.

Equities

- US Dow Jones Industrial Average index moved above 13,000 for first time since May 2008.
- The strongest sectors relative to the 'All World' Index were Technology (+7.9%) and Financials (+4.7%); the weakest were Telecoms (-8.3%) and Utilities (-7.8%).

Bonds

- Long bond yields in 'secure' government markets rose from record lows, reflecting investors' tentative move from 'risk free' assets.
- Corporate issues (in aggregate) outperformed government bonds.

The legacy of the financial crisis remains a legitimate concern and still has the capacity to deliver 'shocks' to the system. The economic outlook is, at best, uncertain, and policy makers have a fine line to tread between 'austerity' and expansionary measures.



Portfolio Summary

Valuation Summary

Asset Class	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q4 2011	Q1 2012			
Global Equity	435.0	464.7	60.1	60.0	0.1
Bonds	144.4	137.7	17.8	16.0	1.8
Property	72.2	70.0	9.1	10.0	-0.9
Hedge Fund of Funds	20.8	21.1	2.7	3.0	-0.3
Private Equity	31.9	31.2	4.0	3.0	1.0
UK Financing Fund	9.1	10.8	1.4	3.0	-1.6
Commodities	36.8	37.6	4.9	5.0	-0.1
Total Client	750.1	773.2	100.0	100.0	

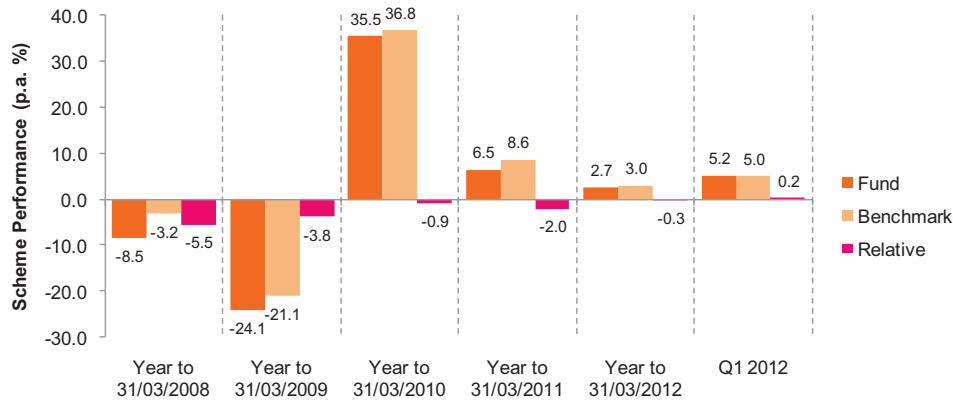
Comments

The Fund's portfolio value increased by £23.1m over the quarter, with the Fund's equity managers posting large positive absolute returns.

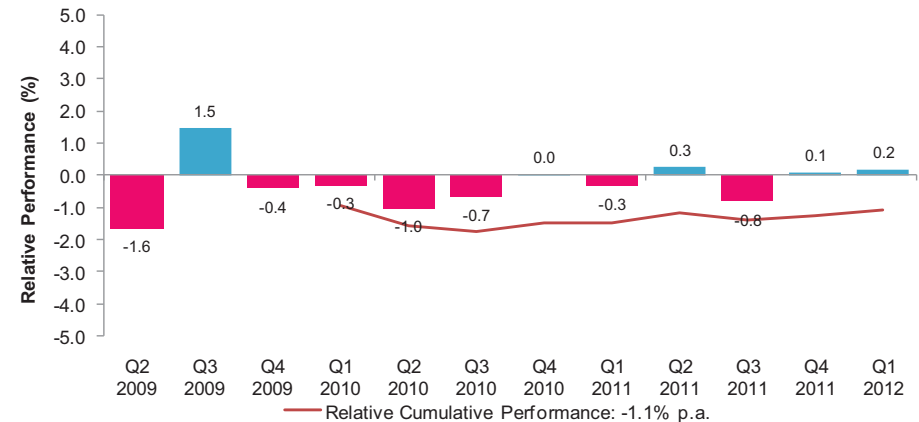
The Fund outperformed its benchmark, returning 5.2%, relative to the benchmark return of 5.0%.

Relative performance from the Fund's active managers was mixed, with the RCM global equity mandate outperforming, and the greatest contributor to relative Fund performance for the period. In contrast, the HarbourVest mandate, which underperformed its benchmark, was the biggest detractor to relative performance.

Performance Summary [i]



Relative Quarterly and Relative Cumulative Performance

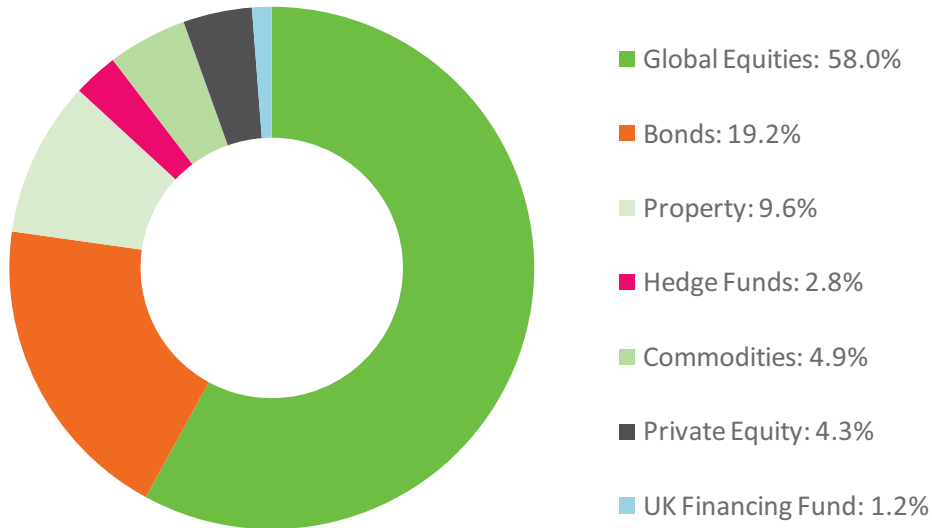


Source: [i] DataStream, Fund Manager, Hymans Robertson

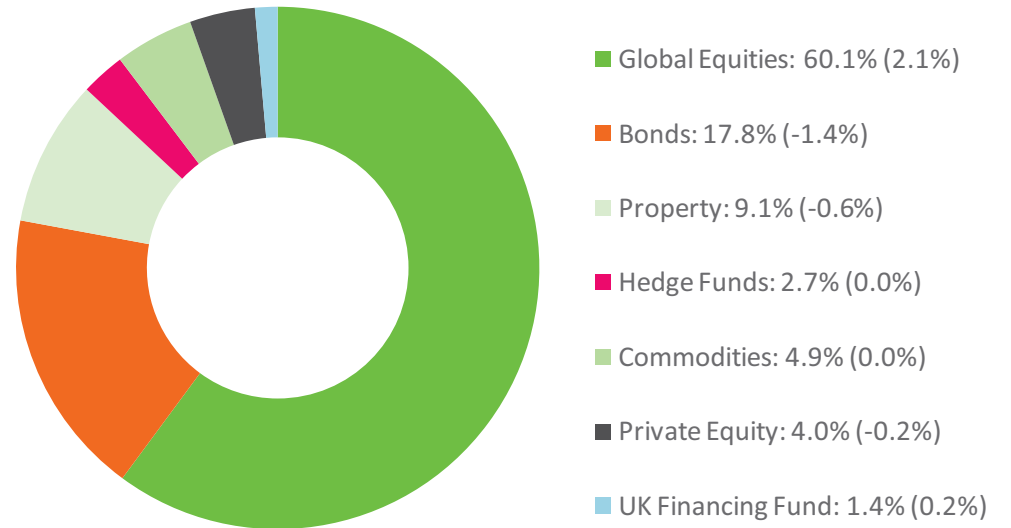


Fund Asset Allocation

Asset allocation as at 31 December 2011



Asset allocation as at 31 March 2012



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Comments ^[i]

The rebound in equity markets over the period has reduced the Fund's underweight position in Global Equities from -2.0% as at the end of Q4 2012 to a marginally overweight position of +0.1%, largely in line with the target allocation of 60%.

At an overall level, the asset allocation is broadly in line with benchmark, with relatively minor deviations from benchmark weight at individual asset class level.

Source: [i] Fund Manager, Hymans Robertson



Manager Summary

Manager Valuations

Manager	Value (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q4 2011	Q1 2012			
Alliance Bernstein - Global Equity	155.3	165.8	21.4	22.0	-0.6
RCM - Global Equity	159.3	171.2	22.1	22.0	0.1
UBS - UK Equity (Index)	120.4	127.7	16.5	16.0	0.5
UBS - Fixed Interest	144.4	137.7	17.8	16.0	1.8
Schroders - Property	72.2	70.0	9.1	10.0	-0.9
Fauchier - Hedge Fund of Funds	20.8	21.1	2.7	3.0	-0.3
Investec - Commodities	36.8	37.6	4.9	5.0	-0.1
Harbourvest - Venture Capital	31.9	31.2	4.0	3.0	1.0
M&G - UK Companies Financing Fund	9.1	10.8	1.4	3.0	-1.6
Total	750.1	773.2	100.0	100.0	0.0

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Manager Summary

Manager	Date Appointed	Benchmark Description	Performance Target (% p.a.)	Rating *
Alliance Bernstein - Global Equity	01 Nov 2004	MSCI All Country World Index	1.5% p.a. above benchmark	
RCM - Global Equity	19 Dec 2008	MSCI All Country World Index	1.5% p.a. above benchmark	
UBS - UK Equity (Index)	27 Feb 2008	FTSE All Share	-	
UBS - Fixed Interest	31 Oct 2004	Composite Bond Index	1.1% p.a. above benchmark	
Schroders - Property	12 Oct 2004	IPD Pooled Property Fund Index	-	
Fauchier - Hedge Fund of Funds	28 Jun 2008	LIBOR + 5% p.a.	-	
Investec - Commodities	25 Feb 2010	Dow Jones-UBS Commodities Total Return Index	-	
Harbourvest - Venture Capital	29 Jun 2006	MSCI All Country World Developed Index	5% p.a. above benchmark	
M&G - UK Companies Financing Fund	01 May 2010	LIBOR	4-6% p.a. above benchmark	

* For information on our manager ratings, see individual manager pages

Key:- - Replace - On-Watch - Retain



Performance Summary - Managers

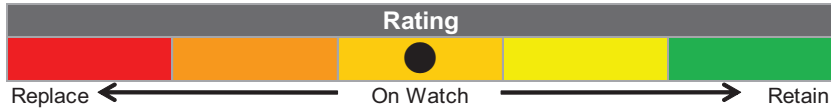
Performance Summary ^[i]

		Alliance Bernstein - Global Equity	RCM - Global Equity	UBS - UK Equity (Index)	UBS - Fixed Interest	Schroders - Property	Fauchier - Hedge Fund of Funds	Investec - Commodities	Harbourvest - Venture Capital	M&G - UK Companies Financing Fund	Total Fund
3 Months (%)	Absolute	9.0	11.4	6.1	-0.4	-0.2	2.2	2.2	-2.0	-0.5	5.2
	Benchmark	8.8	8.8	6.1	-0.7	0.9	1.5	-1.9	8.7	0.2	5.0
	Relative	0.2	2.3	0.0	0.3	-1.1	0.7	4.2	-9.8	-0.7	0.2
12 Months (%)	Absolute	-4.6	4.8	1.5	15.5	4.0	-3.4	-6.1	-0.7	2.1	2.7
	Benchmark	-0.4	-0.4	1.4	16.4	5.5	5.8	-16.0	1.5	0.8	3.0
	Relative	-4.2	5.3	0.1	-0.7	-1.4	-8.7	11.8	-2.1	1.3	-0.3
3 Years (% p.a.)	Absolute	15.6	15.1	18.9	15.8	4.3	3.3	N/A	-2.2	N/A	14.0
	Benchmark	17.3	17.3	18.8	11.9	9.5	5.2	N/A	16.6	N/A	15.2
	Relative	-1.5	-1.9	0.1	3.4	-4.7	-1.8	N/A	-16.1	N/A	-1.1
Since Inception (% p.a.)	Absolute	5.4	10.6	3.8	11.0	2.2	0.2	2.4	4.5	1.8	7.1
	Benchmark	7.9	12.2	3.6	9.5	3.1	6.1	0.8	4.2	0.7	7.5
	Relative	-2.2	-1.4	0.2	1.4	-0.9	-5.6	1.5	0.3	1.1	-0.4



Alliance Bernstein - Global Equity

HR View Comment & Rating



Alliance Bernstein has announced some changes to the global value team over the quarter. Various senior members of the team have changed their roles/positions. The changes are intended to strengthen the Investment Policy Group Cross-Border Team (which is responsible for making stock selection decisions) on the value side of the business and we view this as a 'freshening up' of the team and are supportive of these changes.

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Performance Summary - Comment

Alliance Bernstein outperformed their benchmark during Q1 2012, with the mandate returning 9.0% against the benchmark return of 8.8%.

The manager's holdings in financials benefited following the ECB's injections of liquidity into the European Banking system. Positions in the auto sector, including Renault and parts supplier Magna International, also did well as investors saw encouraging US economic releases indicating the potential for US auto sales to recover.

Holdings in more defensive areas lagged the market as investors rotated into more cyclical areas. In the portfolio, telecom holdings Vodafone and NTT, and medical holdings, Astra Zeneca and Pfizer, underperformed.

As at the end of the quarter, the portfolio's largest overweight sectors relative to benchmark were in financials and energy, whilst the largest underweight sectors were construction and consumer staples. The manager's outlooks for these sectors are broadly unchanged from the prior quarter.

Performance Summary to 31 December 2011 ^[i]

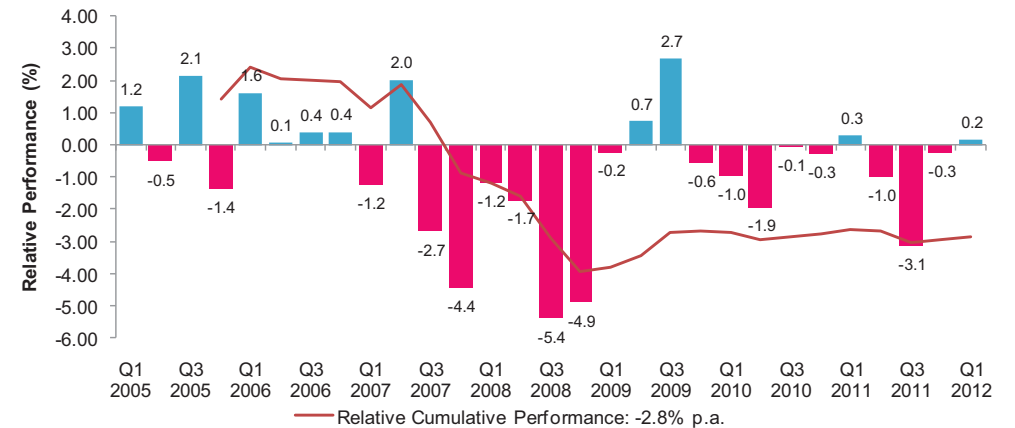
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	9.0	-4.6	15.6	5.4
Benchmark	8.8	-0.4	17.3	7.9
Relative	0.2	-4.2	-1.5	-2.2

* Inception date 01 Nov 2004.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-1.5	1.5

Relative Quarterly and Relative Cumulative Performance ^[ii]

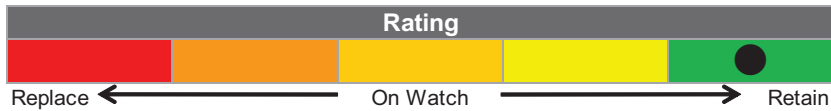


Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Hymans Robertson



RCM - Global Equity

HR View Comment & Rating



There were no significant business updates during the quarter to report.

Performance Summary to 31 December 2011 ^[i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	11.4	4.8	15.1	N/A
Benchmark	8.8	-0.4	17.3	N/A
Relative	2.3	5.3	-1.9	N/A

* Inception date 18 Sep 2008.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-1.9	1.5

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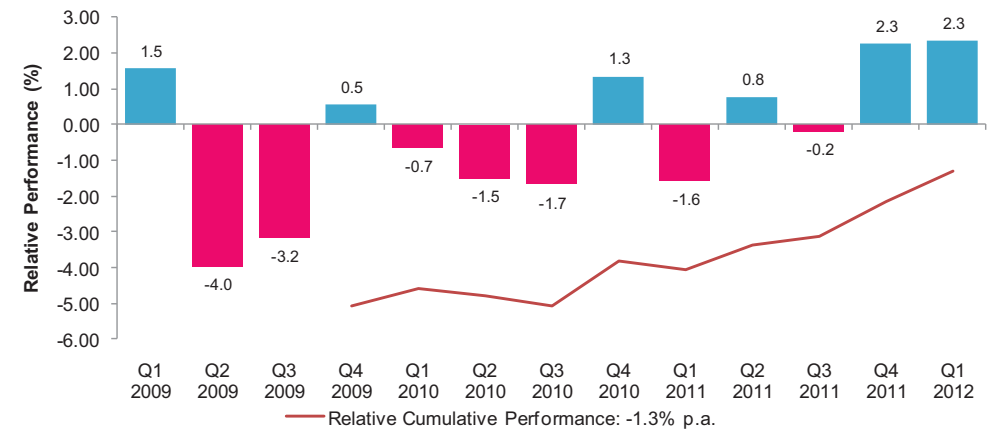
Performance Summary - Comment

Over the quarter, RCM achieved a portfolio return of 11.4%, ahead of the benchmark return of 8.8%.

Stock selection in consumer discretionary and consumer staples sectors contributed to outperformance as did the portfolio's overweight position in IT. Priceline.com was the top contributor to performance as the company announced positive results for Q4 2011 and raised guidance for Q1 2012. The manager continues to believe there is further upside in the stock based on the visibility of earnings and the attractiveness of the online hotel-booking business model.

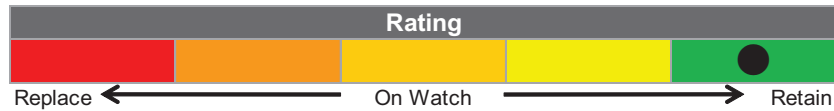
The manager's underweight positioning in financials detracted from performance as the sector rallied during the quarter. The manager continues to have concerns about European banks' vulnerability to an extended period of sub-par economic growth from the Eurozone.

Relative Quarterly and Relative Cumulative Performance



UBS - UK Equity

HR View Comment & Rating



There were no significant business updates during the quarter to report.

Performance Summary to 31 December 2011 ^[i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	6.1	1.5	18.9	3.8
Benchmark	6.1	1.4	18.8	3.6
Relative	-0.0	0.1	0.1	0.2

* Inception date 27 Feb 2008.

3 Year Relative Return

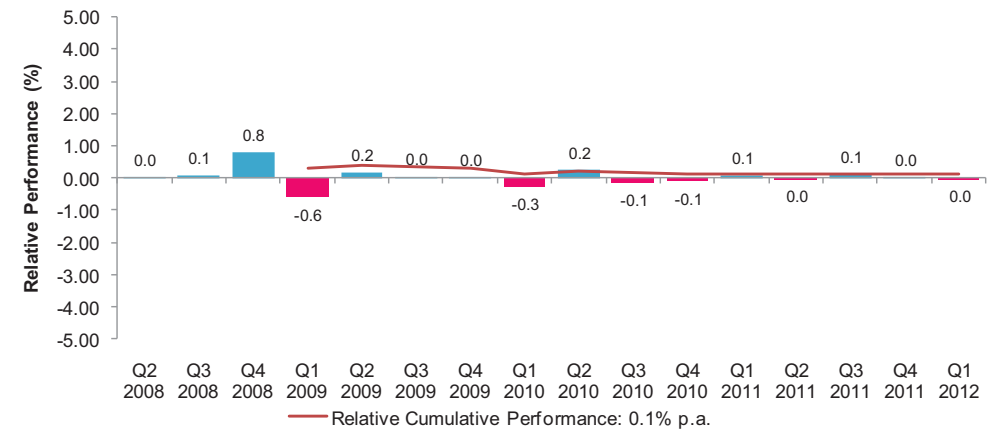
Actual % p.a.	Target % p.a.
0.1	0.0

Performance Summary - Comment

UBS succeeded in closely matching benchmark performance over the quarter, as would be expected of a passive manager.

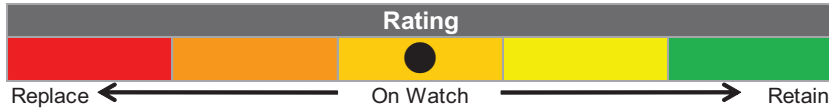
The strongest sector performers (relative to the FTSE All Share index) during the quarter were Industrials and Financials, while Health Care and Oil & Gas were the weakest.

Relative Quarterly and Relative Cumulative Performance



UBS- Fixed Interest

HR View Comment & Rating



We have not rated UBS positively for Fixed Income capabilities for some time. This is no reflection of the investment individuals but rather a reflection of the firm's loss of confidence in its bond team during the events of 2008/2009, and further personnel instability since then. Earlier this month it was announced that Alix Stewart, Senior Portfolio Manager of the UK Fixed Income team, had resigned to join another asset management firm. Jonathan Gregory, a senior member of UBS' London team is assuming additional responsibility for UK Fixed Income portfolios with immediate effect. This news has no bearing on the planned move of a proportion of the Fund's bond assets to passive management with UBS.

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Performance Summary - Comment

The UBS fixed interest mandate outperformed its benchmark over the quarter, returning -0.4% versus the benchmark return of -0.7%. The mandate is behind benchmark over the past year, but remains ahead over the longer term performance period of 3 years.

Outperformance for the quarter was largely attributable to the positive relative performance of the corporate bonds allocation within the mandate. Within this part of the mandate, active credit management and the manager's overweight to financials, largely in insurers, both contributed to positive performance over the period, outweighing the small negative contribution from active currency positioning. In the Long-Dated Corporate Bond Fund, the manager has reduced the portfolio duration to adopt an underweight UK duration position relative to benchmark, and has reduced UK currency exposure in favour of the US dollar, Japanese Yen, and the Norwegian and Swedish Krone.

Performance Summary to 31 December 2011 ^[i]

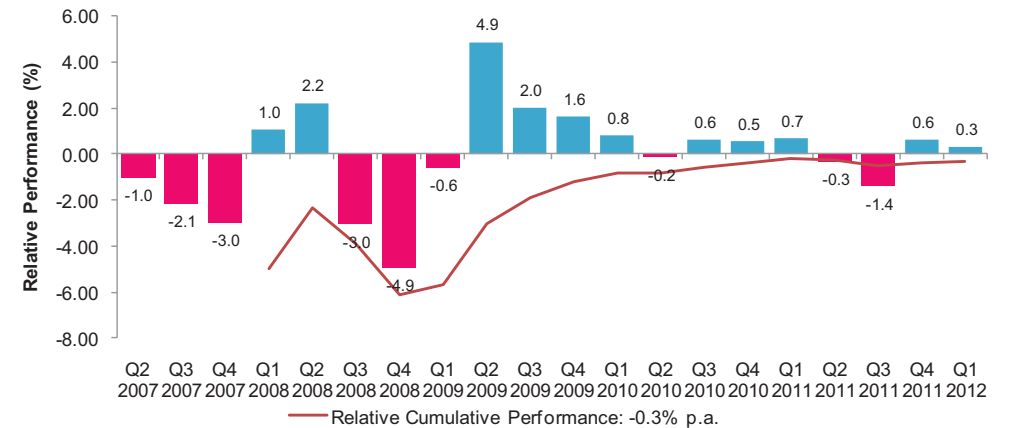
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-0.4	15.5	15.8	11.0
Benchmark	-0.7	16.4	11.9	9.5
Relative	0.3	-0.7	3.4	1.4

* Inception date 31 Oct 2004.

3 Year Relative Return

Actual % p.a.	Target % p.a.
3.4	1.1

Relative Quarterly and Relative Cumulative Performance

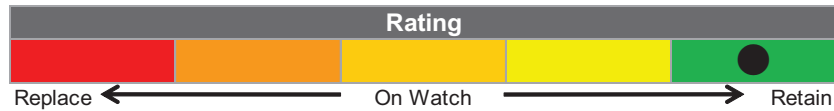


Source: [i] DataStream, Fund Manager, Hymans Robertson



Schroders - Property

HR View Comment & Rating



As previously flagged, following Schroders' appointment as manager to the Invista Foundation Property Trust and the Equitable Life Assurance Society (ELAS), Duncan Owen and seven others joined the Schroders property team from Invista in January 2012. Owen, previously the CEO of Invista Real Estate Investment Management (IREIM), has joined as Head of Property Funds reporting to William Hill, Head of Property. The Invista Foundation Property Trust, a listed property investment company, was renamed the Schroder Real Estate Investment Trust (SREI) in March 2012.

Performance Summary - Comment

The portfolio underperformed its benchmark over the quarter, returning -0.2% against the benchmark return of 0.9%.

The uncertainty in the economic outlook has continued to result in subdued property returns over recent quarters. Within the portfolio, underperformance over the quarter was again attributable to the portfolio's continental European holdings, with the decline in the value of the Euro vs the pound over the quarter a significant factor. This was offset to some extent by positive contributions from the manager's overweight to the central London office market and recent additions of income focussed strategies to the portfolio.

Looking ahead, the manager anticipates that the mandate's European holdings will continue to contribute to quarter-on-quarter return volatility. At the present time the ability to exit these investments is limited on anything other than distressed terms. Within the UK, the manager sees small windows of opportunity in niche sub-markets in Retail, notably in the Convenience sector, which is seeing above average sales growth on demographic and social trends.

Performance Summary to 31 December 2011 ^[i]

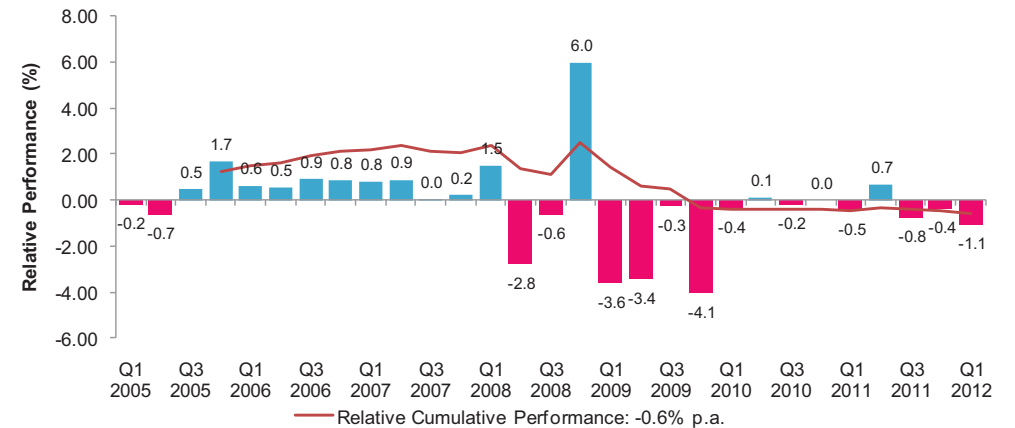
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-0.2	4.0	4.3	2.2
Benchmark	0.9	5.5	9.5	3.1
Relative	-1.1	-1.4	-4.7	-0.9

* Inception date 12 Oct 2004.

3 Year Relative Return

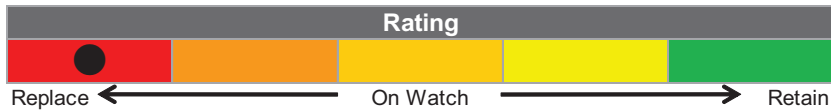
Actual % p.a.	Target % p.a.
-4.7	0.0

Relative Quarterly and Relative Cumulative Performance



Fauchier - Hedge Fund of Funds

HR View Comment & Rating



Jamie Kirmish, the Chief Operating Officer departed in January 2012. He was responsible for overseeing operations, compliance, IT and Marketing for Fauchier Partners. Fauchier have explained that his role had narrowed over time which was the main reason for his resignation. David Woodhouse, who is presently responsible for operational due diligence is currently acting as Interim Chief Operating Officer. There are no intentions to replace Kirmish at this stage. As Kirmish was not directly involved in the investment decision-making process, we do not think this departure will have any material impact on the management of the Fauchier funds.

The Committee has served a redemption request on Fauchier Partners for the entirety of the mandate.

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Performance Summary - Comment

The Fauchier mandate returned 2.2%, outperforming relative to its benchmark return of 1.5%.

During what was another strong quarter for equity markets, the majority of the fund's strategies contributed to positive performance, with the fund's holdings in the Equity Hedged and Event Driven strategies collectively the strongest strategy performers. This was offset by negative contributions from the fund's holdings in the Macro and Short Bias strategies.

Over the past year, only the Equity Long Bias strategy has delivered absolute positive performance (at +0.2%). The remaining strategies have all contributed negative returns, with the Equity Hedged strategy (the largest allocation within the fund at 26.3%) the weakest performing strategy for the year, which in total has contributed -1.3%.

Performance Summary to 31 December 2011 ^[i]

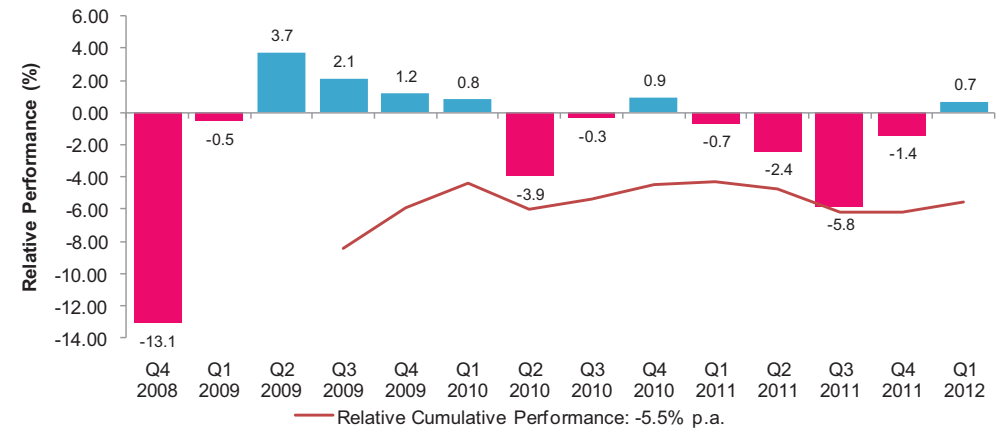
	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	2.2	-3.4	0.2
Benchmark	1.5	5.8	6.1
Relative	0.7	-8.7	-5.6

* Inception date 28 Jun 2008.

3 Year Relative Return

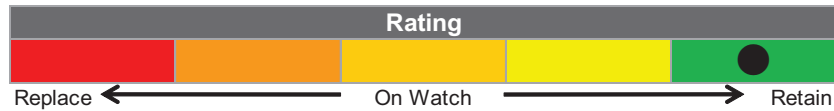
Actual % p.a.	Target % p.a.
-1.8	5.0

Relative Quarterly and Relative Cumulative Performance



Investec - Commodities

HR View Comment & Rating



There were no significant business update during the quarter to report.

Performance Summary to 31 December 2011 ^[1]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	2.2	-6.1	2.4
Benchmark	-1.9	-16.0	0.8
Relative	4.2	11.8	1.5

* Inception date 25 Feb 2010.

3 Year Relative Return

Actual % p.a.	Target % p.a.
N/A	0.0

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Performance Summary - Comment

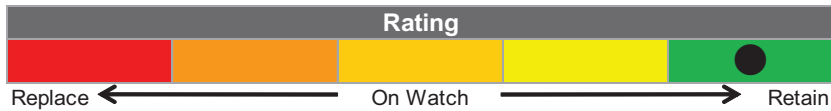
The Investec commodities mandate outperformed its benchmark over the quarter, returning 2.2% against the benchmark return of -1.9%.

The manager's long positions in Base & Bulks and Energy equities were again amongst the largest contributors to performance as commodity equities continued to rally during Q1 2012. Conversely, the manager's short Base and Bulks equity and Energy Commodity positions detracted from performance. The manager's short positions in US steel companies detracted, as the stocks rallied on positive US economic data releases encouraging investors to factor in an improving US growth outlook. The manager's short Brent Oil position also detracted from performance as oil prices remained volatile during the quarter. The manager believes the demand/supply fundamentals are marginally weakening and expects an easing of political tensions in the Middle East.



Harbourvest - Venture Capital

HR View Comment & Rating



HarbourVest have made a number of additions to their global investment team over the past quarter. They have hired Sally Shan, previously at JP Morgan, to set up their Beijing office. This is the firm's first office on the Chinese mainland, although it has had a presence in Hong Kong since 1996. Shan was most recently head of Asia technology investment banking for J.P. Morgan Securities Asia Pacific. She will be joined by another investment professional who is currently based in Hong Kong. The Bogota office has also added two new hires and now stands at three individuals altogether.

In addition, the firm has hired a new Global Head of Compliance, to address the regulatory challenges prevailing in the US and Europe.

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Performance Summary - Comment

The HarbourVest mandate returned -2.0%, underperforming its benchmark return of 8.7%.

Given the volatility and pricing of this asset class, it can be misleading to place too much emphasis on short-term performance. The returns shown are sourced from Northern Trust.

Performance Summary to 31 December 2011 ^[i]

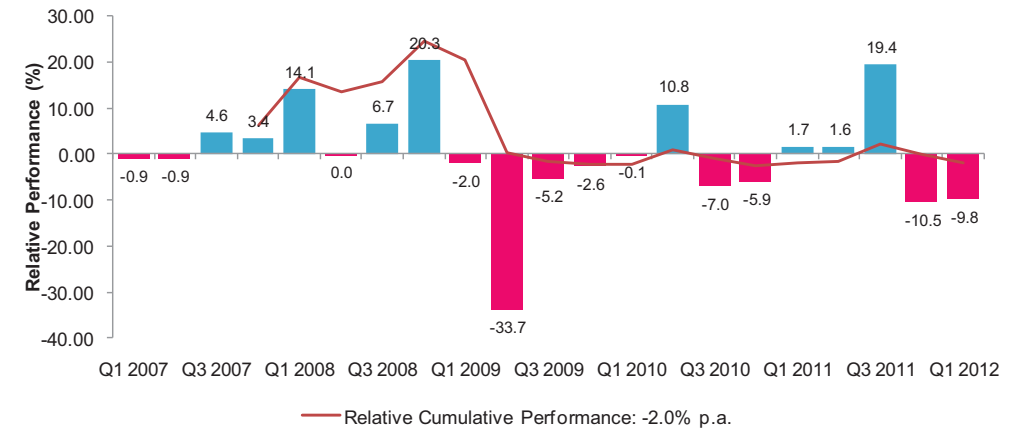
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-2.0	-0.7	-2.2	4.5
Benchmark	8.7	1.5	16.6	4.2
Relative	-9.8	-2.1	-16.1	0.3

* Inception date 29 Jun 2006.

3 Year Relative Return

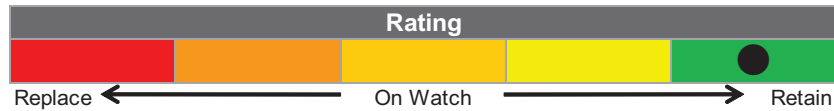
Actual % p.a.	Target % p.a.
-16.1	5.0

Relative Quarterly and Relative Cumulative Performance



M&G - UK Companies Financing Fund

HR View Comment & Rating



With the investment period scheduled to finish in July 2012, the UK Companies Financing fund made two more loans during Q1 2012, taking the total loan count to ten, with a total notional value of £800m.

Following the end of quarter, the manager indicated that global corporate bond issuance set a record low in volumes during April, as record cash balances have driven global corporations to reduce their reliance on debt markets.

Performance Summary to 31 December 2011 ^[i]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	-0.5	2.1	1.8
Benchmark	0.2	0.8	0.7
Relative	-0.7	1.3	1.1

* Inception date 01 May 2010.

3 Year Relative Return

Actual % p.a.	Target % p.a.
N/A	0.0

Performance Summary - Comment

The UK Companies Financing Fund returned -0.5% (as reported by Northern Trust), behind its LIBOR benchmark return of 0.2% for the quarter.

As noted above, the fund closed an additional two loans during the quarter, a £75m loan to Wincanton, a cargo transport group, and £50m to another cargo transport firm, the name of which remained undisclosed as at time of writing.

At 31 March 2012, the fund had made ten loans totalling £800m, amounting to c57% of committed capital. M&G have indicated that they continue to review a number of potential deals which are at the early stages of the investment process.



Performance Calculation

Geometric vs Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\left(\left(1 + \text{Fund Performance} \right) / \left(1 + \text{Benchmark Performance} \right) \right) - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$\text{Fund Performance} - \text{Benchmark Performance}$$

The following example illustrates the shortcomings of the arithmetic method in comparing short term relative performance with the longer term picture:

Period	Arithmetic Method			Geometric Method			Difference
	Fund Performance	Benchmark Performance	Relative Performance	Fund Performance	Benchmark Performance	Relative Performance	
Quarter 1	7.00%	2.00%	5.00%	7.00%	2.00%	4.90%	0.10%
Quarter 2	28.00%	33.00%	-5.00%	28.00%	33.00%	-3.76%	-1.24%
Linked 6 months			-0.25%			0.96%	-1.21%
6 Month Performance	36.96%	35.66%	1.30%	36.96%	35.66%	0.96%	0.34%

Using the arithmetic method

If fund performance is measured quarterly, there is a relative underperformance of 0.25% over the six month period.

If fund performance is measured half yearly, there is a relative outperformance of 1.30% over the six month period.

Using the geometric method

If fund performance is measured quarterly, there is a relative outperformance of 0.96% over the six month period.

If fund performance is measured half yearly, an identical result is produced.

The geometric method therefore makes it possible to directly compare long term relative performance with shorter term relative performance.



Agenda Item 6

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Terms of Reference		
KEY DECISION	No	Item No	6
WARD	N/A		
CONTRIBUTORS	Chief Executive		
CLASS	Part 1	Date:	13 June 2012

Recommendation

It is recommended that the terms of reference of the Pensions Investment Committee, as set out below, be noted.

Terms of Reference

'To exercise all functions of the Council in relation to local government pensions under Section 7, 12 or 24 Superannuation Act 1972 and all other relevant pensions legislation. By way of illustration this includes:

- review with fund managers of the investment performance of the superannuation fund on a quarterly basis
- to examine the portfolio of investments, and its market value, at the end of each quarter for suitability and diversification
- to inform the fund managers of the Council's policy regarding investment of its superannuation funds, and to take advice on the possible effect on performance resulting from implementing the policy
- to review from time to time the appointment of the fund manager
- to determine the overall investment strategy and policies of the fund on professional advice
- responsibility for compliance with the ten Myners principles incorporated in the "CIPFA Pensions Panel Principles for Investment Decision Making" and all other relevant guidance in relation to the Local Government Pension Scheme in force and issued by CIPFA from time to time.'

Agenda Item 7

PENSIONS INVESTMENT COMMITTEE		
Report Title	Exclusion of the Press and Public	
Key Decision	No	Item No. 7
Ward		
Contributors	Chief Executive (Head of Business & Committee)	
Class	Part 1	Date: 13 June 2012

Recommendation

It is recommended that under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraphs 3, 4 and 5 of Part 1 of Schedule 12(A) of the Act, as amended by the Local Authorities (Executive Arrangements) (Access to Information) (Amendments) (England) Regulations 2006 and the public interest in maintaining the exemption outweighs the public interest in disclosing the information:-

7. Minutes
8. Passive Investment Manager Selection

By virtue of paragraph(s) 3, 4, 5 of Part 1 of Schedule 12A of the Local Government Act 1972.

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By virtue of paragraph(s) 3, 4, 5 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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