

London Borough of Lewisham Pension Fund

Review of Investment Managers' Performance for Second Quarter of 2013

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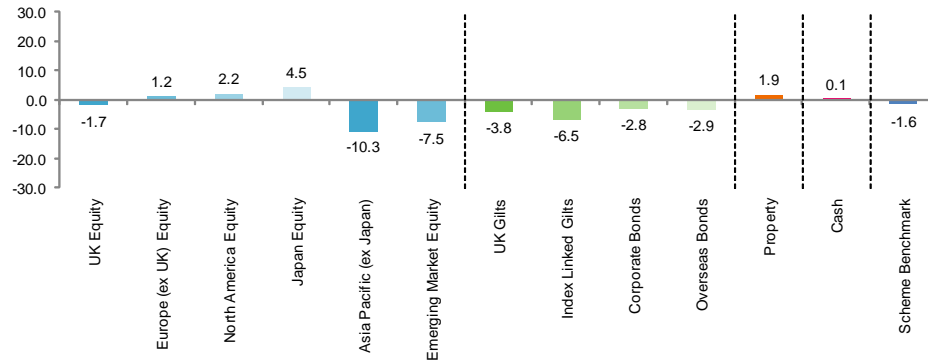
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Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in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

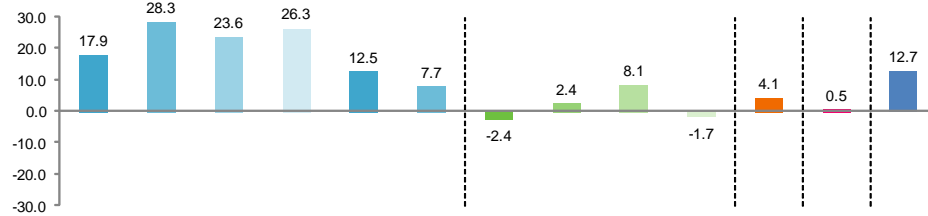
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Historic Returns for World Markets to 30 June 2013

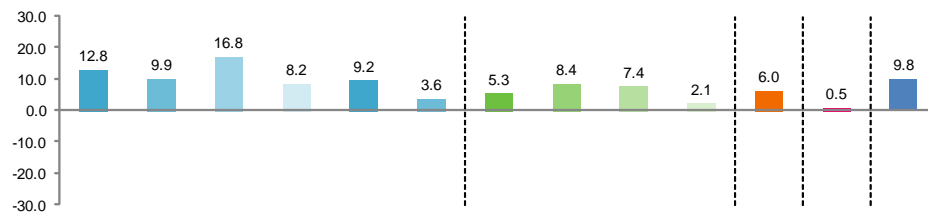
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Historic Returns - Comment

Perhaps the most significant event during the quarter came in late May, when the US central bank hinted it may begin scaling back its programme of asset purchases by the end of the year. This raised immediate concerns that economic activity, which the programme was designed to support in the first instance, might be adversely affected. Signs of a potential credit crunch in China, reduced forecasts for economic growth in the Eurozone and an uncertain outlook in the UK added to the sense of unease. Equity markets responded with sharp falls, particularly in Asia Pacific and Emerging Markets, offsetting gains earlier in the quarter. The FTSE All-World index was flat over the quarter. In the UK, the FTSE All Share index returned -1.7% over the quarter.

Bond investors interpreted the prospect of reduced assets purchases in the US with some caution. Bond prices fell (yields rose), in all major markets. The yield on the 10 year US Treasury, a widely followed benchmark, reached its highest level in more than a year.

In the UK, the Chancellor of the Exchequer presented his spending review in June against a background of intense debate over the efficacy of austerity. Further savings of £11.5bn were announced. With an eye beyond the immediate difficulties, the Chancellor also announced funding of £100bn for infrastructure projects between now and the end of the decade.

Key events during the quarter were:

Global Economy

- The Governor of the Bank of England stated the UK economy is showing signs of renewed vigour; the UK 'funding for lending' scheme was extended, despite poor initial take up;
- Rating agency S&P raised its outlook for the US economy but reiterated concerns about the high level of debt;
- The European Commission allowed some member states to slow the pace of austerity measures;
- Short-term interest rates were unchanged in UK, US and Japan but were cut in the Eurozone, from 0.75% to 0.50%;
- The Eurozone reported a sixth consecutive quarter of economic contraction, for the quarter to 31 March 2013.

Equities

- The best performing sectors relative to the 'All World' Index were Health Care (+3.0%) and Telecommunications (+2.9%); the worst were Basic Materials (-9.8%) and Oil & Gas (-3.1%);
- The Dow Jones equity index (US) reached a record high (15,000) in May.

Bonds

- UK government bond prices fell (yields rose), but outperformed their overseas counterparts;
- UK index linked issues (-6.5%) underperformed fixed interest issues (-3.8%).

Portfolio Summary

Valuation Summary

Asset Class	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q1 2013	Q2 2013			
Global Equity	522.1	518.4	60.4	60.0	0.4
Bonds	157.5	150.6	17.5	18.0	-0.5
Property	71.0	71.6	8.3	10.0	-1.7
Private Equity	37.5	38.8	4.5	3.0	1.5
Cash	30.3	30.2	3.5	3.0	0.5
UK Financing Fund	13.4	13.5	1.6	1.0	0.6
Commodities	37.9	35.7	4.2	5.0	-0.8
Total inc. Trustee Bank Account	869.8	858.8	100.0	100.0	

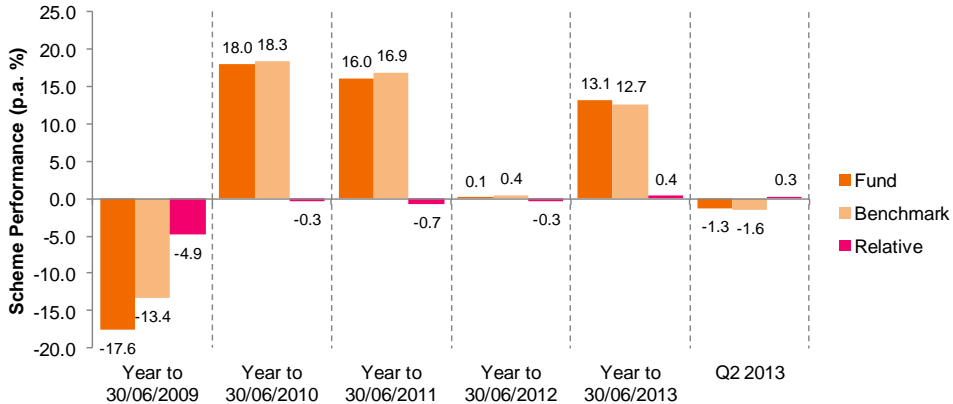
Comments

The value of the Fund's assets decreased by £11.0m over the quarter to £858.8m as at 30 June 2013, with the Fund's bond mandates the main detractors to performance. The Fund outperformed its benchmark by 0.3%, returning -1.3%.

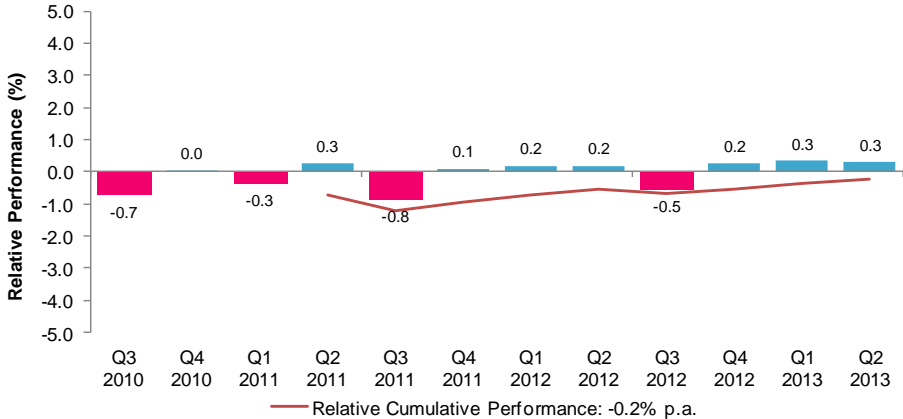
Relative performance from the Fund's active managers was mixed, with underperformance from Schroders (Property) offset by outperformance from Investec (Commodities), HarbourVest (Private Equity) and the M&G UK Financing Fund.

As expected, the passive mandates with BlackRock and UBS performed broadly in line with their composite benchmarks for the quarter.

Performance Summary [1]



Relative Quarterly and Relative Cumulative Performance

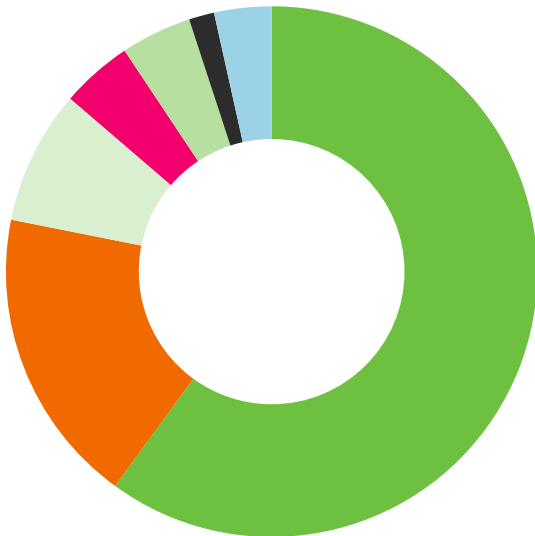


Source: [1] DataStream, Fund Manager, Hymans Robertson



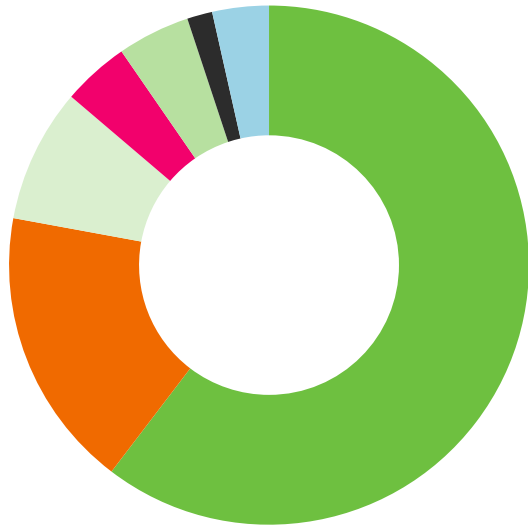
Fund Asset Allocation

Asset allocation as at 31 March 2013



- Global Equities: 60.0%
- Bonds: 18.1%
- Property: 8.2%
- Commodities: 4.4%
- Private Equity: 4.3%
- UK Financing Fund: 1.5%
- Cash: 3.5%

Asset allocation as at 30 June 2013



- Global Equities: 60.4% (0.3%)
- Bonds: 17.5% (-0.6%)
- Property: 8.3% (0.2%)
- Commodities: 4.2% (-0.2%)
- Private Equity: 4.5% (0.2%)
- UK Financing Fund: 1.6% (0.0%)
- Cash: 3.5% (0.0%)

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 %
	Q1 2013	Q2 2013			
BlackRock - Passive Multi-asset	339.4	334.1	38.9	39.0	-0.1
UBS - Passive Multi-asset	340.3	334.9	39.0	39.0	-0.0
Schroders - Property	71.0	71.6	8.3	10.0	-1.7
Investec - Commodities	37.9	35.7	4.2	5.0	-0.8
Harbourvest - Venture Capital	37.5	38.8	4.5	3.0	1.5
M&G - UK Companies Financing Fund	13.4	13.5	1.6	1.0	0.6
Cash	30.3	30.2	3.5	3.0	0.5
Total	869.8	858.8	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



Performance Summary - Managers

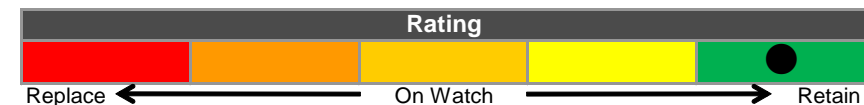
Performance Summary ^[1]

		BlackRock - Passive Multi-asset	UBS - Passive Multi-asset	Schroders - Property	Investec - Commodities	Harbourvest - Venture Capital	M&G - UK Companies Financing Fund	Cash	Total Fund
3 Months (%)	Absolute	-1.5	-1.6	0.8	-5.9	3.3	1.3	N/A	-1.3
	Benchmark	-1.6	-1.6	1.4	-9.4	1.0	0.1	N/A	-1.6
	Relative	0.1	0.0		3.9	2.3	1.2	N/A	0.3
				-0.6					
12 Months (%)	Absolute	N/A	N/A	1.9	-1.4	12.6	4.9	N/A	13.1
	Benchmark	N/A	N/A	3.0	-4.9	23.4	0.6	N/A	12.7
	Relative	N/A	N/A		3.7		4.3	N/A	0.4
				-1.1		-8.8			
3 Years (% p.a.)	Absolute	N/A	N/A	3.8	-0.4	9.2	3.7	N/A	9.5
	Benchmark	N/A	N/A	4.7	-0.8	13.9	0.7	N/A	9.8
	Relative	N/A	N/A		0.4		3.0	N/A	
				-0.9		-4.1			-0.2
Since Inception (% p.a.)	Absolute	13.0	13.1	2.1	-0.3	6.5	3.4	N/A	7.3
	Benchmark	13.2	13.2	3.0	-1.8	6.1	0.7	N/A	7.7
	Relative				1.5	0.4	2.7	N/A	
		-0.2	-0.1	-0.8					-0.3



BlackRock - Passive Multi-Asset

HR View Comment & Rating



In early 2013, we were informed of two departures from BlackRock's UK Equity team, Nick McLeod-Clarke and Mark Lyttleton. BlackRock has since informed us that Lyttleton has been arrested for insider dealing. Within the team, Lyttleton's main role was managing largely retail funds. BlackRock has stated that any unlawful activity for personal gain took place outside BlackRock's premises and there is no suggestion that clients' interests were compromised in any way by Lyttleton's actions. The FCA has confirmed that neither BlackRock itself or any existing BlackRock employees are under investigation.

BlackRock remains one of our preferred passive managers.

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 negative return of -1.5%, marginally outperforming its composite benchmark return of -1.6%. All of the underlying allocations within the mandate performed broadly in line with their respective benchmarks, as we would expect.

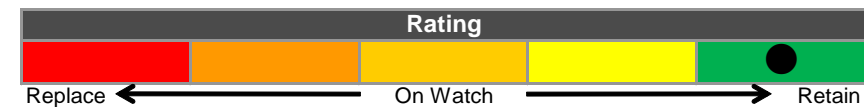
Performance Summary to 30 June 2013

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception*
Fund	-1.5	N/A	N/A	13.0
Benchmark	-1.6	N/A	N/A	13.2
Relative	0.1	N/A	N/A	-0.2

* Inception date 20 Nov 2012.

UBS - Passive Multi-Asset

HR View Comment & Rating



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

Performance Summary to 30 June 2013

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception*
Fund	-1.6	N/A	N/A	13.1
Benchmark	-1.6	N/A	N/A	13.2
Relative	0.0	N/A	N/A	-0.1

* Inception date 15 Nov 2012.

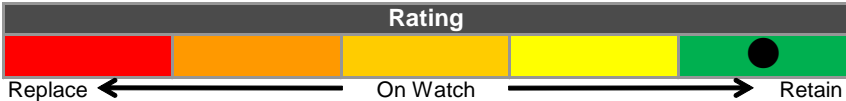
Performance Summary - Comment

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 negative return of -1.6%, performing in line with its composite benchmark. 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



There was no significant news to report over the quarter.

Performance Summary to 30 June 2013

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	0.8	1.9	3.8	2.1
Benchmark	1.4	3.0	4.7	3.0
Relative	-0.6	-1.1	-0.9	-0.8

* Inception date 12 Oct 2004.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-0.9	0.0

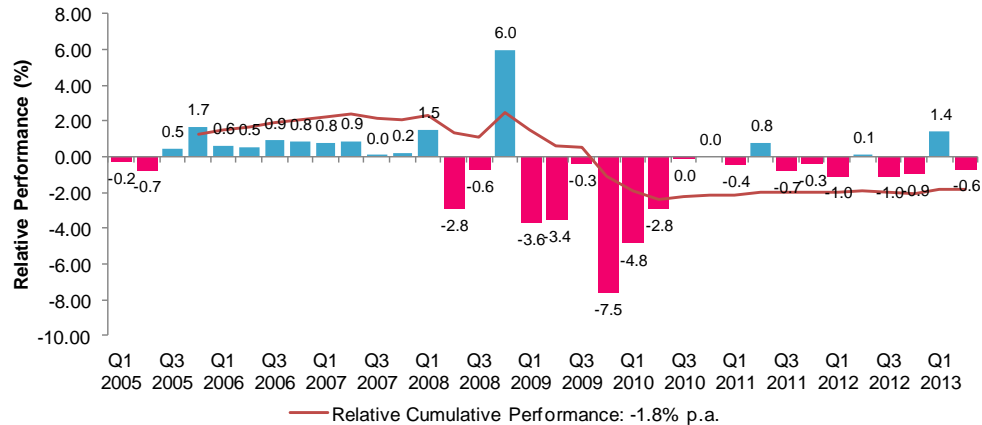
Performance Summary - Comment

The portfolio underperformed its benchmark over the quarter, returning 0.8% against the benchmark return of 1.4%.

Underperformance was attributable to the portfolio's exposure to non-UK assets (12% of the portfolio). The Schroder Real Estate Fund of Funds – Continental European Fund I (CEF I) detracted from performance as a result of a material write down of a holding in the Valad V+ Nordic Property Fund which suffered from weak occupier and investor demand. The Lend Lease Real Estate Partnership 3 also detracted from performance due to depreciation in the Australian dollar versus sterling. The West End of London PUT and the specialist funds with an income bias (e.g. Real Income Fund) continued to perform well and the manager believes that these funds are well placed to deliver strong returns in the coming quarters.

The manager continues to maintain an overweight position to 'alternative' property and central London offices and expects that an underweight position to the retail sector will benefit performance for the rest of 2013. Schroders intends to exit the portfolio's Rockspring Hanover PUT holding (7.3% of the portfolio) over the coming months with the proceeds of the sale ear-marked for more favoured balanced funds.

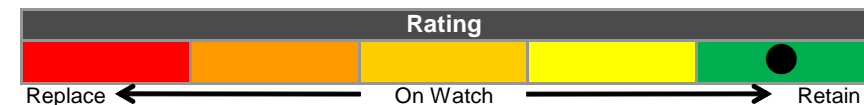
Relative Quarterly and Relative Cumulative Performance



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

Investec - Commodities

HR View Comment & Rating



There was no significant news to report over the quarter.

Performance Summary to 30 June 2013 ^[i]

	3 Months (%)	12 Months (%)	Since Inception*
Fund	-5.9	-1.4	-0.3
Benchmark	-9.4	-4.9	-1.8
Relative	3.9	3.7	1.5

* Inception date 25 Feb 2010.

3 Year Relative Return

Actual % p.a.	Target % p.a.
0.4	0.0

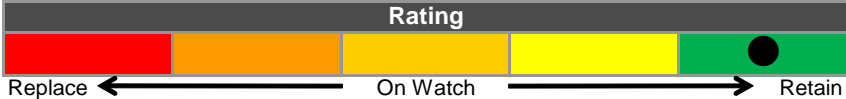
Performance Summary - Comment

The Investec commodities mandate outperformed its benchmark over the quarter by 3.9%, returning -5.9% against the benchmark return of -9.4%.

The manager's short positions in precious metals equities were positive contributors to performance over the quarter as gold, platinum and palladium all fell. Investec's position in the base metals & bulks subsector was the main detractor from performance over the period, as macroeconomic concerns regarding China's growth and the Federal Reserve's plans to scale back its monetary stimulus impacted markets and hurt the fund's long equity holdings. Despite the strength of many names within the portfolio, the fund's long exposure to energy equities also detracted from performance.

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 June 2013

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	3.3	12.6	9.2	6.5
Benchmark	1.0	23.4	13.9	6.1
Relative	2.3	-8.8	-4.1	0.4

* Inception date 29 Jun 2006.

3 Year Relative Return

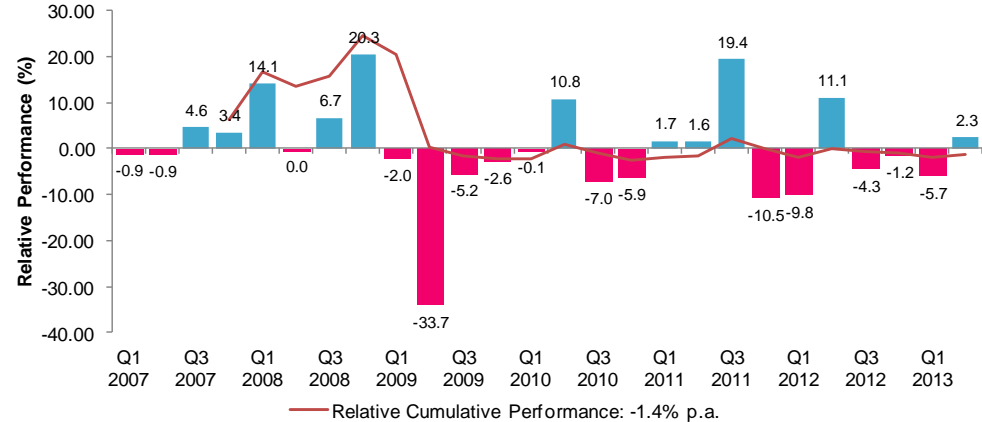
Actual % p.a.	Target % p.a.
-4.1	5.0

Performance Summary - Comment

The HarbourVest mandate returned 3.3%, outperforming its benchmark return of 1.0%.

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.

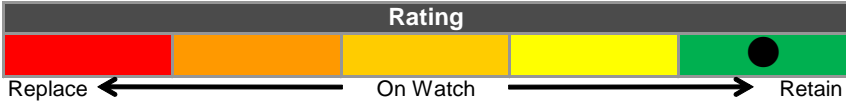
Relative Quarterly and Relative Cumulative Performance



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 June 2013

	3 Months (%)	12 Months (%)	Since Inception*
Fund	1.3	4.9	3.4
Benchmark	0.1	0.6	0.7
Relative	1.2	4.3	2.7

* Inception date 01 May 2010.

3 Year Relative Return

Actual % p.a.	Target % p.a.
3.0	0.0

Performance Summary - Comment

The UK Companies Financing Fund (UKCFF) returned 1.3% (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 5.5 years. The weighted average credit spread was 445bp at the end of the quarter.

In May, the Investment Committee undertook its semi-annual review of the UKCFF portfolio. Eight loans had their ratings affirmed, two were upgraded while one loan had its outlook changed to negative.

Source: [i] DataStream, Hymans Robertson



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.

