

London Borough of Lewisham Pension Fund

Review of Investment Managers' Performance for Fourth Quarter of 2012

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For and on behalf of Hymans Robertson LLP
February 2013

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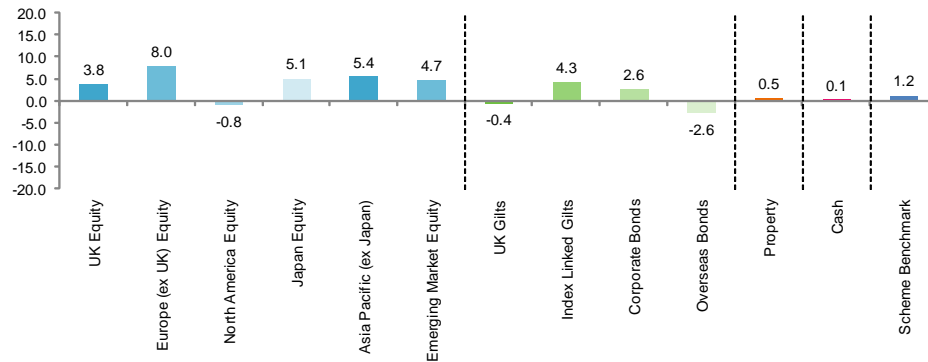
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Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in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

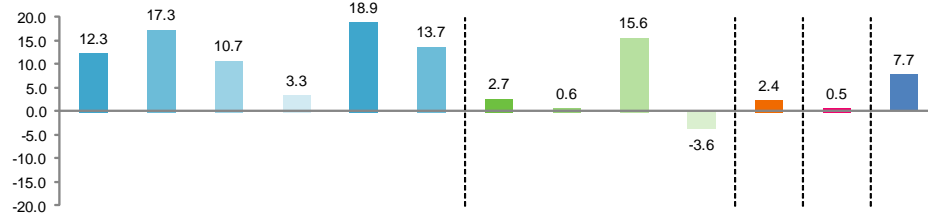
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Historic Returns for World Markets to 31 December 2012

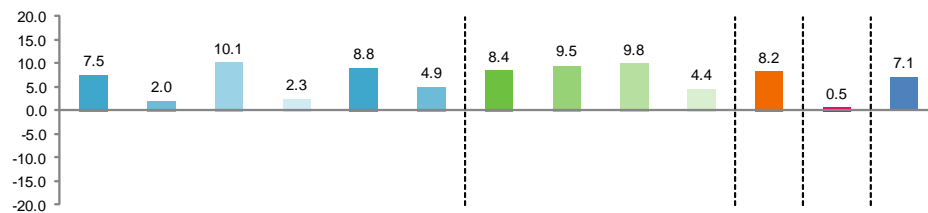
3 Months (%)



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	

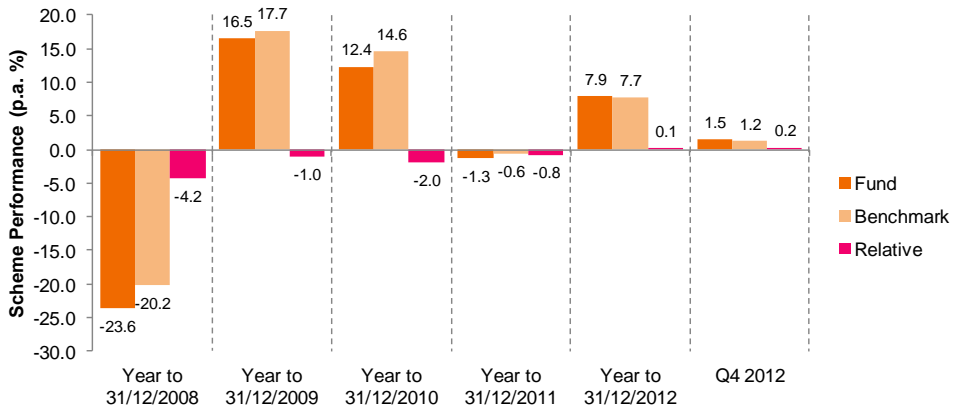
Comments

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%.

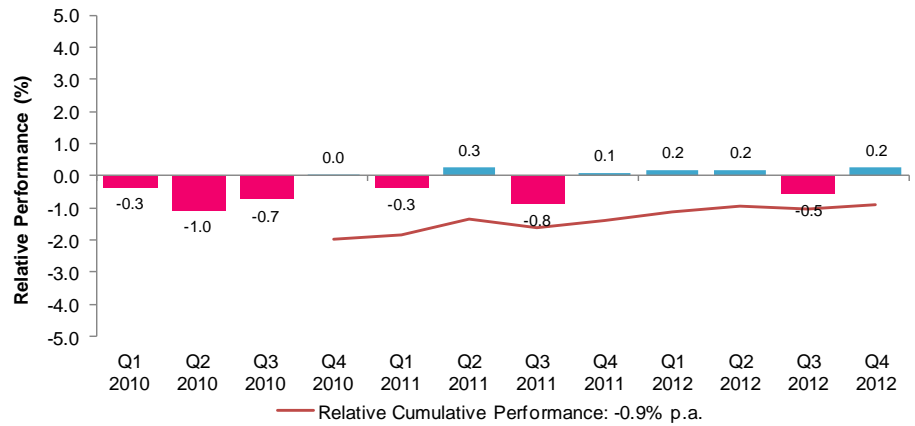
Relative performance from the Fund's active managers was mixed, with outperformance from Investec (Commodities) and the M&G UK Financing Fund offset somewhat by underperformance from Schroders (Property) and HarbourVest (Private Equity).

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 ^[1]



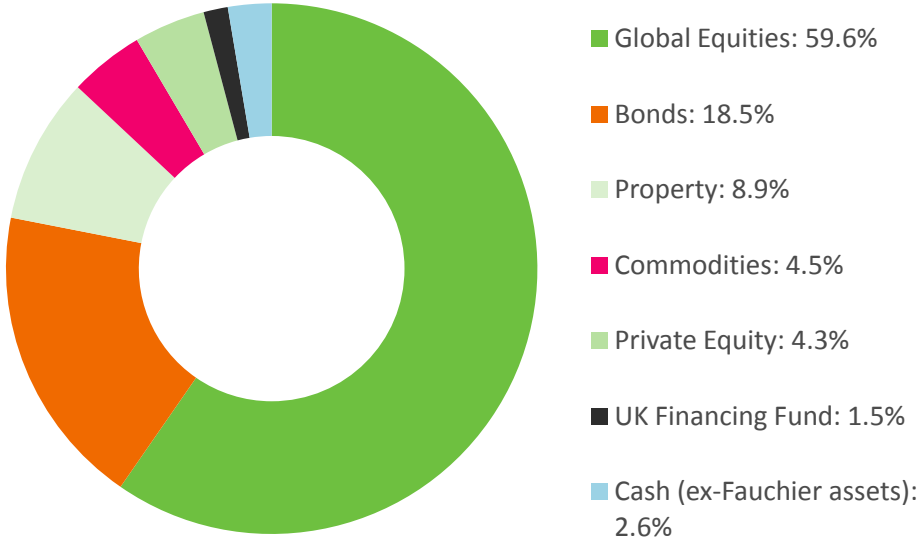
Relative Quarterly and Relative Cumulative Performance



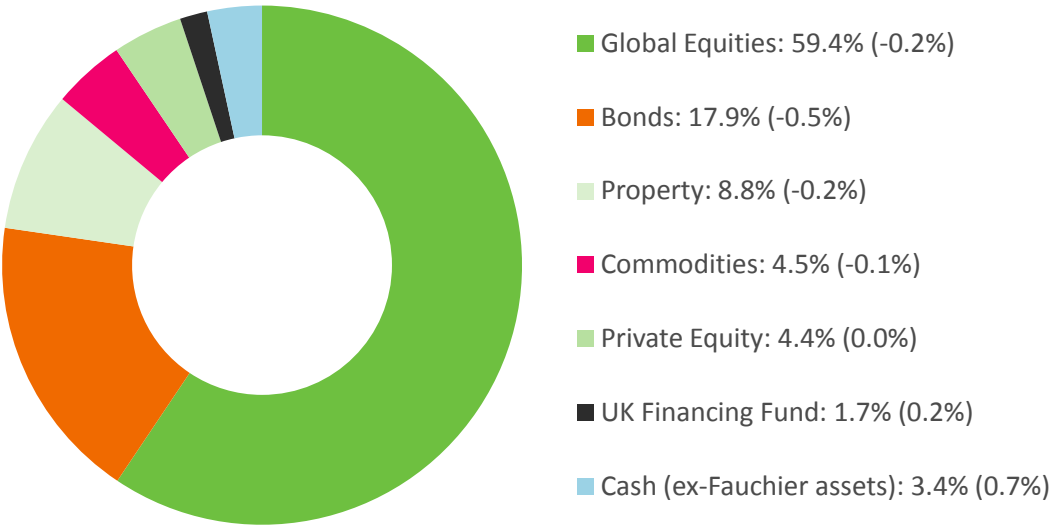
Source: [1] DataStream, Fund Manager, Hymans Robertson

Fund Asset Allocation

Asset allocation as at 30 September 2012



Asset allocation as at 31 December 2012



Comments ^[1]

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: [1] 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

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 ^[1]

	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 Benchmark	-0.1	-0.9	N/A	N/A	-0.4	-0.2	0.7	1.2	N/A	1.5
		-0.4	-0.4	N/A	N/A	0.5	-7.0	2.0	0.1	N/A	1.2
	Relative	0.4	-0.5	N/A	N/A	7.3	-1.2	1.1	N/A	0.2	
12 Months (%)	Absolute Benchmark	7.3	11.4	N/A	N/A	-1.2	5.6	4.3	N/A	7.9	
		8.2	8.2	N/A	N/A	0.2	-5.5	0.8	N/A	7.7	
	Relative	3.0	N/A	N/A	N/A	1.9	-5.3	3.5	N/A	0.1	
3 Years (% p.a.)	Absolute Benchmark	2.6	6.0	N/A	N/A	2.8	7.8	N/A	N/A	6.1	
		5.5	5.5	N/A	N/A	6.1	7.3	N/A	N/A	7.1	
	Relative	0.5	N/A	N/A	N/A	0.4	N/A	N/A	N/A	-0.9	
Since Inception (% p.a.)	Absolute Benchmark	4.7	8.5	2.6	3.7	1.9	5.1	3.1	N/A	6.7	
		7.0	9.6	2.5	3.7	2.9	4.1	0.7	N/A	7.2	
	Relative	0.1	0.0	0.2	1.0	2.4	N/A	N/A	-0.4		

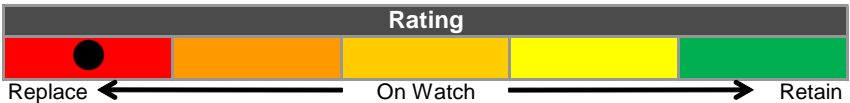
Note: Performance for Alliance Bernstein and RCM represents performance for the partial quarter to 1 November 2012 prior to both mandates being terminated.

Source: [1] 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.

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]

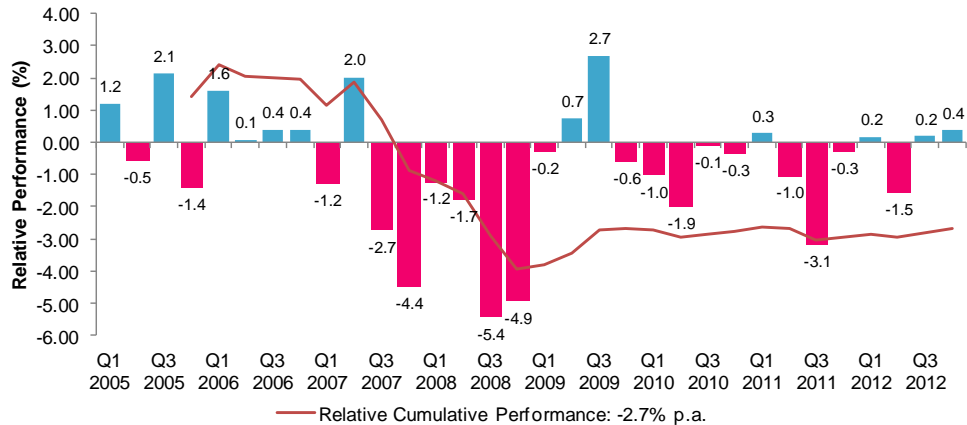
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-0.1	7.3	2.6	4.7
Benchmark	-0.4	8.2	5.5	7.0
Relative	0.4	-0.8	-2.7	-2.2

* Inception date 01 Nov 2004.

3 Year Relative Return

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

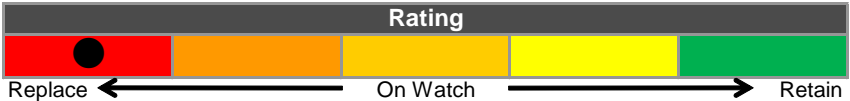
Relative Quarterly and Relative Cumulative Performance ^[ii]



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 - 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.

Performance Summary to 30 September 2012 ^[i]

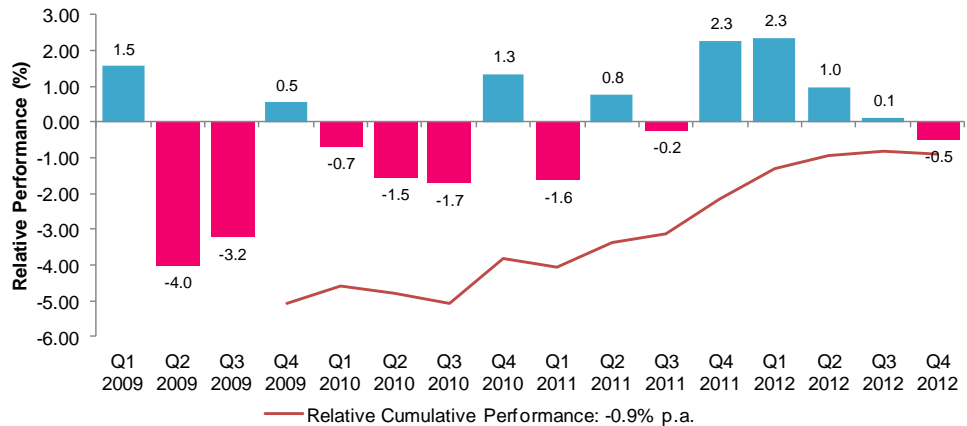
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-0.9	11.4	6.0	N/A
Benchmark	-0.4	8.2	5.5	N/A
Relative	-0.5	3.0	0.5	N/A

* Inception date 18 Sep 2008.

3 Year Relative Return

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

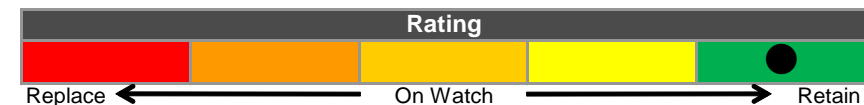
Relative Quarterly and Relative Cumulative Performance



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

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 - 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.

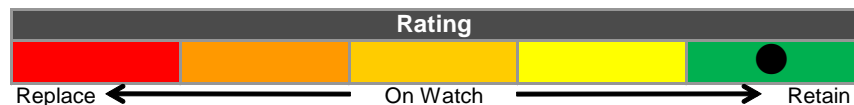
Performance Summary to 31 December 2012

	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.

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 - 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 Llnked 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.

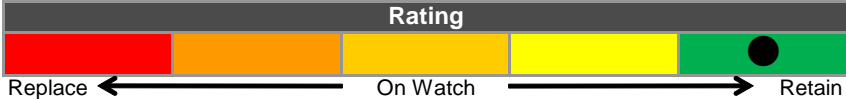
Performance Summary to 31 December 2012

	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.

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.

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 ^[1]

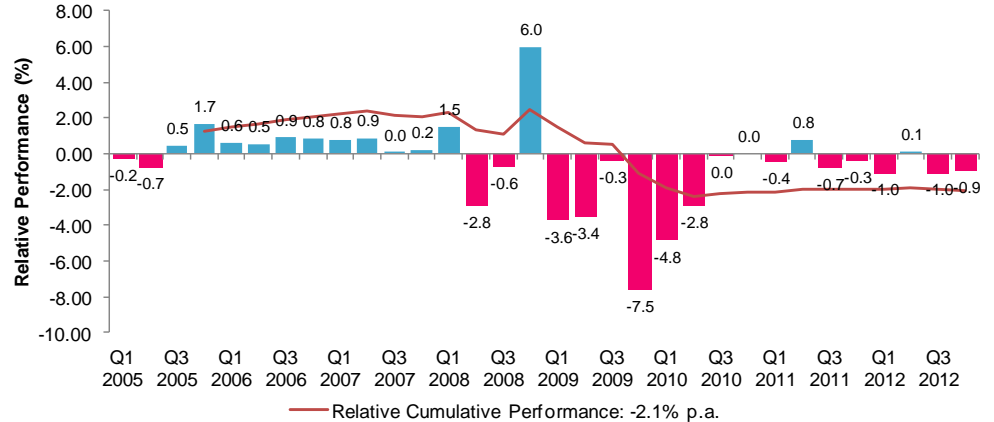
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-0.4	-1.2	2.8	1.9
Benchmark	0.5	0.2	6.1	2.9
Relative	-0.9	-1.4	-3.1	-0.9

* Inception date 12 Oct 2004.

3 Year Relative Return

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

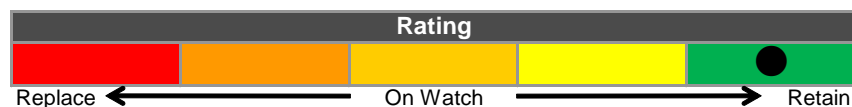
Relative Quarterly and Relative Cumulative Performance



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

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 - 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.

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

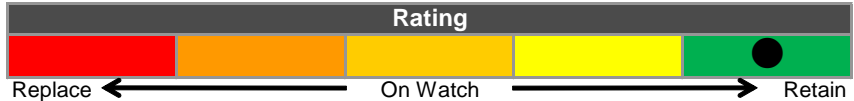
* Inception date 25 Feb 2010.

3 Year Relative Return

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

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.

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 [i]

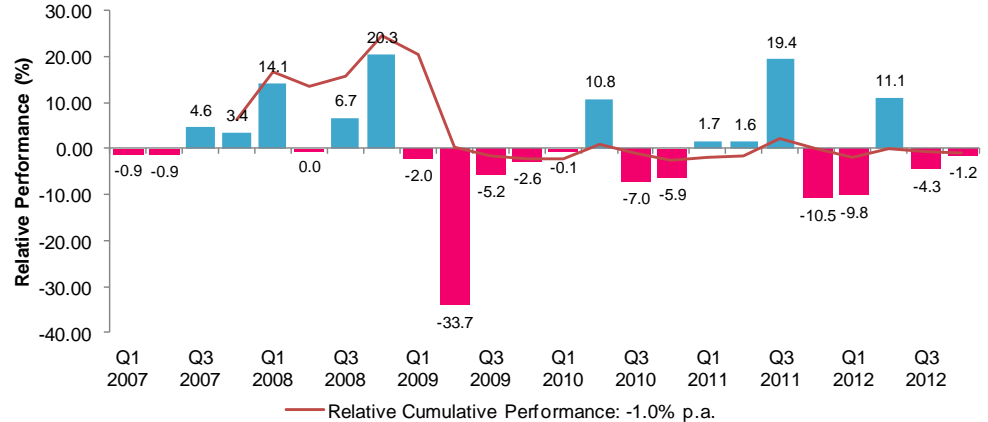
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	0.7	5.6	7.8	5.1
Benchmark	2.0	11.4	7.3	4.1
Relative	-1.2	-5.3	0.4	1.0

* Inception date 29 Jun 2006.

3 Year Relative Return

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

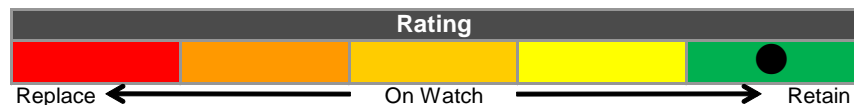
Relative Quarterly and Relative Cumulative Performance



Source: [i] DataStream, Hymans Robertson

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 - 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 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 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.

