

London Borough of Lewisham Pension Fund

Review of Investment Managers' Performance for Third Quarter of 2012



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For and on behalf of Hymans Robertson LLP
November 2012

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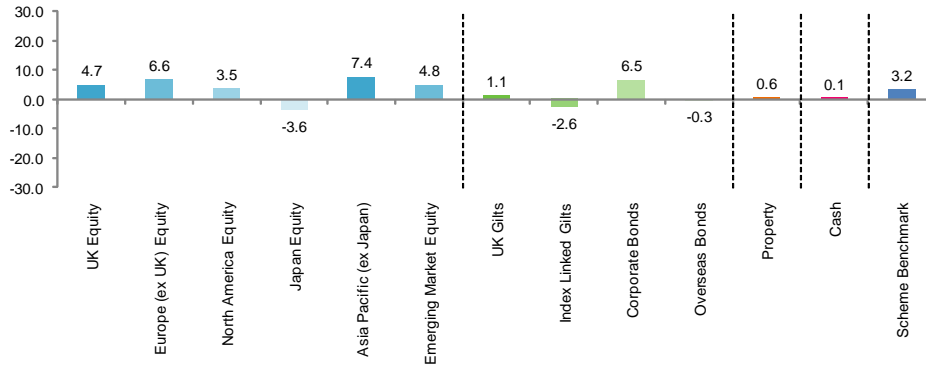
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Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in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

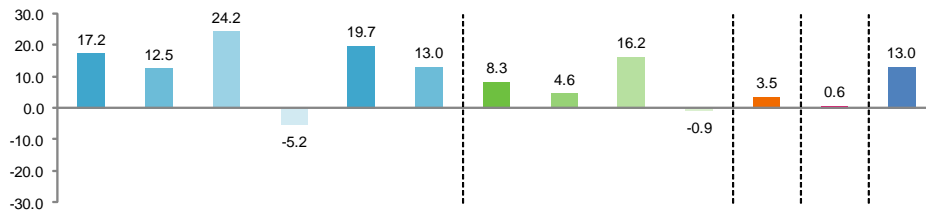
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Historic Returns for World Markets to 30 September 2012

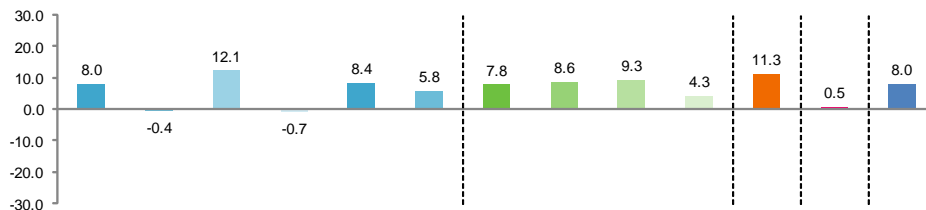
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Historic Returns - Comment

Initiatives announced by central banks during the quarter to end September differed in nature and size, but not in purpose. The common goal was to stimulate economic growth, in the context of an uncertain global outlook. In many European countries, including the UK, there was an active debate over the balance between austerity measures and the need to promote economic growth. Civil unrest in Spain and Greece, in September, was proof of the deep unpopularity of austerity measures. In the US, weak employment numbers were a recurring source of concern.

During the quarter, economic growth forecasts for the UK were revised down. The Bank of England cut its forecast for growth in 2012 to close to zero with some forecasters predicting economic contraction. Economic growth forecasts for other regions were also revised downwards. The Eurozone crisis was regularly cited as the greatest threat to the global economy. In the US and China decelerating economic growth was the catalyst for further monetary easing.

In bond markets, Spain, Portugal and Italy continued to pay a 'premium' price for borrowing. In contrast, certain German bonds, at times, returned a negative yield, as investors effectively paid for the security they offered.

Key events during the quarter were:

Global Economy

- Policy makers in the UK, Eurozone, US, Japan and China announced further asset purchase programmes to stimulate economies;
- Short-term interest rates were unchanged in UK, US and Japan;
- Eurozone short-term interest rates were cut, from 1.0% to 0.75%;
- France and Italy pressed the case for economic growth rather than austerity as policy priority;
- Moodys placed the outlook for credit ratings of Germany and Netherlands on 'negative watch'.

Equities

- Apple became the world's largest company measured by market capitalisation (\$623bn);
- The strongest sectors relative to the 'All World' Index were Oil & Gas (+2.6%) and Financials (+1.6%); the weakest were Utilities (-5.7%) and Consumer Goods (-2.4%).

Bonds

- The ECB announced a bond purchase programme to assist countries struggling to raise funds;
- Corporate bonds outperformed government issues by a significant margin.

The action taken by policy makers during the quarter reflects deep unease about the global economic outlook. For the US, and indeed the global economy, much depends on the outcome of the November presidential election. The two main candidates offer very different economic strategies.

Portfolio Summary

Valuation Summary

Asset Class	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q2 2012	Q3 2012			
Global Equity	447.9	466.9	59.6	60.0	-0.4
Bonds	141.5	144.5	18.5	16.0	2.5
Property	70.1	69.7	8.9	10.0	-1.1
Hedge Fund of Funds	20.6	0.0	0.0	3.0	-3.0
Private Equity	34.0	34.0	4.3	3.0	1.3
Cash (ex-Fauchier assets)	0.0	20.7	2.6	0.0	2.6
UK Financing Fund	11.5	11.6	1.5	3.0	-1.5
Commodities	36.0	35.6	4.5	5.0	-0.5
Total inc. Trustee Bank Account	761.5	782.9	100.0	100.0	

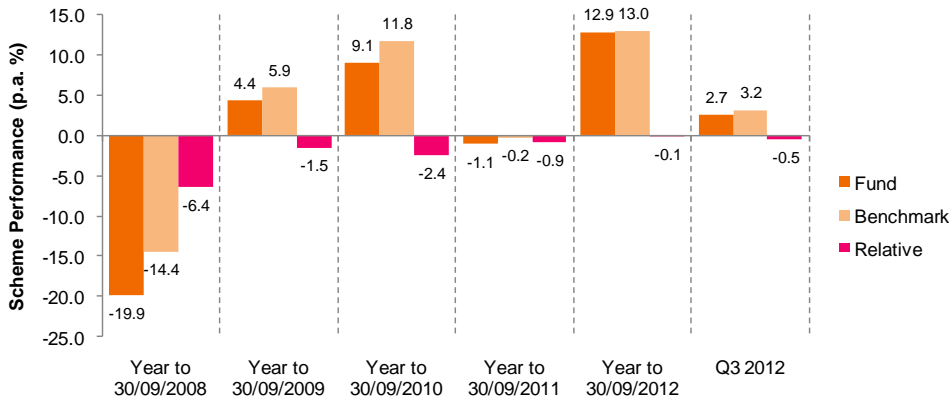
Comments

The Fund's portfolio value increased by £21.4m over the quarter, with the Fund's equity and fixed interest holdings posting positive absolute returns. The Fund underperformed its benchmark, returning 2.7%, relative to the benchmark return of 3.2%.

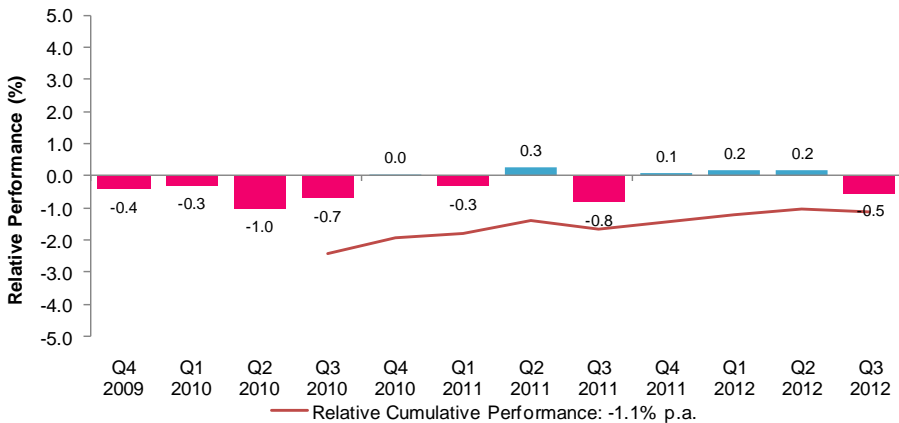
Relative performance from the Fund's active managers was mixed; the Fund's global equity mandates with Alliance Bernstein and RCM outperformed, as did the Fund's UBS fixed interest mandate and M&G Financing fund. In contrast, the Schroders (property), Investec (commodities), and HarbourVest (private equity) mandates each underperformed.

N.B. The Fauchier fund of hedge funds holding was redeemed on 1 July. In this report we still show this target allocation at 3% pending further discussion on the destination of those funds, with the proceeds reported as cash.

Performance Summary [1]



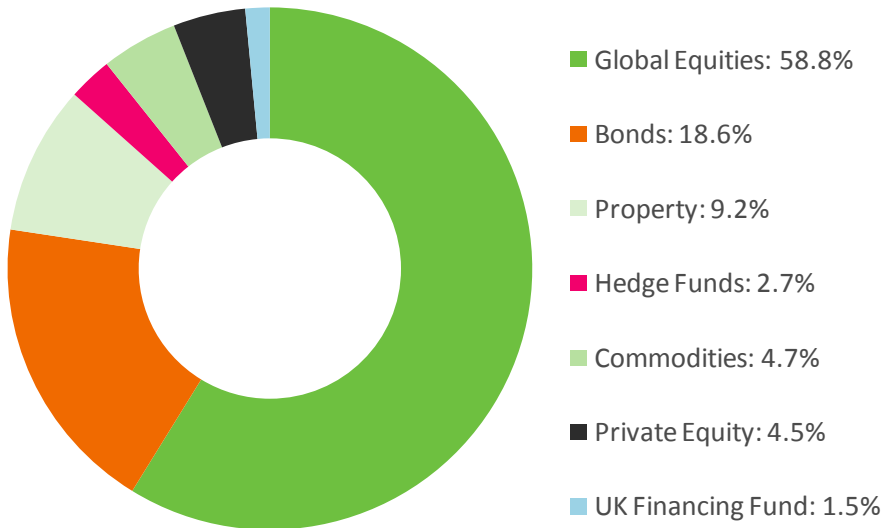
Relative Quarterly and Relative Cumulative Performance



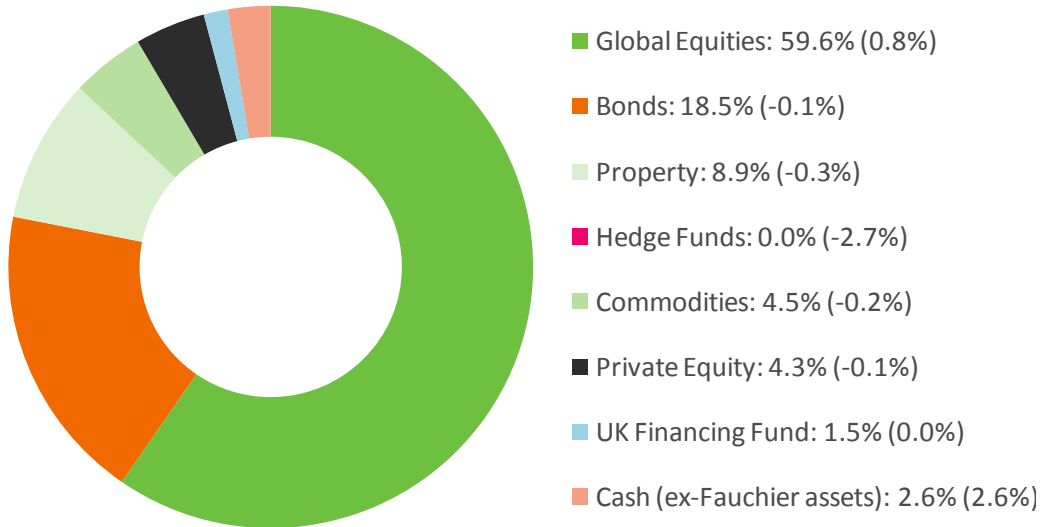
Source: [1] DataStream, Fund Manager, Hymans Robertson

Fund Asset Allocation

Asset allocation as at 30 June 2012



Asset allocation as at 30 September 2012



Comments ^[1]

The Fund's investment in the Fauchier hedge fund of funds mandate was redeemed at the start of July, with the proceeds held in cash pending further discussion on the final destination of these assets.

Other than the Fauchier redemption, the rest of the Fund's asset allocation is broadly unchanged as at the end of Q3 2012, as compared to the position at the end of the previous quarter, with movements in the allocations resulting from market movements over the period.

Source: [1] Fund Manager, Hymans Robertson



Manager Summary

Manager Valuations

Manager	Value (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q2 2012	Q3 2012			
Alliance Bernstein - Global Equity	157.1	163.5	20.9	22.0	-1.1
RCM - Global Equity	166.5	173.2	22.1	22.0	0.1
UBS - UK Equity (Index)	124.3	130.2	16.6	16.0	0.6
UBS - Fixed Interest	141.5	144.5	18.5	16.0	2.5
Schroders - Property	70.1	69.7	8.9	10.0	-1.1
Fauchier - Hedge Fund of Funds	20.6	0.0	0.0	3.0	-3.0
Investec - Commodities	36.0	35.6	4.5	5.0	-0.5
Harbourvest - Venture Capital	34.0	34.0	4.3	3.0	1.3
M&G - UK Companies Financing Fund	11.5	11.6	1.5	3.0	-1.5
Cash (ex-Fauchier assets)	0.0	20.7	2.6	0.0	2.6
Total	761.5	782.9	100.0	100.0	0.0

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

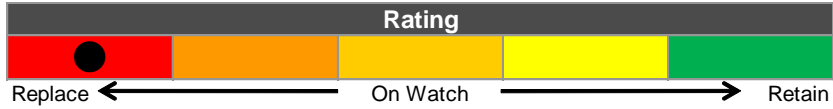
Performance Summary ^[1]

		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	Cash (ex-Fauchier assets)	Total Fund
3 Months (%)	Absolute	4.0	3.9	4.7	2.2	-0.7	-0.7	-1.4	-0.6	1.1	N/A	2.7
	Benchmark	3.8	3.8	4.7	1.9	0.4	0.5	6.5	3.8	0.2	N/A	3.2
	Relative	0.2	0.1	0.0	0.3	-1.1	-1.2	-7.4	-4.3	0.9	N/A	-0.5
12 Months (%)	Absolute	14.6	23.4	17.3	12.2	-0.0	-0.9	-2.5	1.3	3.8	N/A	12.9
	Benchmark	16.7	16.7	17.2	11.0	2.8	4.9	2.3	18.0	0.9	N/A	13.0
	Relative	-1.8	5.7	0.0	1.1	-2.7	-5.5	-4.7	-14.2	3.0	N/A	-0.1
3 Years (% p.a.)	Absolute	3.4	7.8	8.0	11.1	5.7	-0.6	N/A	7.7	N/A	N/A	6.8
	Benchmark	6.9	6.9	8.0	9.8	9.5	4.9	N/A	7.7	N/A	N/A	8.0
	Relative	-3.3	0.9	0.0	1.2	-3.5	-5.2	N/A	0.0	N/A	N/A	-1.1
Since Inception (% p.a.)	Absolute	4.9	9.4	3.8	10.9	2.0	-0.5	-0.4	5.2	2.9	N/A	6.7
	Benchmark	7.3	10.4	3.7	9.5	3.0	5.9	2.1	3.9	0.8	N/A	7.2
	Relative	-2.3	-1.0	0.1	1.3	-1.0	-6.0	-2.4	1.2	2.1	N/A	-0.5



Alliance Bernstein - Global Equity

HR View Comment & Rating



The Committee has decided that the "core" assets of the Fund should be managed on a passive (i.e. index-tracking) basis. The Committee has decided to allocate the passive management of the assets equally to UBS and BlackRock.

Alliance Bernstein has been informed of the termination of their mandate and Northern Trust, as the appointed transition manager, are in the process of managing the transfer of assets.

Performance Summary - Comment

Alliance Bernstein outperformed their benchmark during Q3 2012, with the mandate returning 4.0% against the benchmark return of 3.8%.

The manager's holdings in financials, which detracted from performance in the previous quarter, were the portfolio's top performers in Q3 2012, benefiting from confidence-building measures by central banks. Holdings in this group included ING Group, Banco de Brasil, Societe Generale and Citigroup. Two technology stocks, Sharp and HP, were the biggest detractors to performance, following disappointing quarterly announcements suggesting that both firms face a prolonged period of restructuring.

Performance Summary to 30 September 2012 ^[i]

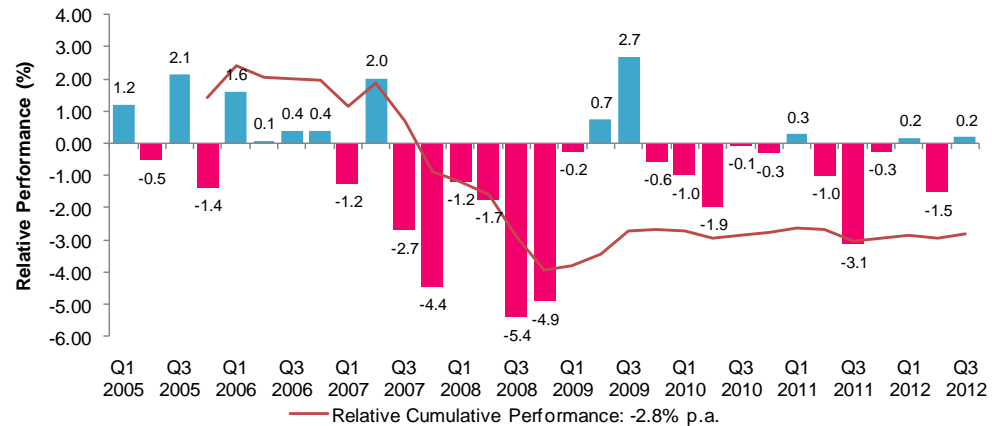
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	4.0	14.6	3.4	4.9
Benchmark	3.8	16.7	6.9	7.3
Relative	0.2	-1.8	-3.3	-2.3

* Inception date 01 Nov 2004.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-3.3	1.5

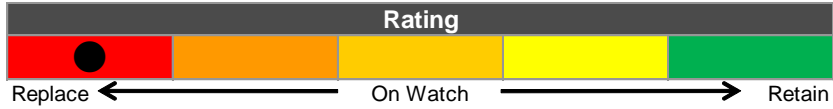
Relative Quarterly and Relative Cumulative Performance ^[ii]



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

RCM - Global Equity

HR View Comment & Rating



The Committee has decided that the "core" assets of the Fund should be managed on a passive (i.e. index-tracking) basis. The Committee has decided to allocate the passive management of the assets equally to UBS and BlackRock.

RCM has been informed of the termination of their mandate and Northern Trust, as the appointed transition manager, are in the process of managing the transfer of assets.

Performance Summary - Comment

Over the quarter, RCM achieved a portfolio return of 3.9%, ahead of the benchmark return of 3.8%.

Stock selection was the greatest contributor to relative performance over the quarter, offset by a negative contribution from sector allocation. Henkel (Consumer Staples) and Google, were among the biggest contributors to positive relative performance. The underweight allocation to Financials detracted from performance as the sector rebounded following moves by central banks to restore confidence. A number of Japanese stocks were also among the top detractors, hurt to some extent by the slowdown in economic activity in China.

Over the past year, the manager has significantly outperformed its benchmark, and remains ahead of benchmark over the 3 year period, but behind benchmark since the mandate's inception.

Performance Summary to 30 September 2012 ^[1]

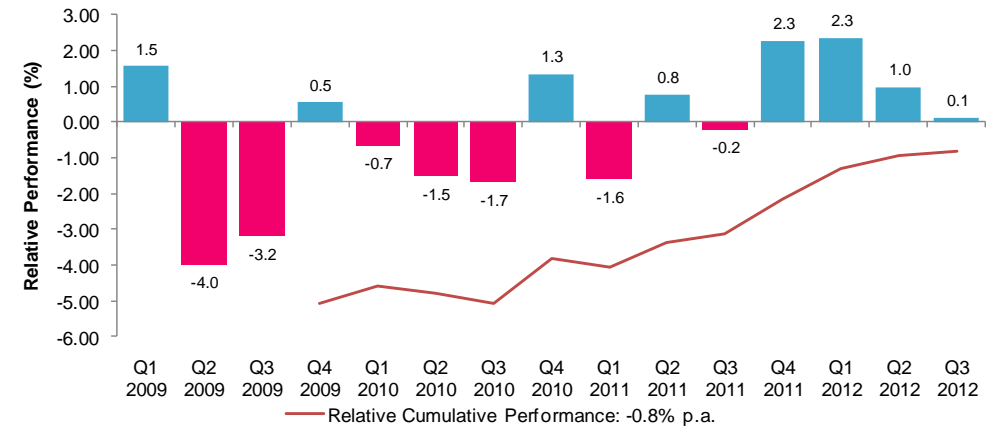
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	3.9	23.4	7.8	N/A
Benchmark	3.8	16.7	6.9	N/A
Relative	0.1	5.7	0.9	N/A

* Inception date 18 Sep 2008.

3 Year Relative Return

Actual % p.a.	Target % p.a.
0.9	1.5

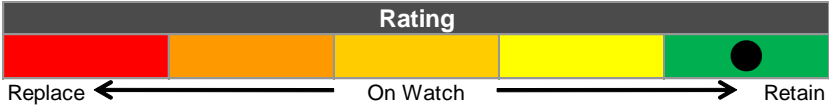
Relative Quarterly and Relative Cumulative Performance



Source: [1] DataStream, Fund Manager, Hymans Robertson

UBS - UK Equity

HR View Comment & Rating



There were no significant business updates over the quarter for the UBS passive equity business.

Performance Summary to 30 September 2012 ^[i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	4.7	17.3	8.0	3.8
Benchmark	4.7	17.2	8.0	3.7
Relative	-0.0	0.0	-0.0	0.1

* Inception date 27 Feb 2008.

3 Year Relative Return

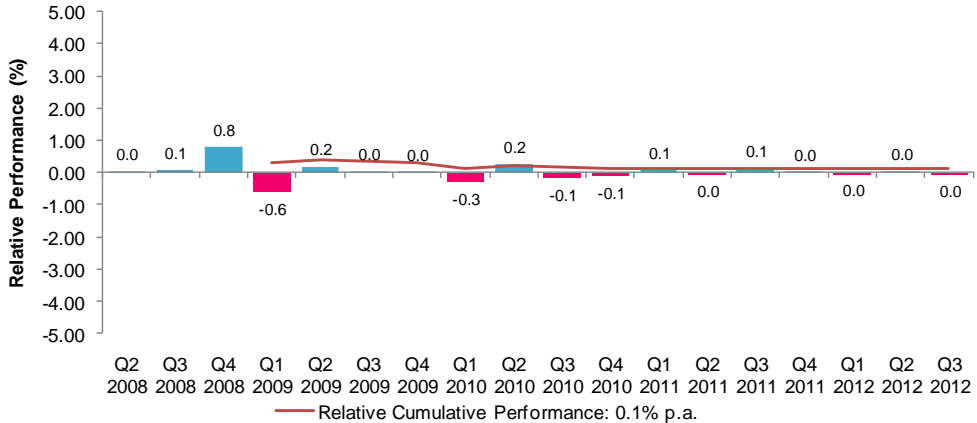
Actual % p.a.	Target % p.a.
0.0	0.0

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 Technology and Financials, while Telecommunications and Oil & Gas were the weakest.

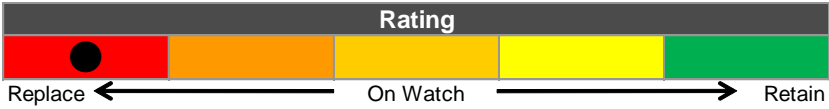
Relative Quarterly and Relative Cumulative Performance



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

UBS- Fixed Interest

HR View Comment & Rating



The Committee has agreed to move to new passive mandates with UBS and BlackRock.

Northern Trust are in the process of managing the transition process for the active bond assets within this mandate.

Performance Summary to 30 September 2012 ^[1]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	2.2	12.2	11.1	10.9
Benchmark	1.9	11.0	9.8	9.5
Relative	0.3	1.1	1.2	1.3

* Inception date 31 Oct 2004.

3 Year Relative Return

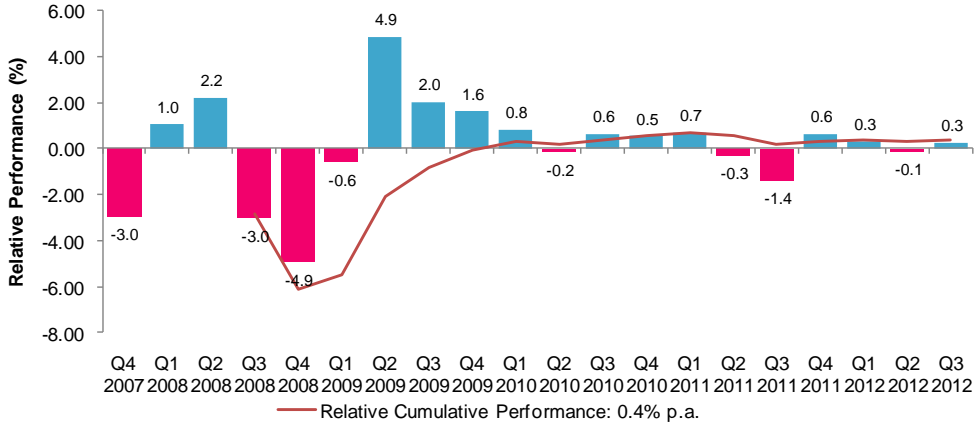
Actual % p.a.	Target % p.a.
1.2	1.1

Performance Summary - Comment

The UBS fixed interest mandate outperformed its benchmark over the quarter, returning 2.2% versus the benchmark return of 1.9%. The mandate is now ahead of benchmark over the past year and over the longer term performance period of 3 years.

Within the overall portfolio, the Long-dated Fixed Interest Fund outperformed its benchmark due to positive contributions from off-benchmark credit positions. The Duration Neutral and Long-Dated Corporate Bond funds both also outperformed their respective benchmarks due to individual credit selection.

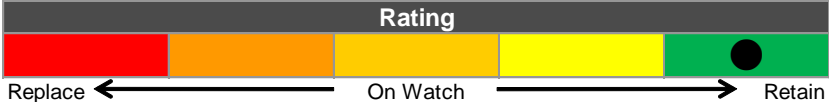
Relative Quarterly and Relative Cumulative Performance



Source: [1] DataStream, Fund Manager, Hymans Robertson

Schroders - Property

HR View Comment & Rating



There have been no significant changes or business updates in relation to Schroders' property teams over the past quarter.

Performance Summary to 30 September 2012 ^[1]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-0.7	-0.0	5.7	2.0
Benchmark	0.4	2.8	9.5	3.0
Relative	-1.1	-2.7	-3.5	-1.0

* Inception date 12 Oct 2004.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-3.5	0.0

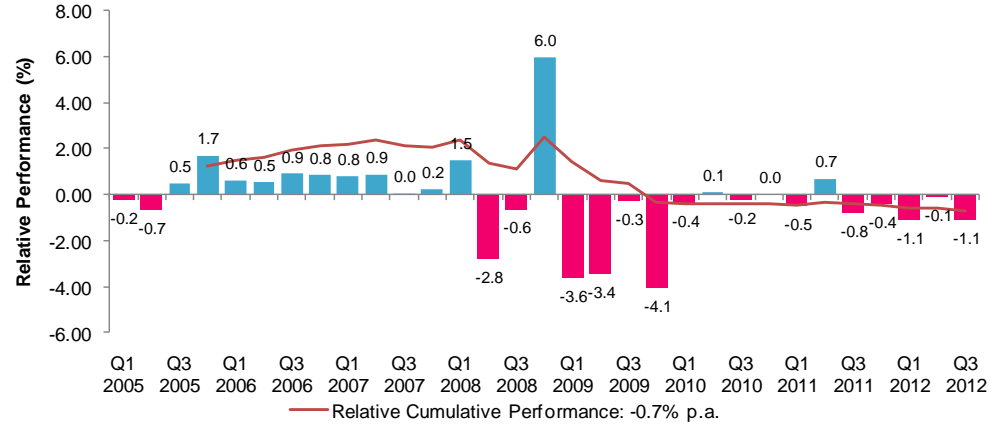
Performance Summary - Comment

The portfolio underperformed its benchmark over the quarter, returning -0.7% against the benchmark return of 0.4%.

Within the portfolio, underperformance over the quarter was attributable primarily to three holdings: the Gresham Real Estate Fund, a pre-2007 leveraged opportunity fund, the RREEF UK Office Property Fund, and the Schroders Continental European Fund I. The Gresham fund is in wind down phase, and the manager is awaiting redemption from the RREEF fund, having served the redemption notice in December 2011. With limited scope to make changes to the European holding, the manager continues to expect this portion of the portfolio to detract from returns for "some quarters to come".

The manager continues to maintain an underweight position to the Retail sector and an overweight position in Central London offices. The manager's outlook remains broadly unchanged from previous quarters, and the manager continues to expect a flat return from UK property for 2012, with declining capital values offset by returns from income. The manager also expects that returns from UK property will be derived mostly from income going forwards, and anticipates some rental growth from 2014 as the economy improves.

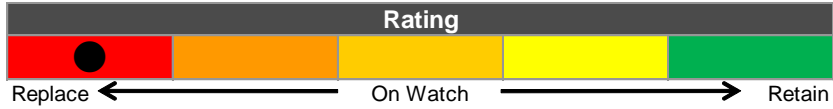
Relative Quarterly and Relative Cumulative Performance



Source: [1] Fund Manager, Hymans Robertson, Investment Property Databank Limited

Fauchier - Hedge Fund of Funds

HR View Comment & Rating



As noted in our previous quarterly report, the Committee has served a redemption notice for the entirety of the mandate.

Fauchier confirmed that the redemption was processed on 1 July 2012 and that proceeds were paid out on 27 July.

Performance Summary - Comment

The Fauchier mandate returned -0.7% underperforming its benchmark return of 0.5% for the partial quarter to 1 July 2012.

The mandate has now been terminated, and the proceeds have been retained in cash at Northern Trust, pending further discussion on the destination of the funds.

Performance Summary to 30 September 2012 [i]

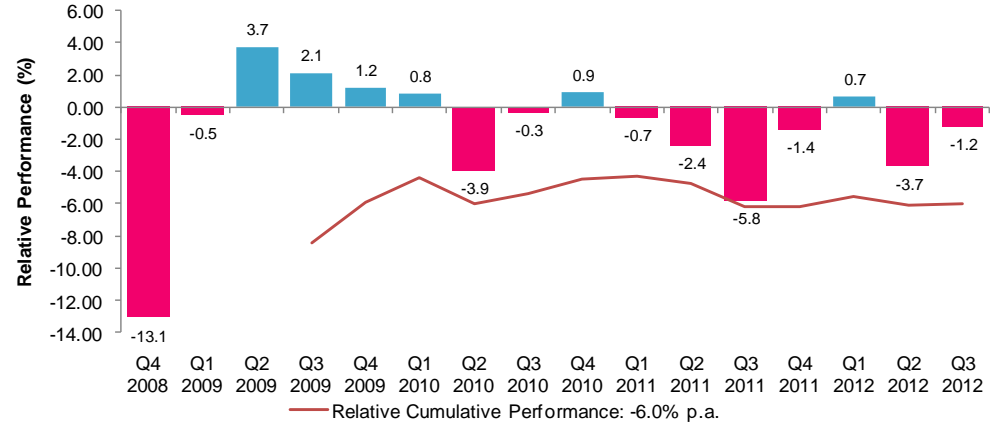
	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	-0.7	-0.9	-0.5
Benchmark	0.5	4.9	5.9
Relative	-1.2	-5.5	-6.0

* Inception date 28 Jun 2008.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-5.2	5.0

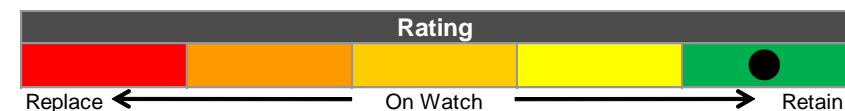
Relative Quarterly and Relative Cumulative Performance



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

Investec - Commodities

HR View Comment & Rating



Investec have confirmed that both Charles Whall and Tom Nelson commenced with Investec Asset Management in September, as co-portfolio managers of their Energy strategies, as flagged in our previous quarterly report.

Whall has 19 years' experience working within the oil and gas industry followed by 10 years as the lead Oil & Gas sector analyst for Newton Asset Management. Tom Nelson has worked at Guinness Asset Management since 2005 where he was co-portfolio manager of their Global Energy Fund.

There have been no other significant investment team updates to report for the period.

Performance Summary - Comment

The Investec commodities mandate underperformed its benchmark over the quarter, returning -1.4% against the benchmark return of 6.5%.

The manager's long positions in Base & Bulks were again among the largest detractors to performance; the iron ore price fell by 22% over the quarter as demand continues to weaken. Individual holdings that detracted included Rio Tinto and Forstescue Metal Groups, while the manager's holding in Whitehaven Coal was also sold off as an offer to buy out the company lapsed.

Positive contributors to performance included the portfolio's long position in tin, where the manager sees a supply deficit continuing into 2013, and long positions in agricultural commodities, with the price of corn, soybeans and other soft commodities rising on the back of US drought conditions.

Performance Summary to 30 September 2012 ^[1]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	-1.4	-2.5	-0.4
Benchmark	6.5	2.3	2.1
Relative	-7.4	-4.7	-2.4

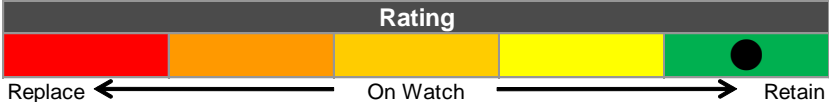
* Inception date 25 Feb 2010.

3 Year Relative Return

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

Harbourvest - Venture Capital

HR View Comment & Rating



HarbourVest held their annual private equity seminar in London on 16 October to provide investors with an update on the performance of their various funds as well as their view of the market as it currently stands and going forward. Overall the mood was positive. The funds are generally performing well, notwithstanding the impact of the financial crisis in 2008. In 2010, 2011 and YTD 2012, HarbourVest returned more in distributions to clients than it called for its primary partnership investments, a strong indication that the underlying funds continue to generate liquidity despite the challenging economic conditions.

The firm reiterated how its approach is not based simply on allocating capital to primary funds, but that it also takes a very active approach to sourcing secondary and co-investment opportunities. We feel confident that HarbourVest can continue to deliver and remain strongly supportive of continued private equity investment with the firm.

Performance Summary - Comment

The HarbourVest mandate returned -0.6%, underperforming its benchmark return of 3.8%.

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 [i]

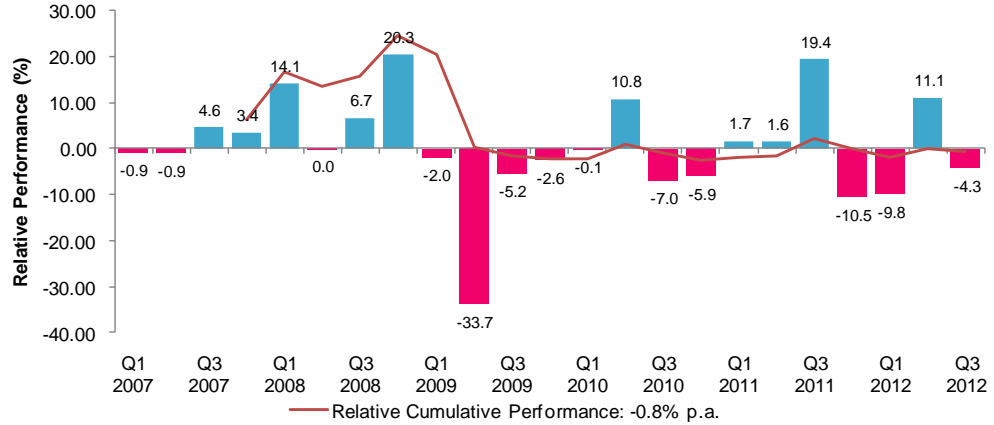
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-0.6	1.3	7.7	5.2
Benchmark	3.8	18.0	7.7	3.9
Relative	-4.3	-14.2	-0.0	1.2

* Inception date 29 Jun 2006.

3 Year Relative Return

Actual % p.a.	Target % p.a.
0.0	5.0

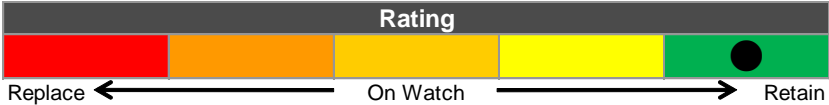
Relative Quarterly and Relative Cumulative Performance



Source: [i] DataStream, Hymans Robertson

M&G - UK Companies Financing Fund

HR View Comment & Rating



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

Performance Summary to 30 September 2012 ^[1]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	1.1	3.8	2.9
Benchmark	0.2	0.9	0.8
Relative	0.9	3.0	2.1

* 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 1.1% (as reported by Northern Trust), ahead of its LIBOR benchmark return of 0.2% for the quarter.

As reported in the previous quarterly report, the fund committed to its final loan at the start of July, for £100m to a UK power company, which remains to be drawn down. The manager reports that the loans within the portfolio are all performing to expectation.

Source: [1] DataStream, Hymans Robertson



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.

