

London Borough of Lewisham Pension Fund

Review of Investment Managers' Performance for First Quarter of 2013

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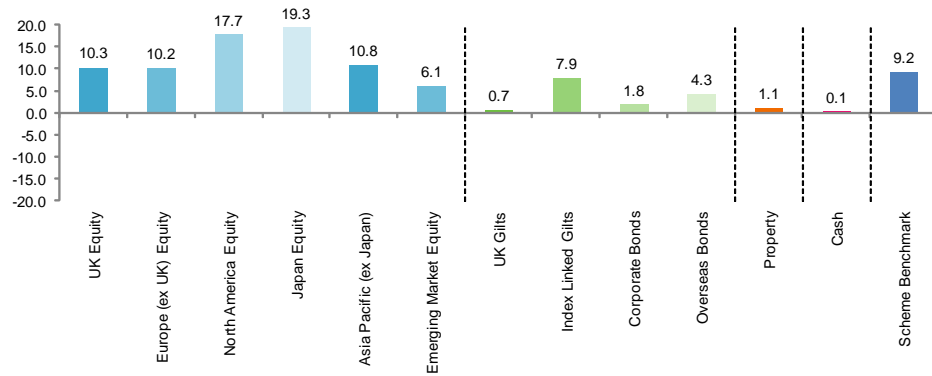
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Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in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

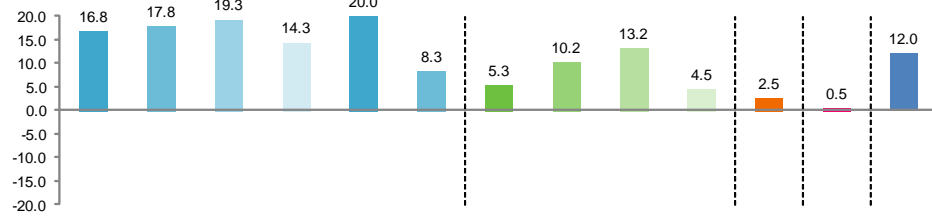
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Historic Returns for World Markets to 31 March 2013

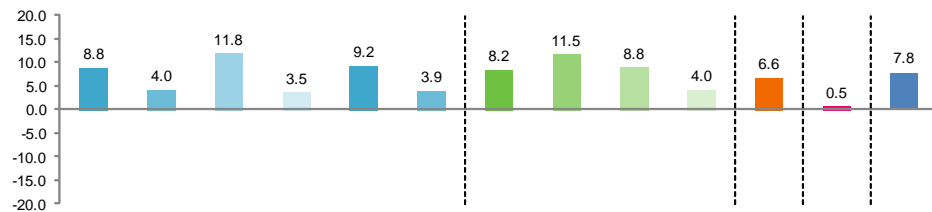
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Historic Returns - Comment

Equity markets performed strongly over the first quarter of 2013. Towards the end of March, the main equity indices in the US were approaching all-time highs. The positive tone in equity markets belied concerns about the global economic outlook. In the UK and Eurozone, economic activity contracted during the final quarter of 2012, the most recent period for which figures are available. Although the US economy showed signs of relative strength, policy makers remained cautious and were in no mood to reverse earlier stimulatory measures.

As economic activity in the UK and Eurozone faltered, the effectiveness of quantitative easing and other stimulatory measures was widely questioned by an investing public. In the UK, there was even discussion of negative interest rates as a means of persuading banks to lend more. Sterling fell 4.2% in trade-weighted terms.

The Chancellor of the Exchequer presented his March budget against a background of downward revisions to economic growth forecasts and a cut in the country's credit rating. With rising debt, austerity remains the order of the day. The budget incorporated further cuts in public spending.

Key events during the quarter were:

Global Economy

- The UK's credit rating was cut by Moodys, on concerns over continuing economic weakness;
- The UK reported a fall in economic activity in Q4 2012, raising concerns of a return to recession;
- Short-term interest rates in UK, US, Eurozone and Japan were held at record lows;
- Unemployment in Eurozone reached 12%, with wide variations (Germany 5.4%, Spain 26.3%);
- Japan announced a new package of measures (£72bn) to stimulate its 'moribund' economy. The Japanese Yen continued to fall sharply;
- The Eurozone reported a third consecutive quarter of economic contraction.

Equities

- Rio Tinto wrote off \$14bn in its aluminium and coal businesses;
- The strongest sectors relative to the 'All World' Index were Health Care (+7.5%) and Consumer Services (+3.8%); the weakest were Basic Materials (-11.7%) and Oil & Gas (-2.7%).

Bonds

- The US announced the continuation of the bond purchase programme (\$85bn per month);
- Index linked gilts (+7.9%) outperformed fixed interest gilts (+0.7%); this followed the decision of the UK Statistical Authority to retain the current RPI calculation methodology.

Portfolio Summary

Valuation Summary

Asset Class	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q4 2012	Q1 2013			
Global Equity	470.0	522.1	60.0	60.0	0.0
Bonds	142.0	157.5	18.1	18.0	0.2
Property	69.4	71.0	8.2	10.0	-1.8
Private Equity	34.5	37.5	4.3	3.0	1.3
Cash	32.2	30.3	3.5	3.0	0.5
UK Financing Fund	13.3	13.4	1.5	1.0	0.5
Commodities	35.6	37.9	4.4	5.0	-0.6
Total Client	797.0	869.8	100.0	100.0	

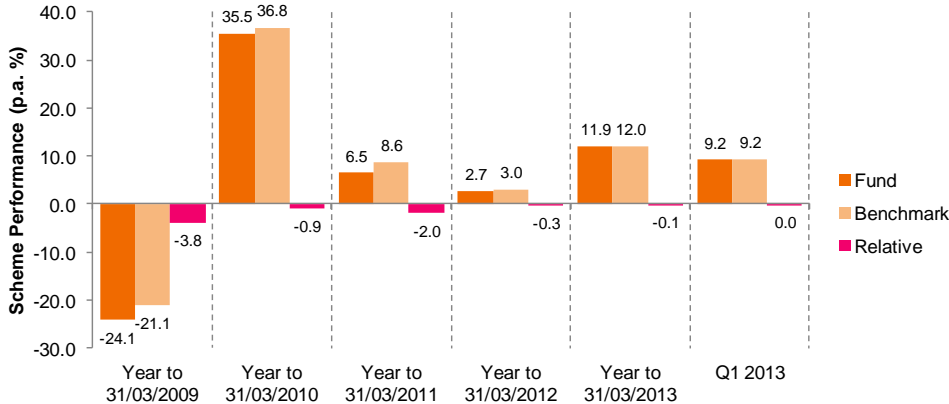
Comments

The value of the Fund's assets increased by £72.8m over the quarter to £869.8m as at 31 March 2013, with the Fund's equity mandates the main contributors to the Fund's return. The Fund performed in line with its benchmark, returning 9.2%.

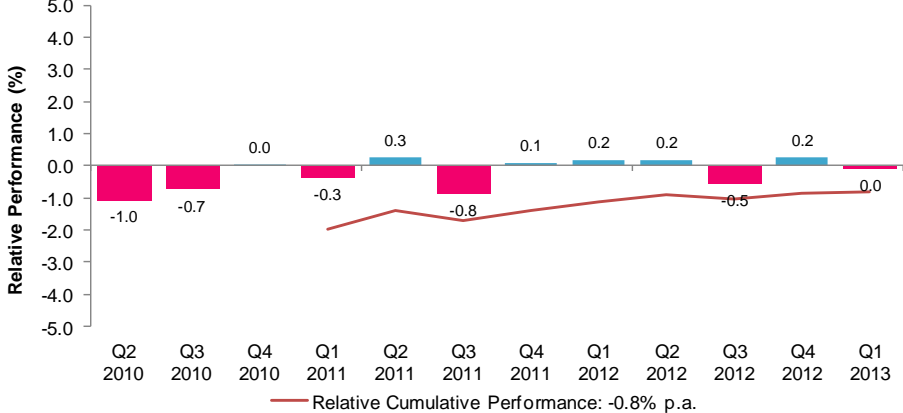
Relative performance from the Fund's active managers was mixed, with outperformance from Schroders (Property), Investec (Commodities) and the M&G UK Financing Fund offset somewhat by underperformance from HarbourVest (Private Equity).

The passive mandate with UBS performed broadly in line with its composite benchmark for the quarter. Although the BlackRock multi-asset mandate outperformed its benchmark over the quarter, this reversed underperformance from the previous quarter. Additional detail on the BlackRock mandate is provided on page 8.

Performance Summary [1]



Relative Quarterly and Relative Cumulative Performance

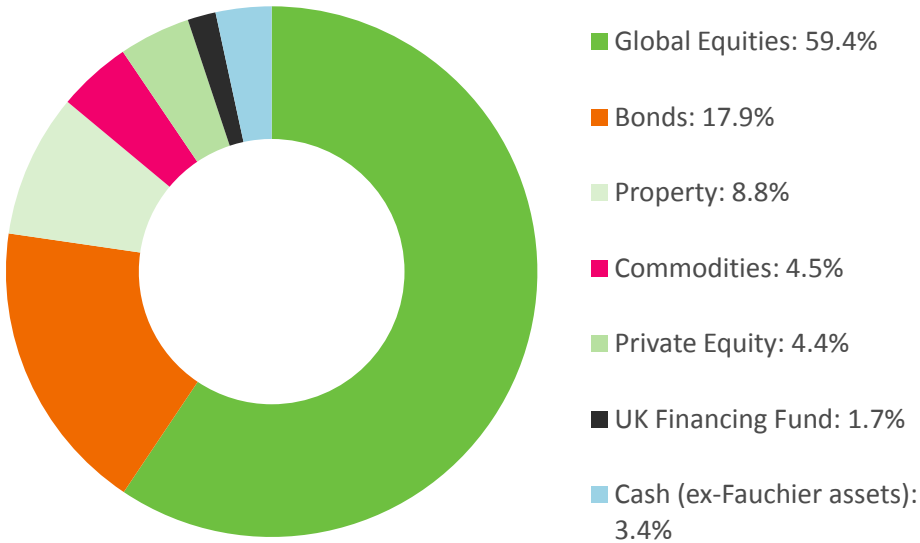


Source: [1] DataStream, Fund Manager, Hymans Robertson

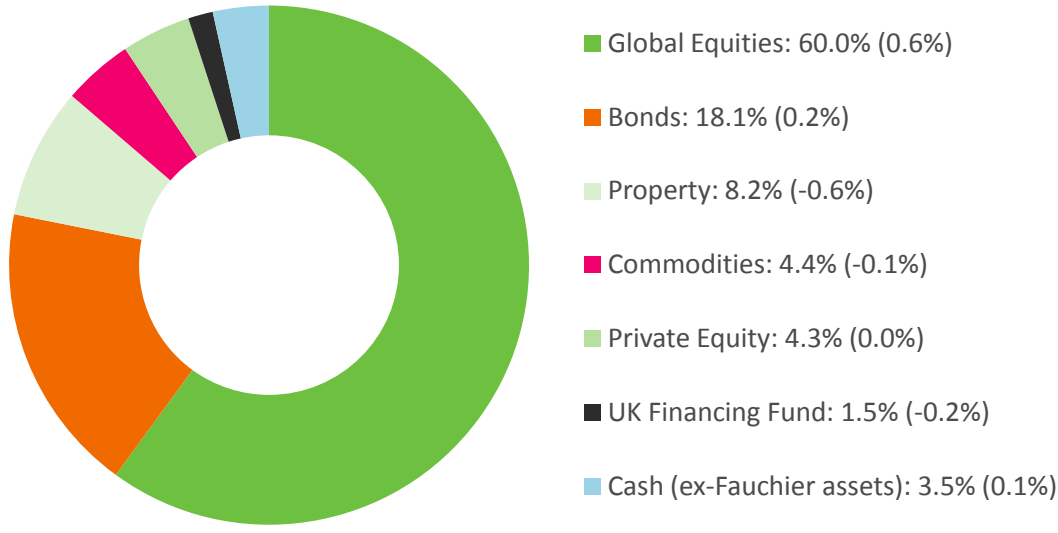


Fund Asset Allocation

Asset allocation as at 31 December 2012



Asset allocation as at 31 March 2013



Comments ^[1]

Over the quarter, there were no significant changes to the Fund's asset allocation, at an asset class level, with minor changes in the allocations attributable to relative market movements.

Source: [1] Fund Manager, Hymans Robertson



Manager Summary

Manager Valuations

Manager	Value (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q4 2012	Q1 2013			
BlackRock - Passive Multi-asset	304.9	339.4	39.0	39.0	0.0
UBS - Passive Multi-asset	307.1	340.3	39.1	39.0	0.1
Schroders - Property	69.4	71.0	8.2	10.0	-1.8
Investec - Commodities	35.6	37.9	4.4	5.0	-0.6
Harbourvest - Venture Capital	34.5	37.5	4.3	3.0	1.3
M&G - UK Companies Financing Fund	13.3	13.4	1.5	1.0	0.5
Cash	32.2	30.3	3.5	3.0	0.5
Total	797.0	869.8	100.0	100.0	0.0

Manager Summary

Manager	Date Appointed	Benchmark Description	Performance Target (% p.a.)	Rating *
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	

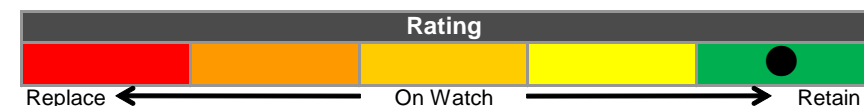
* For information on our manager ratings, see individual manager pages

Key:- - Replace - On-Watch - Retain



BlackRock - Passive Multi-Asset

HR View Comment & Rating



BlackRock, with over £950bn of passively managed equities, remains one of the largest and best regarded global passive managers. BlackRock continues to develop its index-fund range with planned product developments including income distributing funds. In April 2013, BlackRock published its 2012 Engagement Review, "Shaping Global Governance", which set out the manager's approach to corporate governance and responsible engagement. During 2012, the manager engaged with over 1,400 companies and voted at over 14,000 meetings.

BlackRock have announced that James Charrington is stepping back from his role as Head of EMEA following 20 years of service. His replacement has been announced as David Blumer who was previously Chief Investment Officer (CIO) at Swiss Re and joined BlackRock on 8 April 2013 as a Senior Managing Director. BlackRock also announced the appointment of Jeff Shen as Head of Emerging Markets. Mr Shen will continue his role as co-head for Scientific Active Equity. Mr Shen's new role will be to help identify new emerging market opportunities and develop the manager's strategy for growth in this area.

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%).

Over the quarter, the BlackRock multi-asset mandate delivered a positive return of 11.9%, outperforming its composite benchmark return of 10.9%. Although the mandate outperformed its benchmark over the quarter, this reverses the underperformance from the previous quarter. The disparity between mandate and benchmark performance has been due to BlackRock having been previously invested in the All Stocks Gilts and All Stocks Index-Linked Gilts funds, versus the benchmark Over 15 Year Gilts and Over 5 Year Index-Linked Gilts funds. BlackRock are now invested in line with their benchmark, following fund switches in February, and we are comfortable that the overall performance of the mandate, since inception, has been broadly in line with the benchmark.

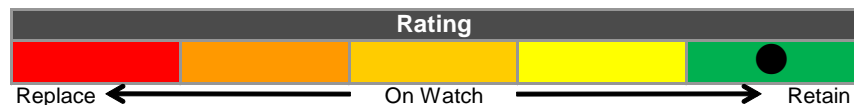
Performance Summary to 31 December 2012

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	11.9	N/A	N/A	14.8
Benchmark	10.9	N/A	N/A	15.0
Relative	0.9	N/A	N/A	-0.2

* Inception date 20 Nov 2012.

UBS - Passive Multi-Asset

HR View Comment & Rating



Gavin Lewis, formerly of Russell Investments, has joined UBS in the new role of Business Development Director for the UK Institutional Business. In his previous role, Lewis was responsible for establishing relationships with key institutional clients, including Local Government Pension Schemes, Corporate Pension Schemes and Investment Managers.

Bruno Bertocci, manager of the Global Sustainable Equities strategy, has been appointed to lead a newly organised team to manage BlackRocks sustainable equities strategies and funds.

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

Performance Summary - Comment

The 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.

During the quarter, the UBS multi-asset mandate delivered a positive return of 10.8%, marginally behind its composite benchmark return of 10.9%. All of the underlying allocations within the mandate performed broadly in line with their respective benchmarks, as we would expect.

On 22nd March, a transition from the actively managed UBS Life Duration Neutral UK Corporate Bond Fund to the passively managed UBS Sterling Corporate Bond Indexed Fund was completed. All funds within the mandate are now managed on a passive, index-tracking basis.

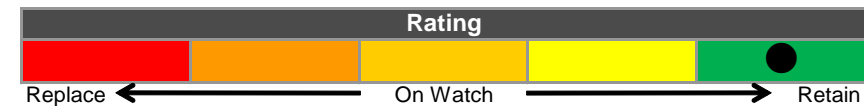
Performance Summary to 31 December 2012

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception*
Fund	10.8	N/A	N/A	14.9
Benchmark	10.9	N/A	N/A	15.0
Relative	-0.1	N/A	N/A	-0.1

* Inception date 15 Nov 2012.

Schroders - Property

HR View Comment & Rating



There was no significant news to report in relation to the Schroders property business.

Performance Summary to 30 September 2012 ^[1]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	2.2	1.2	3.6	2.1
Benchmark	0.8	1.6	5.3	2.9
Relative	1.4	-0.4	-1.6	-0.8

* Inception date 12 Oct 2004.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-1.6	0.0

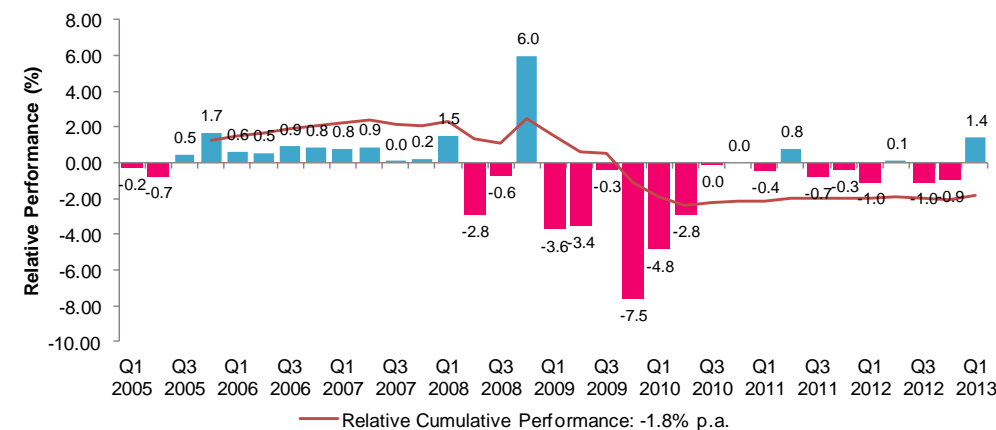
Performance Summary - Comment

The portfolio outperformed its benchmark over the quarter, returning 2.2% against the benchmark return of 0.8%.

Outperformance was attributable to the portfolio's exposure to UK funds; in particular those funds with an income bias (e.g. Real Income Fund) or with an exposure to central London (West End of London PUT). Another positive contributor to performance over the quarter was the Lend Lease Real Estate Partnership 3, a closed-ended fund that invests in shopping malls and offices in Australia. Over the quarter, the portfolio's European exposure did not materially detract from performance, however the manager does anticipate negative performance through 2013, particularly in the middle of the year when valuation declines are expected on some the European holdings.

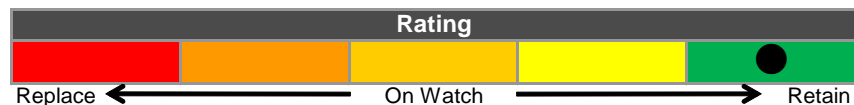
The manager continues to maintain an overweight position to 'alternative' property and central London offices. Schroders expects that the central London office market will deliver strong rental growth from 2014 and continues to favour areas of the market where rents have rebased and offer the potential for growth. The manager also believes that the occupational market will remain subdued during the course of 2013 due to tenants waiting for signs of economic recovery before committing to new space.

Relative Quarterly and Relative Cumulative Performance



Investec - Commodities

HR View Comment & Rating



Investec Asset Management staff acquired around 15% of the shares in the asset management business from the parent company during the quarter. Around 40 senior staff are included in the share ownership deal and we see this as a positive move.

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 6.4% against the benchmark return of 5.8%.

The manager's position in precious metals was a positive contributor to performance during the quarter mainly due to a platinum call option which benefited from production cut announcements in South Africa. The portfolio's position in palladium also helped performance as the metal rose 9.2% during the quarter on supply concerns over disruption in South Africa, reduced Russian stockpiles, and strong automobile sales data out of China suggesting continued demand growth.

The major detractors from performance over the quarter were the portfolio's positions in iron ore equity holdings which performed poorly in March. The manager's positions in the agriculture & softs subsector and the energy subsector also detracted from performance.

Performance Summary to 30 September 2012 ^[i]

	3 Months (%)	12 Months (%)	Since Inception*
Fund	6.4	0.2	1.6
Benchmark	5.8	1.9	1.3
Relative	0.5	-1.7	0.4

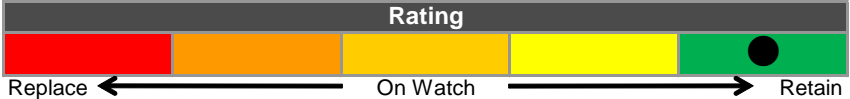
* Inception date 25 Feb 2010.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-1.0	0.0

Harbourvest - Venture Capital

HR View Comment & Rating



HarbourVest remains one of our favoured private equity fund of funds, being well placed to exploit any opportunities that may arise in the secondary market.

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

Performance Summary to 30 September 2012 ^[i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	-0.7	7.0	4.2	4.8
Benchmark	2.4	5.0	4.8	4.3
Relative	-3.0	1.9	-0.5	0.5

* Inception date 29 Jun 2006.

3 Year Relative Return

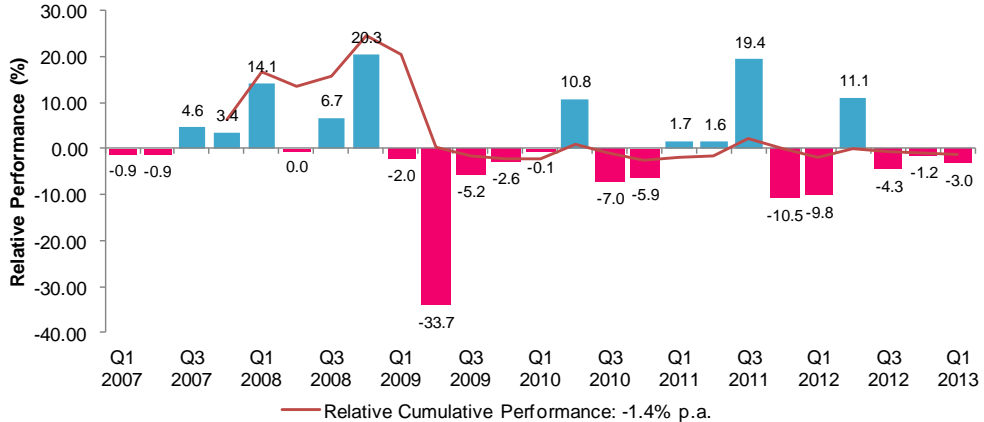
Actual % p.a.	Target % p.a.
-0.5	5.0

Performance Summary - Comment

The HarbourVest mandate returned -0.7%, underperforming its benchmark return of 2.4%.

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.

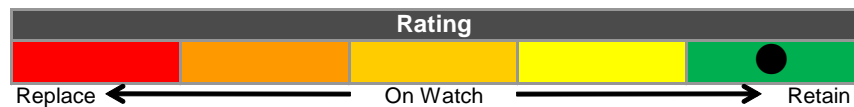
Relative Quarterly and Relative Cumulative Performance



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 31 December 2012 ^[i]

	3 Months (%)	12 Months (%)	Since Inception*
Fund	1.1	6.0	3.2
Benchmark	0.1	0.7	0.7
Relative	1.0	5.3	2.5

* 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 1.1% (as reported by Northern Trust), ahead of its LIBOR benchmark return of 0.1%, for the quarter.

The manager reports that all loans within the portfolio are performing as expected. The weighted average credit rating of the portfolio was stable at BB, with an average maturity of six years. The weighted average credit spread was 443bp at the end of the quarter.

The manager believes that house builders should benefit from the government's recent housing proposals outlined in the Budget and that the low interest rate environment has been supportive for companies, enabling tight cost control to support earnings.

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.

