



AGENDA

PENSIONS INVESTMENT COMMITTEE

Date: THURSDAY, 21 FEBRUARY 2013 at 7.00 pm

**Committee Room 4
Civic Suite
Lewisham Town Hall
London SE6 4RU**

**Enquiries to: Clare Weaser
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COUNCILLORS

Councillor Dan Whittle (Chair)
Councillor Paul Maslin (Vice-Chair)
Councillor Chris Best
Councillor Julia Fletcher
Councillor John Muldoon
Councillor Susan Wise
Councillor Alexander Feakes
Councillor Mark Ingleby

Observers

Mrs Humble
Mr Whittet (UNISON)

Officers

Janet Senior (Executive Director for
Resources and Regeneration)
Selwyn Thompson – Group Manager
Shola Ojo – Principal Accountant
Carol Eldridge – Group Manager (Pensions
and Payroll)
Conrad Hall – Head of Business
Management and Service Support

Members are summoned to attend this meeting

**Barry Quirk
Chief Executive
Lewisham Town Hall
Catford
London SE6 4RU
Date: 12 February 2013**



INVESTOR IN PEOPLE

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.

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Agenda Item 1

PENSIONS INVESTMENT COMMITTEE		
Report Title	MINUTES	
Key Decision		Item No. 1
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 21 FEBRUARY 2013

Recommendation

That the Minutes of that part of the meeting of the Committee, which was open to the press and public, held on 15 November 2012 be confirmed and signed.

MINUTES OF THE PENSIONS INVESTMENT COMMITTEE

Thursday, 15 November 2012 at 7.00 pm

PRESENT: Councillors Dan Whittle (Chair), Paul Maslin (Vice-Chair), Julia Fletcher, John Muldoon and Susan Wise.

ALSO PRESENT: Lynn Coventry (WM Company); Scott Donaldson, Hymans Robertson (Independent Investment Adviser to the Committee); Conrad Hall, Selwyn Thompson, Shola Ojo, Paul Johnston (LB Lewisham)

Apologies for absence were received from Councillor Christine Allison and Councillor Chris Best.

1. Minutes

RESOLVED that the Minutes of the Pensions Investment Committee held on 13 June 2012 be confirmed and signed, subject to the following amendment:

Declarations of Interest for Councillor Fletcher to read: "Councillor Fletcher declared that her brother in law had recently been employed as a finance director for Bryden International which is part of the Melrose Group."

2. Declarations of Interest

Councillor Maslin declared that he is a Director of Hales Gallery Limited and UBS is an occasional customer of the Gallery.

3. Annual Performance review 2011/12

3.1 Members received a presentation from Lynn Coventry, WM Company, on London Borough of Lewisham Pension Fund performance over the financial year 2011/12.

3.2 The Chair said that it was positive that the Fund had outperformed average Local Authority Pension Fund performance over the last financial year. He noted that some authorities had considerably outperformed the three year benchmark and asked what characteristics these Funds typically held that enabled this outperformance. Ms Coventry said that internally managed funds had historically performed well, and that funds that had maintained the same investment structure over longer time periods had also performed well.

3.3 Members thanked Ms Coventry for her presentation.

RESOLVED that the report be noted.

4. Pension Fund Annual Report 2011 / 12

4.1 Mr Thompson introduced the report, noting that the Committee was being recommended to approve the Annual Report.

4.2 Councillor Wise said that the training event for Members held in February 2012 had been very positive and asked that a similar session be arranged in the near future.

4.3 Members discussed what this training session could involve, and discussed the following possibilities for session topics:

- Alternative investment opportunities, such as within infrastructure funds. Members noted that certain larger pension funds had invested in infrastructure and housing, such as the Greater Manchester Pension Fund, which had invested a small percentage of its Fund in a housing co-ownership scheme. Members also suggested that officers discuss with Fund Managers the possibility of ensuring greater investment within the Borough.
- Legal issues. Mr Donaldson noted that Members, by virtue of sitting on the Pensions Investment Committee, held a fiduciary duty to act in the best interests of the Fund, and it was important to ensure Members understood the obligations upon them as part of this duty.
- A visit be arranged for members of the committee to visit one of the Investment Managers, M & G.

4.4 Councillor Fletcher noted that the annual report referred to a significant funding gap of £234m. Mr Hall said that the next triennial valuation of the Pension Fund is due as at 31st March 2013. Therefore, by the start of the 2014 financial year, the Council would have the latest position with regards to its funding status. The valuation would be impacted by a number of factors including investment performance, changes in actuarial assumptions and the impact of significant redundancies from the Council in recent years. The Chair suggested that this issue should be re-examined by the Committee in due course.

RESOLVED that

- (i) the Annual Report be approved for publication.
- (ii) Officers confirm whether the Committee had made a previous decision to invest within the M&G Social Housing Fund.
- (ii) Officers, in collaboration with the Independent Investment Adviser, be asked to arrange a training session for Committee Members covering a range of investment issues for early 2013.

5. Adjustments to the Pension Fund Accounts 2011/12

5.1 Mr Thompson introduced the report, which identified two specific issues relating to the Pension Fund accounts and relate to the valuation method for private equity / venture capital asset classes.

5.2 The Chair asked officers to examine how other Local Authorities managed the timing issues referred to by Mr Thompson which gave rise to the need for subsequent adjustments to the Accounts.

RESOLVED that

(i) the report be noted; and

(ii) the practice amongst other Local Authorities in managing adjustments to the Pension Fund Accounts with regards to this particular asset class be examined.

6. Investment Performance for the quarter ended 30 September 2012

6.1 Mr Donaldson presented the report.

6.2 Councillor Maslin asked whether it would be appropriate, in view of the meaningful funding gap between the Fund's assets and liabilities, to allow for greater Fund exposure to equities than the current allocation. Mr Donaldson said that equities were expected to perform better than other asset classes in the long term, but that greater investment in equities would subject the Fund to greater volatility. He said that it was important that the Fund be adequately diversified to allow for mitigation of risk, and an increase in equity weighting from the current allocation would both reduce the scope for diversification and increase the risk to the Fund in the event of equity underperformance. Mr Donaldson recommended to the Committee that a full asset liability study was conducted in conjunction with the forthcoming actuarial valuation, to allow the Committee to fully understand the risk and reward trade off between the current and potential alternative asset allocations.

6.3 Members discussed possible rebalancing of the Fund. Mr Donaldson said that normal practice in this area among pension funds was to establish a rebalancing policy which allowed for reasonable parameters around the central asset allocation, to avoid unnecessary transaction costs, but that nevertheless rebalanced toward strategic benchmark on a reasonably frequent basis. His suggestion was that the Fund's asset allocation was compared with the agreed strategic asset allocation on, say, a quarterly basis. Mr Thompson added that the recent decision by the Committee to a more passive management approach represented a good opportunity for the Committee to look again at rebalancing. This would be in line with the Council's existing policy to re-balance the Fund every three years. The Fund was last re-balanced in March 2010 and there is next due to be rebalanced in 2013.

6.4 The Chair said that asset allocation should also form part of the training session agreed by Members in Item 4.

RESOLVED that the report be noted.

7. Exclusion of 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 paragraph 3 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 outweighed the public interest in disclosing the information:

8. Closed Minutes
9. Decision on Hedge Fund mandate
10. Update – Pension Fund transition

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

8. Closed Minutes

RESOLVED that the Minutes of the meeting held on 13 June 2012, which was not open to the press and public, be confirmed and signed.

9. Decision on Hedge Fund mandate following the termination of the Fauchier Partners Jubilee Fund

RESOLVED that:

- (i) option 4 as set out within paragraphs 5.12 – 5.14 of the report be approved;
- (ii) authority be delegated to the Executive Director for Resources and Regeneration to select a suitable investment manager (or managers) with which to invest the funds consistent with the report;
- (iii) authority be delegated to the Executive Director for Resources and Regeneration to convert equity and other assets to cash as may from time to time be required to meet the cash-flow requirements of the Fund, subject to a limit, as set out in the report, on any such transaction and subject to all such decisions being reported to the next available meeting of the Pensions Investment Committee.

10. Update - Pension Fund Transition

RESOLVED that the report and the progress being made on transition be noted.

The meeting ended at 8.30pm.

Chair

Agenda Item 2

PENSIONS INVESTMENT COMMITTEE		
Report Title	DECLARATIONS OF INTERESTS	
Key Decision		Item No. 3
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 21 February 2013

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.

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Pension Fund Post Transition Report		
KEY DECISION	No	Item No: 3	
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	Date:	21 February 2013

1. PURPOSE

- 1.1 This report provides Members with an overview of the transition process which was completed in November 2012. A more detailed post trade report will be presented by Northern Trust, the Fund's Transition Managers, after this summary.

2. RECOMMENDATION

- 2.1 Members of the Pensions Investment Committee are recommended to note the report.

3. BACKGROUND

- 3.1 The Committee took the decision in 2011 to change the management of the Fund from being actively, to passively managed. In principal, this was due to the continuous unsatisfactory performances of the existing active investment managers and to reduce the Fund's exposure to the volatility of the market.
- 3.2 The Fund's advisors, Hymans Robertson, were appointed to carry out a search and selection process for the appointment of investment managers to passively manage the fixed interest, global equity and UK equity elements of the Pension Fund.
- 3.3 As a result of an OJEU notice and tender exercise, Members were presented with a shortlist of managers from which Blackrock and UBS were selected. Northern Trust, the Pension Fund's custodians, were then selected as transition managers to carry out and manage the whole transition process.
- 3.4 In summary, the process involved the termination of mandates with Alliance Bernstein, RCM and UBS Bonds and the transfer of circa £600m of assets to the management of Blackrock and UBS in equal proportions.

4. POST TRANSITION

- 4.1 The transition was completed on the 26th November 2012. The mandates of Alliance Bernstein, RCM, and UBS Bonds were terminated and the portfolios of Blackrock and UBS were established.

- 4.2 After transition, it came to light that the original signed agreement (IMA) with Blackrock included an allocation to the All Stocks Gilt Index Fund and the All Stocks Index Linked Gilt Index Fund, which was not in line with the proposed recommendation made by Hymans Robertson. The holdings had to be switched into the Over 15 Year Gilt Fund and the Over 5 Year Index Linked Gilt Fund to match the recommendation.
- 4.3 In order to achieve this in such a way as to minimise costs, BlackRock are using their internal transition team rather than placing full cash trades. A new IMA has been signed reflecting the new funds, along with an instruction letter to action the transfer. This is due to be completed by 15th February.
- 4.4 The estimated transaction cost for this at the outset was £ 17,741. However this is a worst case scenario and it is expected that the final cost will be less. This will be confirmed at the next meeting along with the position of the portfolio relative to the intended benchmark.
- 4.5 The structure of the Lewisham Pension is now markedly different to how it appeared at the end of the last financial year. Approximately 76% of the fund, circa £611m is now being managed by Blackrock and UBS in a mix of pooled and segregated funds. The remaining managers of Schroders, M&G, Harbourvest and Investec have maintained the management of their existing mandates.
- 4.6 The actual versus target mandate allocations have been set out in table 1 below. This was the position as at the 31 December 2012. The table shows that the fund allocation is still not quite in line with the target. This will be addressed when the rebalancing of the fund is undertaken as discussed at the last committee meeting.

Table 1: Target versus Actual Fund Allocation

Manager	Mandate	Asset Value 31/12/12 £m	Target Proportion of the Fund 31/12/12 %	Actual Proportion of the Fund 31/12/12 %
Alliance Bernstein	Global Equities	0	0	0
Harbourvest	Venture Capital	34.4	3	4.3
Investec	Commodities	35.6	5	4.5
M&G	UK Financing Fund	13.2*	3	1.7
RCM	Global Equities	0	0	0
Schroders Property	Property	69.7	10	8.7
UBS	Equity and Fixed Income	307.1	38	38.5
Blackrock	Equity and Fixed Income	304.9	38	38.3
Cash Held	All	32.1	3	4.0
Total Fund		797.0	100.0	100.0

5 FINANCIAL IMPLICATIONS

- 5.1 The actual costs of the transition were lower than anticipated. The overall cost of transition was £1.1m compared to an estimated cost of £1.6m. As the appointed Transition Managers, Northern Trust received a fixed fee of £100k. The full

breakdown of the total cost is included in the Northern Trust report which follows this summary.

6. LEGAL IMPLICATIONS

- 6.1 The investment of pension funds is a statutory function and is undertaken by the administering authority in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The aim of the investment is, acting prudently with regard to risk, to obtain the best return on the fund investments.
- 6.2 An administering authority must formulate a policy for the investment of its fund money with a view to the advisability of investing fund money in a wide variety of investments and to the suitability of particular investments and types of investments. The authority must consider the advice of its independent expert in taking any steps in relation to its investments.

7. ENVIRONMENTAL IMPLICATIONS

- 7.1 There are no specific environmental implications directly arising from this report.

8. HUMAN RESOURCES IMPLICATIONS

- 8.1 There are no specific human resources implications directly arising from this report.

9. CRIME AND DISORDER IMPLICATIONS

- 9.1 There are no specific crime and disorder implications directly arising from this report.

10. EQUALITY IMPLICATIONS

- 10.1 There are no specific equalities implications directly arising from this report.

11. CONCLUSION

- 11.1 The transition of the Fund from active to passive concluded by 26th November 2012. Moving forward, this will translate to lower fund manager fees and returns which are expected to be broadly in line with the market return.
- 11.2 Northern Trust will be presenting a more detailed post trade report after this summary.

FURTHER INFORMATION

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

Agenda Item 4

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Investment performance for the quarter ended 31 December 2012		
KEY DECISION	No	Item No: 4	
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	Date:	21 February 2013

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 December 2012.

2. RECOMMENDATION

- 2.1 The Committee is recommended to note the contents of the report.

3. BACKGROUND

- 3.1 There was a significant change in the management arrangements for the Lewisham Pension Fund investment portfolio during November 2012. The transition from an actively managed to a passively managed fund was successfully completed. This report sets out the performance for the quarter ended 31 December 2012, showing the new manager Blackrock and the extended portfolio of UBS as provided by the Fund's custodian, Northern Trust.
- 3.2 The full report is attached at Appendix A and performance commentary will be provided at the meeting by the Fund's investment advisors, Hymans Robertson.
- 3.3 Hymans Robertson's uses data supplied directly by the investment managers which may differ slightly from the Northern Trust data due to timing and accounting differences.

4. PORTFOLIO SUMMARY

- 4.1 The Lewisham Pension Fund had an overall market value of £797m for the quarter ended 31 December 2012. Overall the Fund has over-performed its benchmark, returning 2.04%, relative to the benchmark return of 1.77%.
- 4.2 The Fund's value increased by £14.1m over the quarter with the Fund's equity and fixed income holdings posting slight positive returns relative to target. The shortness in time between transition and this report means the performance of these assets has not been measured for a full quarter.
- 4.3 The alternative mandates, Schrodgers (property), Harbourvest (private equity), Investec (commodities) and M&G (credit), each produced a positive absolute return, however Harbourvest underperformed relative to target. This can be seen in table 2.

- 4.4 As at 31 December 2012, the Fund employed six specialist managers with mandates corresponding to the principal asset classes. A portfolio summary showing the change in market values between two quarters is set out below in Table 1.

Table 1 – Portfolio Summary

Manager	Mandate	Asset Value 30/9/12 £m	Asset Value 31/12/12 £m	Proportion of the Fund 31/12/12 %
Alliance Bernstein	Global Equities	163.5	0	0
Harbourvest	Venture Capital	34.0	34.4	4.3
Investec	Commodities	35.6	35.6	4.5
M&G	UK Financing Fund	11.6	13.2*	1.7
RCM	Global Equities	173.2	0	0
Schroders Property	Property	69.7	69.7	8.7
UBS	Equity and Fixed Income	274.7	307.1	38.5
Blackrock	Equity and Fixed Income	0	304.9	38.3
Cash Held	(Ex-Fauchier)	20.6	20.6	2.6
Cash (other)	LBL and Transition	0	11.5	1.4
Total Fund		782.9	797.0	100.0

*M&G received additional capital of £1.5m in December 2012

- 4.5 The performance of the individual managers relative to the appropriate benchmarks as at 31 December is set out in Table 2.

Table 2: Performance Summary – Managers

Manager	Absolute Performance Qtr 31 Dec 2012 %	Benchmark %	Performance Qtr 31 Dec Relative to Benchmark %	Performance Relative to Benchmark Since Inception %
Harbourvest	0.71	1.95	-1.24	0.95
Investec	0.15	-6.95	7.10	0.29
M&G	1.22	0.13	1.09	8.48
Schroders Property	0.04	-0.40	0.44	-0.55
*UBS (Equity)	2.01	1.97	0.04	0.04
*UBS (Fixed Income)	1.26	0.27	0.99	0.99
*Blackrock (Equity)	1.99	1.87	0.12	0.12
*Blackrock (Fixed Income)	0.57	0.49	0.08	0.08
**Total Fund	2.04	1.77	0.12	-0.20

* This data is for one month only

**The total fund performance is made up of a month and three months data combined

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

5. CONCLUSION

- 5.1 The impact of the transition of the fund from active to passive will become more noticeable at the end of the third quarter when a full quarter performance data is available. This will be reported at the next Pensions Investment Committee meeting.

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. ENVIRONMENTAL IMPLICATIONS

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

9. HUMAN RESOURCES IMPLICATIONS

- 9.1 There are no human resources implications directly arising from this report.

10. CRIME AND DISORDER IMPLICATIONS

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

11. EQUALITIES IMPLICATIONS

- 11.1 There are no equalities implications directly arising from this report.

FURTHER INFORMATION

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 Fourth Quarter of 2012

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➤ Prepared By:

Scott Donaldson - Partner
Albert Chen – Associate Consultant
Chris Beattie - Investment Analyst

For and on behalf of Hymans Robertson LLP
February 2013

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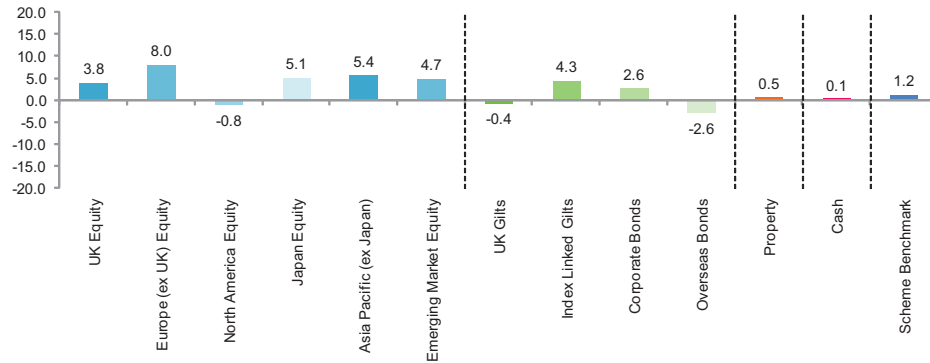
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Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in 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.

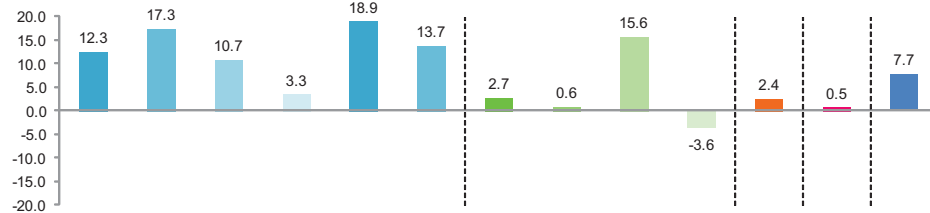
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Historic Returns for World Markets to 31 December 2012

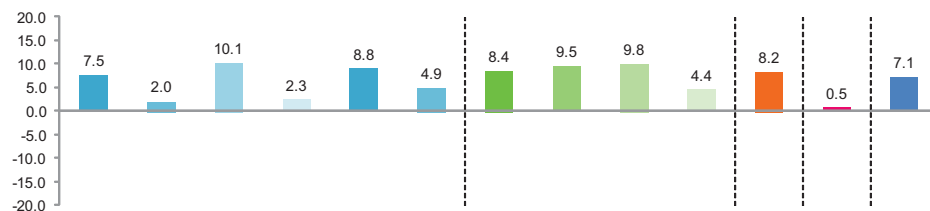
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Historic Returns - Comment

Despite unresolved difficulties associated with the financial crisis, in particular the debt 'overhang' in the US and Europe, equity markets performed well during the quarter. This positive tone contrasted with notes of caution regarding the global economy.

Forecasts for global economic growth in 2013 were cut by a number of respected agencies. Policy makers made conciliatory comments and prepared for the worst. In the US, the central bank announced its intention to keep short-term interest rates at close to zero until specific economic criteria are met and extended the programme of asset purchases which started in November 2008.

In the UK, Chancellor George Osborne presented the autumn statement in early December. Due to lower than expected economic growth, austerity measures were prolonged to 2018 and the timescale for debt reduction extended. During the quarter, both the Bank of England and the Office for Budget Responsibility cut their forecasts for economic growth for both 2012 and 2013. The Governor of the Bank of England forecast a period of persistently low economic growth, citing problems in the Euro zone as a contributory factor.

Key events during the quarter were:

Global Economy

- The UK emerged from recession, as the economy expanded during the three months to end September;
- The Euro zone returned to recession as the economy contracted for two consecutive quarters;
- The Chinese economy contracted for a 7th consecutive quarter (exports under particular pressure);
- Short-term interest rates in the UK, US and Euro zone were held at record lows;
- European finance ministers agreed a new supervisory regime for Euro zone banks;
- Standard and Poors placed UK's AAA credit rating on negative outlook.

Equities

- Rosneft (Russia) replaced Exxon Mobil as the world's largest publicly traded oil producer;
- The strongest sectors relative to the 'All World' Index were Financials (+5.4%) and Industrials (+2.9%); the weakest were Telecommunications (-6.7%) and Technology (-6.0%).

Bonds

- The ECB announced a bond purchase programme to assist countries struggling to raise funds;
- Index linked gilts (+4.3%) outperformed fixed interest gilts (-0.4%) by a significant margin.

In the US, the administration has avoided the immediate threat posed by the fiscal 'cliff' but difficult budget negotiations lie ahead. Spending cuts are inevitable and will be decided by a complex mix of political and economic criteria.



Portfolio Summary

Valuation Summary

Asset Class	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q3 2012	Q4 2012			
Global Equity	466.9	470.0	59.0	60.0	-1.1
Bonds	144.5	142.0	17.8	18.0	-0.1
Property	69.7	69.4	8.7	10.0	-1.3
Private Equity	34.0	34.5	4.3	3.0	1.3
Trustee Bank Account	20.7	32.2	4.0	3.0	1.0
UK Financing Fund	11.6	13.3	1.7	1.0	0.7
Commodities	35.6	35.6	4.5	5.0	-0.5
Total inc. Trustee Bank Account	782.9	797.0	100.0	100.0	

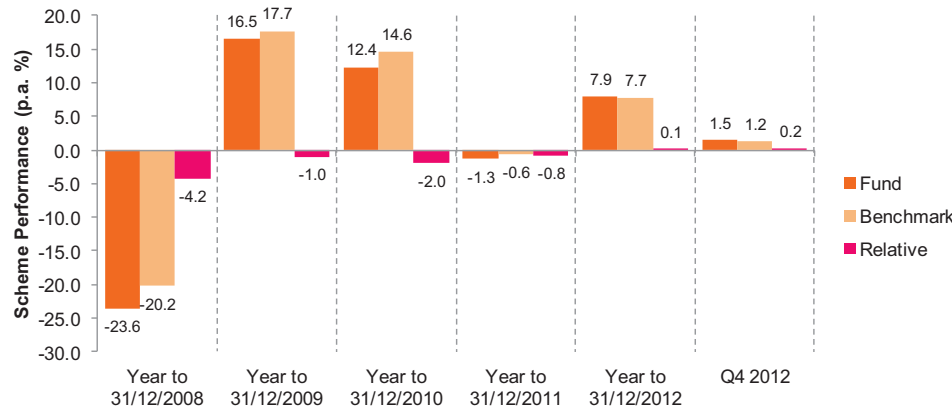
Comments

The Fund's portfolio value increased by £14.1m over the quarter, with the Fund's equity holdings the main contributors to positive returns. The Fund outperformed its benchmark, returning 1.5%, relative to the benchmark return of 1.2%.

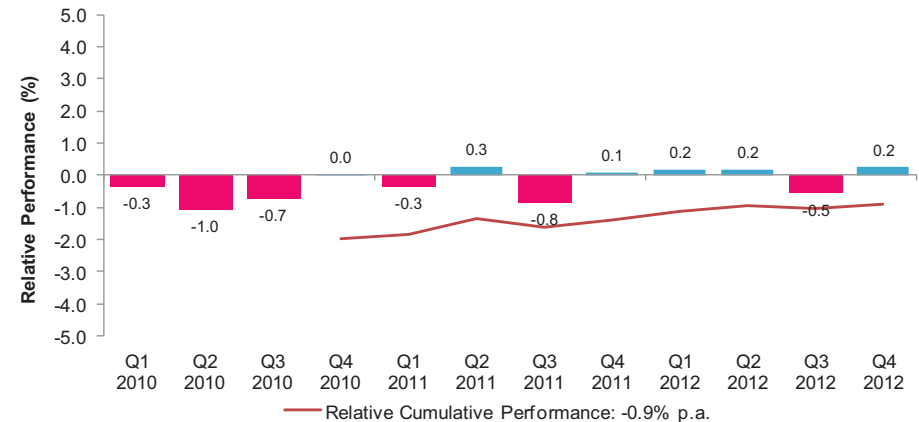
Relative performance from the Fund's active managers was mixed, with outperformance from Investec (Commodities) and the M&G UK Financing Fund offset somewhat by underperformance from Schroders (Property) and HarbourVest (Private Equity).

During the quarter, the Alliance Bernstein and RCM active equity mandates were both terminated, with the assets transferred to new passively managed multi-asset mandates with BlackRock and UBS. Both passive mandates performed broadly in line with their composite benchmarks for the partial quarter.

Performance Summary [i]



Relative Quarterly and Relative Cumulative Performance

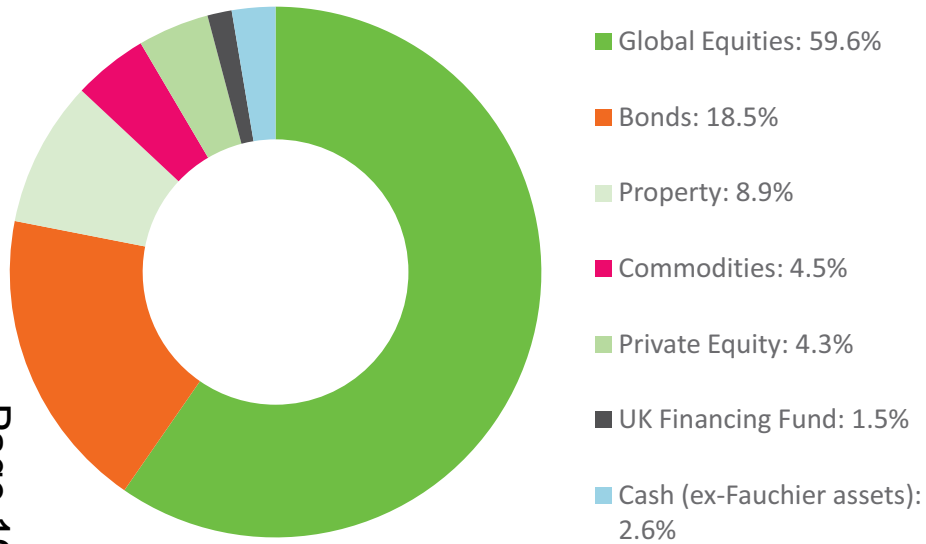


Source: [i] DataStream, Fund Manager, Hymans Robertson

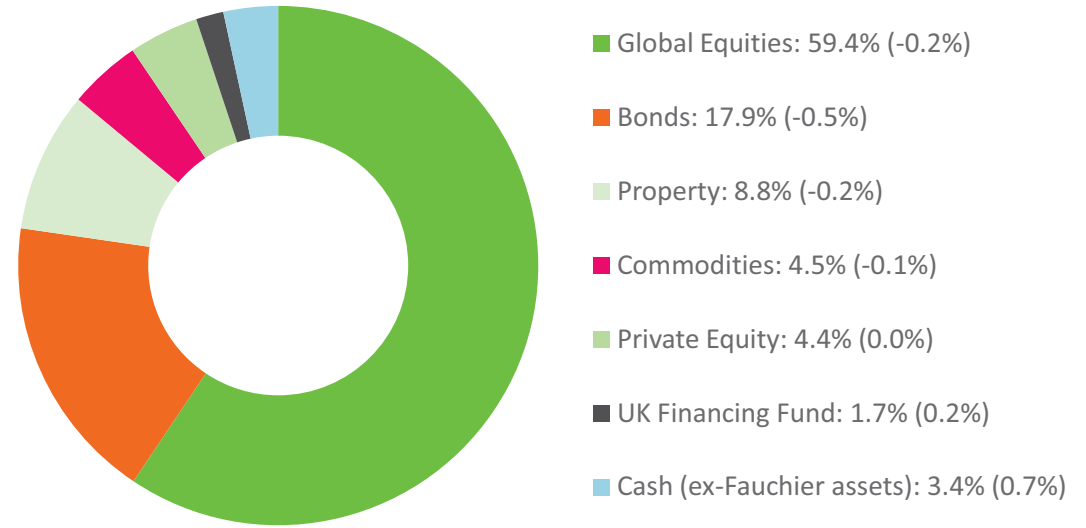


Fund Asset Allocation

Asset allocation as at 30 September 2012



Asset allocation as at 31 December 2012



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Comments ^[i]

There were no significant changes to the Fund's asset allocation, at an asset class level, during the quarter.

Underlying the asset allocation, there were a number of significant changes at the manager level. The Alliance Bernstein and RCM active equity mandates were terminated at the beginning of November, with the active bond assets with UBS being transitioned to passive mandates (also with UBS).

The transition of assets to BlackRock and UBS was managed by Northern Trust and was completed on November 15th.

Source: [i] Fund Manager, Hymans Robertson



Manager Summary

Manager Valuations

Manager	Value (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q3 2012	Q4 2012			
Alliance Bernstein - Global Equity	163.5	0.0	0.0	0.0	0.0
RCM - Global Equity	173.2	0.0	0.0	0.0	0.0
UBS - UK Equity (Index)	130.2	0.0	0.0	0.0	0.0
BlackRock - Passive Multi-asset	0.0	304.9	38.3	39.0	-0.7
UBS - Passive Multi-asset	0.0	307.1	38.5	39.0	-0.5
UBS - Fixed Interest	144.5	0.0	0.0	0.0	0.0
Schroders - Property	69.7	69.4	8.7	10.0	-1.3
Investec - Commodities	35.6	35.6	4.5	5.0	-0.5
Harbourvest - Venture Capital	34.0	34.5	4.3	3.0	1.3
M&G - UK Companies Financing Fund	11.6	13.3	1.7	1.0	0.7
Cash (ex-Fauchier assets)	20.7	32.2	4.0	3.0	1.0
Total	782.9	797.0	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	●
BlackRock - Passive Multi-asset	20 Nov 2012	Composite	-	●
UBS - Passive Multi-asset	15 Nov 2012	Composite	-	●
Schroders - Property	12 Oct 2004	IPD Pooled Property Fund Index	-	●
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	BlackRock - Passive Multi-asset	UBS - Passive Multi-asset	Schroders - Property	Investec - Commodities	Harbourvest - Venture Capital	M&G - UK Companies Financing Fund	Cash (ex-Fauchier assets)	Total Fund
3 Months (%)	Absolute	-0.1	-0.9	N/A	N/A	-0.4	-0.2	0.7	1.2	N/A	1.5
	Benchmark	-0.4	-0.4	N/A	N/A	0.5	-7.0	2.0	0.1	N/A	1.2
	Relative	0.4		N/A	N/A		7.3		1.1	N/A	0.2
12 Months (%)	Absolute	7.3	11.4	N/A	N/A	-1.2	-3.7	5.6	4.3	N/A	7.9
	Benchmark	8.2	8.2	N/A	N/A	0.2	-5.5	11.4	0.8	N/A	7.7
	Relative		3.0	N/A	N/A		1.9		3.5	N/A	0.1
3 Years (% p.a.)	Absolute	2.6	6.0	N/A	N/A	2.8	N/A	7.8	N/A	N/A	6.1
	Benchmark	5.5	5.5	N/A	N/A	6.1	N/A	7.3	N/A	N/A	7.1
	Relative		0.5	N/A	N/A		N/A	0.4	N/A	N/A	-0.9
Since Inception (% p.a.)	Absolute	4.7	8.5	2.6	3.7	1.9	-0.4	5.1	3.1	N/A	6.7
	Benchmark	7.0	9.6	2.5	3.7	2.9	-0.6	4.1	0.7	N/A	7.2
	Relative			0.1	0.0		0.2	1.0	2.4	N/A	-0.4

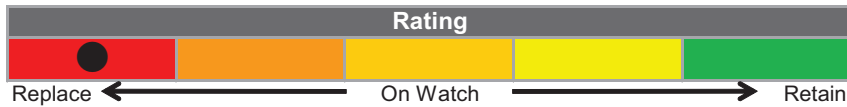
Note: Performance for Alliance Bernstein and RCM represents performance for the partial quarter to 1 November 2012 prior to both mandates being terminated.

Source: [i] DataStream, Fund Manager, Hymans Robertson, Investment Property Databank Limited



Alliance Bernstein - Global Equity

HR View Comment & Rating



Following the Committee's decision to allocate the "core" assets of the Fund equally to UBS and BlackRock to be managed on a passive, index-tracking basis, the Alliance Bernstein mandate was terminated on November 1st.

Northern Trust was appointed as transition manager to manage the transfer of assets.

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Performance Summary - Comment

The 3 month performance figure shown represents the performance of the Alliance Bernstein mandate for the partial quarter to 1 November 2012. During this period Alliance Bernstein outperformed, returning -0.1% against the benchmark return of -0.4%.

The mandate has now been terminated, with the transition of assets managed by Northern Trust.

Performance Summary to 30 September 2012 ^[i]

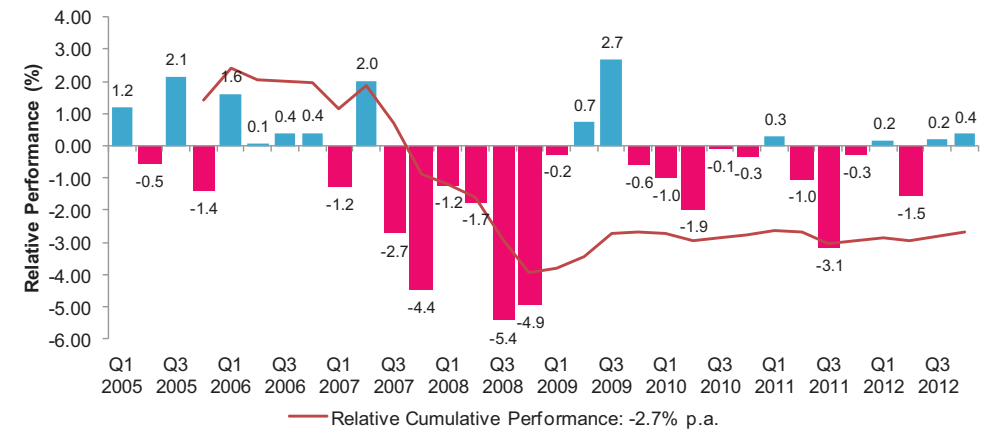
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-0.1	7.3	2.6	4.7
Benchmark	-0.4	8.2	5.5	7.0
Relative	0.4	-0.8	-2.7	-2.2

* Inception date 01 Nov 2004.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-2.7	1.5

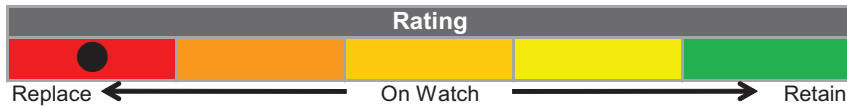
Relative Quarterly and Relative Cumulative Performance ^[ii]



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

RCM - Global Equity

HR View Comment & Rating



Following the Committee's decision to allocate the "core" assets of the Fund equally to UBS and BlackRock to be managed on a passive, index-tracking basis, the RCM mandate was terminated on November 1st.

Northern Trust was appointed as transition manager to manage the transfer of assets.

Performance Summary to 30 September 2012 ^[i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-0.9	11.4	6.0	N/A
Benchmark	-0.4	8.2	5.5	N/A
Relative	-0.5	3.0	0.5	N/A

* Inception date 18 Sep 2008.

3 Year Relative Return

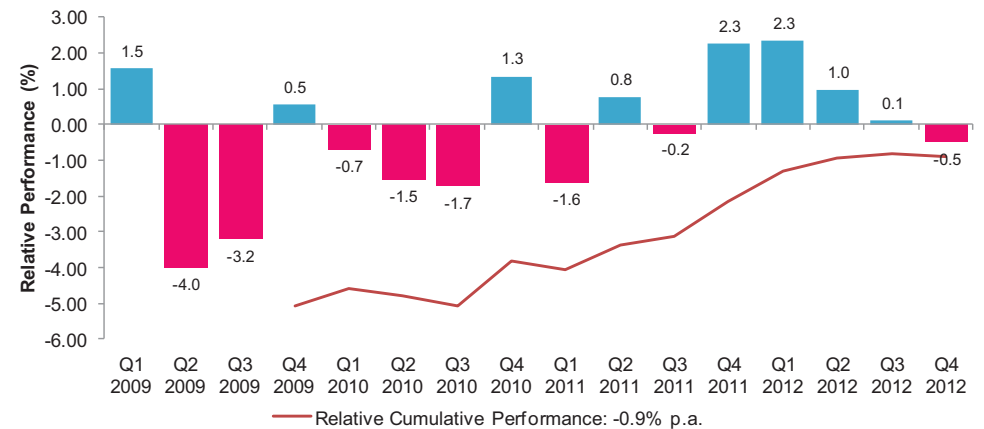
Actual % p.a.	Target % p.a.
0.5	1.5

Performance Summary - Comment

The 3 month performance figure shown represents the performance of the RCM mandate for the partial quarter to 1 November 2012. During this period RCM underperformed its benchmark, returning -0.9% against the benchmark return of -0.4%.

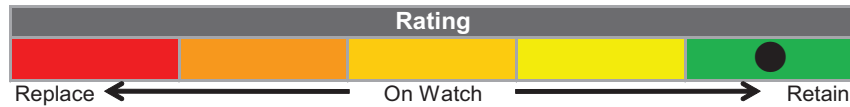
The mandate has now been terminated, with the transition of assets managed by Northern Trust.

Relative Quarterly and Relative Cumulative Performance



BlackRock - Passive Multi-Asset

HR View Comment & Rating



BlackRock has been appointed as a passive manager of the Fund's "core" asset holdings, following the termination of the Alliance Bernstein and RCM equity mandates.

Northern Trust managed the transition of assets, with the assets taken on by BlackRock on 15 November 2012.

There was no significant news to report in relation to the BlackRock passive business.

Performance Summary to 31 December 2012

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	N/A	N/A	N/A	2.6
Benchmark	N/A	N/A	N/A	2.5
Relative	N/A	N/A	N/A	0.1

* Inception date 20 Nov 2012.

Performance Summary - Comment

The BlackRock composite benchmark comprises the FTSE All Share (20.5%), MSCI AC World (56.5%), FTSE All Stocks Index-Linked Gilts (7.7%), FTSE All Stocks Gilts Index (7.6%), and iBoxx £ Non-Gilts All Stocks (7.7%).

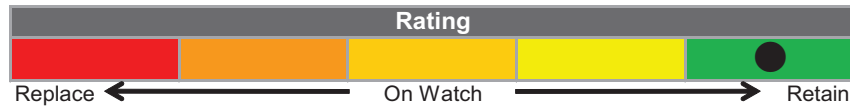
For the partial quarter from 15 November 2012 to 31 December 2012, the BlackRock multi-asset mandate delivered a positive return of 2.6%, broadly in line with its composite benchmark return of 2.5%.

Following the end of quarter, an adjustment will be made to the mandate to shift the All Stocks Index-Linked Gilts and All Stocks Fixed Gilts holdings, to Over 5 Year Index-Linked Gilts and Over 15 Year Fixed Gilts holdings, respectively.



UBS - Passive Multi-Asset

HR View Comment & Rating



Following the Committee's decisions to terminate the Alliance Bernstein and RCM active equity mandates, and to have all "core" holdings managed on a passive basis, the UBS passive UK equity and active bond mandates have been transitioned into a multi-asset mandate with a new composite benchmark, to be managed on a passive basis.

There was no significant news to report for the UBS passive business during the quarter.

Performance Summary to 31 December 2012

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	N/A	N/A	N/A	3.7
Benchmark	N/A	N/A	N/A	3.7
Relative	N/A	N/A	N/A	0.0

* Inception date 15 Nov 2012.

Performance Summary - Comment

The new UBS composite benchmark comprises the FTSE All Share (20.5%), FTSE All World (inc UK) (56.5%), FTSE > 15 Year Fixed Gilts (7.6%), FTSE > 5 Year Index LInked Gilts (7.7%) and iBoxx Sterling Non-Gilts All Stocks (7.7%) indices.

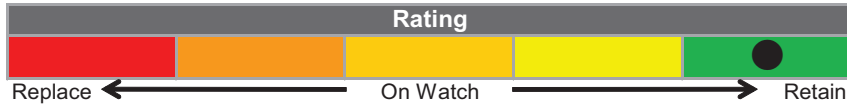
All funds within the mandate are managed on a passive, index-tracking basis, with the exception of the Corporate Bond holdings which are being managed on an active basis, pending transition to a passively managed strategy.

For the partial quarter from 15 November 2012 to 31 December 2012, the UBS multi-asset mandate delivered a positive return of 3.7%, in line with its composite benchmark return of 3.7%. All of the underlying allocations within the mandate performed broadly in line with their respective benchmarks, as we would expect.



Schroders - Property

HR View Comment & Rating



Schroders announced a number of personnel changes over the quarter that will take effect from the start of 2013. Duncan Owen will become Head of Investment and will continue to report to William Hill, Head of Property. Neil Turner is set to become Head of Investment Risk handing over his current fund manager reports to Duncan Owen. This is a new function that will extend across the whole of Schroders' property business.

We are positively disposed towards Turner's appointment, pending the additional focus on risk that he may bring to the new role. That said, we do not view these changes as having a significant impact on the day-to-day management of the Fund's portfolio.

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Performance Summary - Comment

The portfolio underperformed its benchmark over the quarter, returning -0.4% against the benchmark return of 0.5%.

Underperformance was largely attributable to the portfolio's exposure to Continental Europe, despite exchange rates moving in the manager's favour over the quarter. It is expected that this exposure will continue to hold back overall returns through 2013 relative to the portfolio's UK benchmark. In contrast, the holding in West End of London PUT contributed positively, as the holding continues to benefit from increasing rents and valuations in the buoyant West End office market.

The manager continues to maintain an underweight position to the Retail sector and an overweight position in Central London offices. Schroders expects that London's strength relative to the UK will continue into 2013, but also that 'good secondary' properties will begin to outperform prime property over the year. In Europe, the manager is expecting a steady recovery to start in most eurozone economies in the second half of 2013, although this will be unlikely to be enough to outperform UK property.

Performance Summary to 30 September 2012 ^[i]

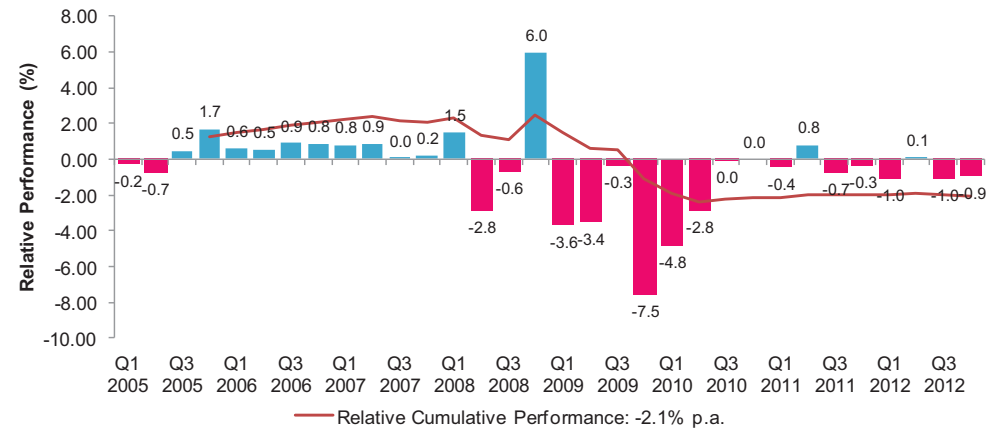
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-0.4	-1.2	2.8	1.9
Benchmark	0.5	0.2	6.1	2.9
Relative	-0.9	-1.4	-3.1	-0.9

* Inception date 12 Oct 2004.

3 Year Relative Return

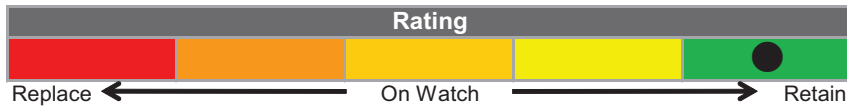
Actual % p.a.	Target % p.a.
-3.1	0.0

Relative Quarterly and Relative Cumulative Performance



Investec - Commodities

HR View Comment & Rating



Investec have confirmed that Stephen Lee has been appointed sales director within the UK client group to support the institutional sales team. He joins from UBS Global Asset Management, where he was most recently Head of UK institutional business development.

There were no other significant updates to report for the period.

Performance Summary to 30 September 2012 ^[1]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	-0.2	-3.7	-0.4
Benchmark	-7.0	-5.5	-0.6
Relative	7.3	1.9	0.2

* Inception date 25 Feb 2010.

3 Year Relative Return

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

Performance Summary - Comment

The Investec commodities mandate outperformed its benchmark over the quarter, returning -0.2% against the benchmark return of -7.0%.

The manager's long positions in Base & Bulks was the main contributor to performance over the quarter as iron ore enjoyed a significant rise. Other positive contributors to performance included the portfolio's long position in tin and its individual holdings in Forstescue Metal Group and Northland Resources, which both benefitted from the iron ore price rise.

The major detractor from performance over the quarter was the portfolio's exposure to precious metals; industrial disruptions in South Africa led to sector volatility which negatively impacted the manager's holdings in Gold and Platinum. Volatility in the Soft Commodities market also detracted from performance.



Harbourvest - Venture Capital

HR View Comment & Rating



There have been no significant personnel changes to report in the last quarter and the senior HarbourVest team remains stable. HarbourVest's Beijing office is now up and running. George Anson has been spending a lot of time there as he has "dotted line" responsibility for Beijing, Hong Kong and Tokyo. The firm now has comprehensive global coverage and there are no plans to open another international office for the foreseeable future.

HarbourVest is hoping to launch fund raising for HIPEP VII, its international (i.e. non-US) programme, in the first half of 2013 (probably Q2), while the US fund (Fund IX) is now almost at the end of fund raising. It has been a "long slog" but the firm has just about hit its fundraising target of \$3 billion in what has been an exceptionally difficult period for fund of funds firms. The firm has also recently taken on a couple of segregated accounts with large US institutions. This provides us with strong comfort about the future health of the firm. In summary, we remain very comfortable with retaining HarbourVest as the fund's private equity fund of funds manager.

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Performance Summary - Comment

The HarbourVest mandate returned 0.7%, underperforming its benchmark return of 2.0%.

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 30 September 2012 ^[1]

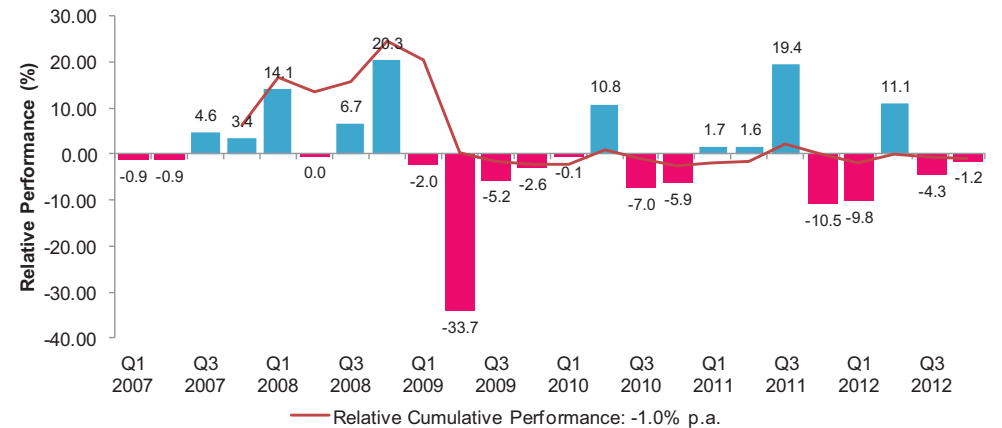
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	0.7	5.6	7.8	5.1
Benchmark	2.0	11.4	7.3	4.1
Relative	-1.2	-5.3	0.4	1.0

* Inception date 29 Jun 2006.

3 Year Relative Return

Actual % p.a.	Target % p.a.
0.4	5.0

Relative Quarterly and Relative Cumulative Performance



M&G - UK Companies Financing Fund

HR View Comment & Rating



Annabel Gillard has been appointed UK sales director in the distribution team of the fixed income business. She joined M&G in September having previously been head of UK institutional business development at Union Bancaire Privee.

There have been no other significant changes to the M&G investment team to report during the period.

Performance Summary to 31 December 2012 ^[i]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	1.2	4.3	3.1
Benchmark	0.1	0.8	0.7
Relative	1.1	3.5	2.4

* 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 (UKCFF) returned 1.2% (as reported by Northern Trust), ahead of its LIBOR benchmark return of 0.1% for the quarter.

In December, the UKCFF funded its 11th loan of £100m to Drax, a utility firm. In 2012, the fund lent a total of £255m and the total notional loan value outstanding is now £930m. The manager reports that all the loans within the portfolio are performing as expected.



Performance Calculation

Geometric vs Arithmetic Performance

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

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

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.



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: 21 February 2013

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:-

8. Minutes

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

Document is Restricted

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

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