

London Borough of Lewisham Pension Fund

Review of Investment Managers' Performance for Third Quarter of 2013

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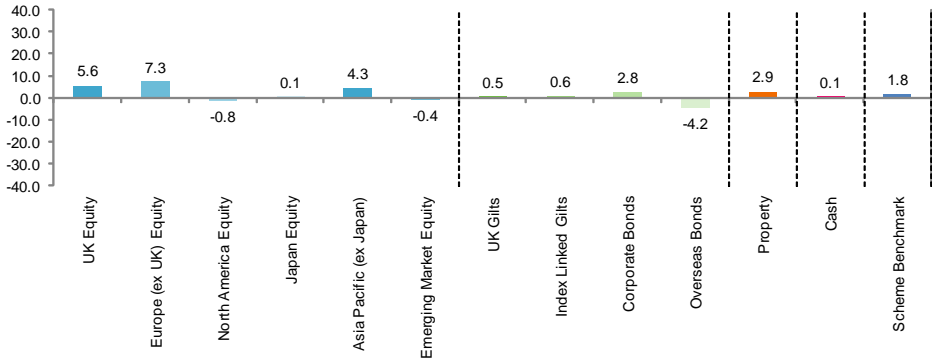
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Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in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

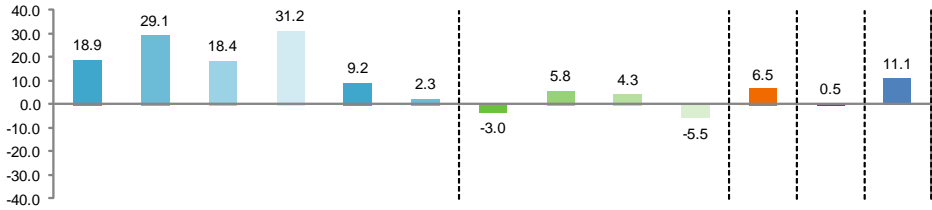
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Historic Returns for World Markets to 30 September 2013

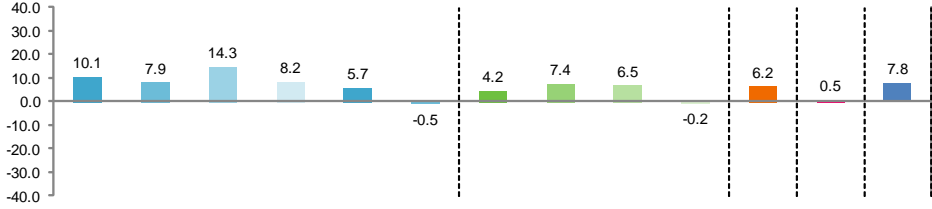
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Historic Returns - Comment

The quarter to end September 2013 contained a mix of positive economic news and more nuanced financial events. The Eurozone emerged from recession, although there remains a wide divergence in the performance of individual members. In the UK, data published in July indicated strong economic growth, prompting the Chancellor of the Exchequer to comment that the economy is 'turning a corner' and to cite 'signs of a balanced, broad based and sustainable recovery'. Positive economic developments were also evident in the US and, to a lesser extent, in Japan.

Notwithstanding positive economic data, action by central banks tended to reflect a more cautious attitude. Short-term interest rates in the UK, Eurozone and US were held at record lows. In the US, the Federal Reserve indicated there would be no immediate unwinding of monetary support (currently \$85bn a month), a step back in tone from the preceding quarter. In addition, both the UK and European central banks provided forward guidance on monetary policy for the first time. The underlying message from the major central banks was, and remains, that economic conditions, whilst improving, still need very careful management.

Global ten year bond yields rose (prices fell) but then stabilised. At the end of the quarter, investors were unsettled by concerns that the US may not renew its debt ceiling by the mid October deadline.

Key events during the quarter were:

- Global Economy:
- Forecasts for UK economic growth were revised upwards by the Bank of England and IMF;
 - Global economic growth forecasts were revised down by the IMF;
 - China announced a series of measures to boost economic growth;
 - Short-term interest rates were unchanged in UK, US and Eurozone;
 - The Eurozone economy recovered from recession, after four consecutive quarters of economic contraction.

- Equities:
- The best performing sectors relative to the 'All World' Index were Basic Materials (+3.9%) and Industrials (+2.8%); the worst were Utilities (-3.6%) and Consumer Goods (-2.2%);
 - Barclays Bank announced a £5bn rights issue (and a £2bn bond issue) to meet new capital requirements;
 - Vodafone sold its 45% stake in Verizon for \$130bn (one of the largest deals in corporate history).

- Bonds and Currencies:
- UK government bonds (All Stocks) returned +0.5%;
 - Corporate issues outperformed their government counterparts by a comfortable margin;
 - Sterling strengthened against all major currencies.

Portfolio Summary

Valuation Summary

Asset Class	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q2 2013	Q3 2013			
Global Equity	518.4	540.9	62.1	60.0	2.1
Bonds	150.6	166.7	19.2	17.9	1.2
Property	71.6	72.5	8.3	10.0	-1.7
Private Equity	38.8	38.4	4.4	3.0	1.4
Trustee Bank Account	30.2	3.3	0.4	3.0	-2.6
UK Financing Fund	13.5	13.7	1.6	1.0	0.6
Commodities	35.7	35.0	4.0	5.0	-1.0
Total inc. Trustee Bank Account	858.8	870.5	100.0	100.0	

Note: We recommend that the total Fund benchmark is updated to reflect the decision taken on the investment of the 'ex-Fauchier' cash.

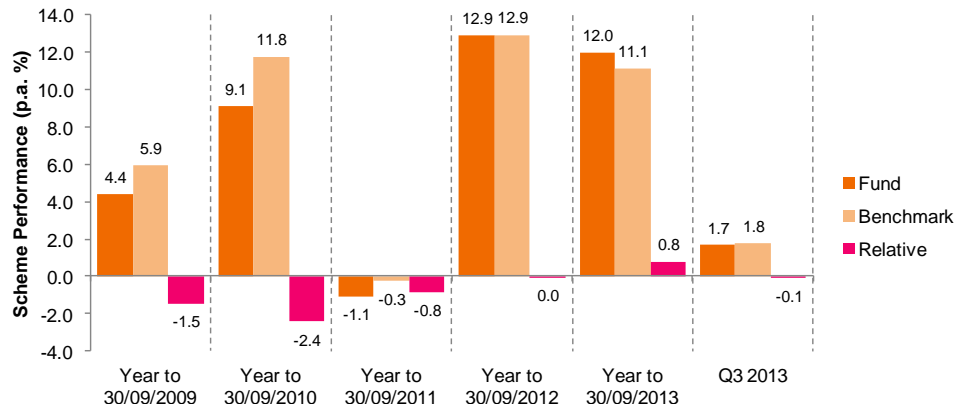
Comments

The value of the Fund's assets rose by £11.7m over the quarter to £870.5m as at 30 September 2013, with the Fund's equity mandates the main contributors to the increase. The Fund marginally underperformed its benchmark by 0.1% over the period, returning 1.7%.

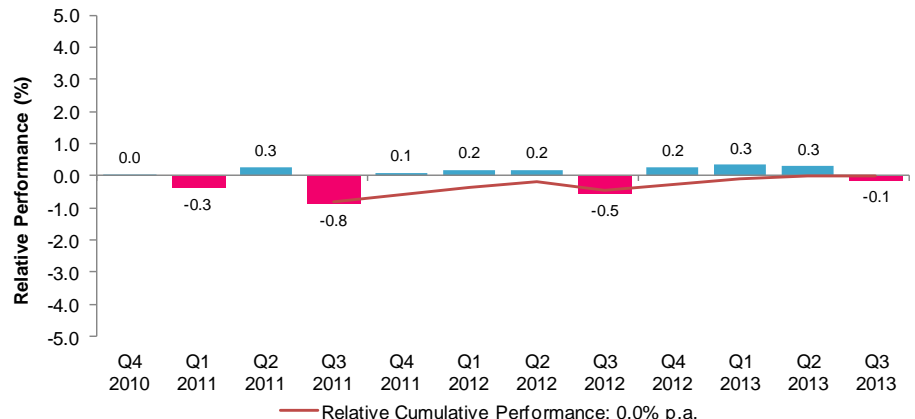
Relative performance from the Fund's active managers was mixed, with underperformance from Schroders (Property) and HarbourVest (Private Equity) partially offset by outperformance from Investec (Commodities) and the M&G UK Financing Fund. As expected, the passive mandates with BlackRock and UBS performed broadly in line with their composite benchmarks for the quarter.

At the end of the quarter, £25m was invested equally between the BlackRock and UBS passive multi-asset mandates (£12.5m into each). This was funded by the cash from the Fauchier disinvestment proceeds from July 2012.

Performance Summary [1]



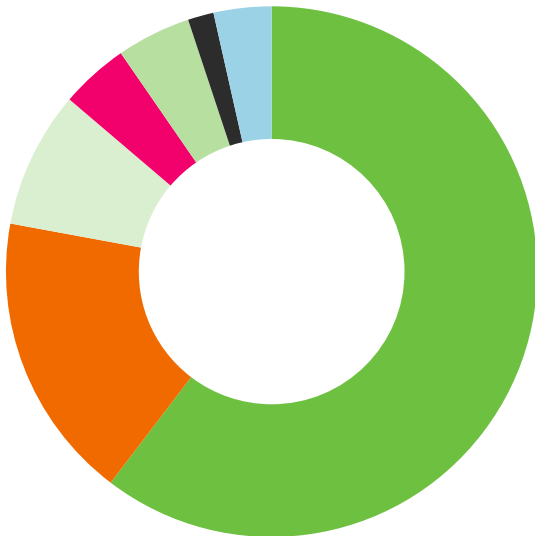
Relative Quarterly and Relative Cumulative Performance



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

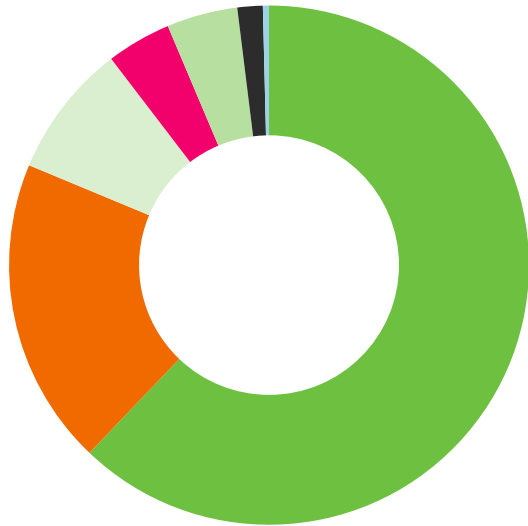
Fund Asset Allocation

Asset allocation as at 30 June 2013



- Global Equities: 60.4%
- Bonds: 17.5%
- Property: 8.3%
- Commodities: 4.2%
- Private Equity: 4.5%
- UK Financing Fund: 1.6%
- Cash: 3.5%

Asset allocation as at 30 September 2013



- Global Equities: 62.1% (1.8%)
- Bonds: 19.1% (1.6%)
- Property: 8.3% (0.0%)
- Commodities: 4.0% (-0.1%)
- Private Equity: 4.4% (-0.1%)
- UK Financing Fund: 1.6% (0.0%)
- Cash: 0.4% (-3.1%)

Comments ^[1]

Over the quarter, the total investment of £25m into the BlackRock and UBS passive multi-asset mandates contributed to an increase in the Fund's allocation to Global Equities (by 1.8%) and Bonds (by 1.6%), and to a reduction in the Fund's allocation to Cash (by 3.1%).

Source: [1] Fund Manager, Hymans Robertson



Manager Summary

Manager Valuations

Manager	Value (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q2 2013	Q3 2013			
BlackRock - Passive Multi-asset	334.1	353.1	40.6	39.0	1.6
UBS - Passive Multi-asset	334.9	354.5	40.7	39.0	1.7
Schroders - Property	71.6	72.5	8.3	10.0	-1.7
Investec - Commodities	35.7	35.0	4.0	5.0	-1.0
Harbourvest - Venture Capital	38.8	38.4	4.4	3.0	1.4
M&G - UK Companies Financing Fund	13.5	13.7	1.6	1.0	0.6
Cash	30.2	3.3	0.4	3.0	-2.6
Total	858.8	870.5	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

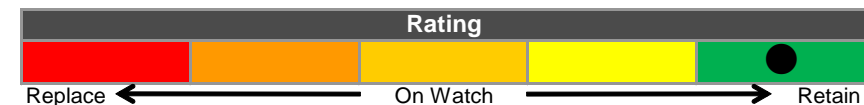
Performance Summary ^[1]

		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	2.0	2.2	1.1	-2.0	-0.9	1.1	N/A	1.7
	Benchmark	2.1	2.1	2.4	-4.3	1.4	0.1	N/A	1.8
Relative			0.1		2.5		1.0	N/A	
		-0.1		-1.3		-2.3			-0.1
12 Months (%)	Absolute	N/A	N/A	3.7	-2.0	12.2	4.9	N/A	12.0
	Benchmark	N/A	N/A	5.2	-14.6	20.6	0.5	N/A	11.1
Relative		N/A	N/A		14.8		4.4	N/A	0.8
				-1.4		-6.9			
3 Years (% p.a.)	Absolute	N/A	N/A	3.6	-1.1	8.7	4.0	N/A	7.7
	Benchmark	N/A	N/A	4.9	-4.1	11.5	0.7	N/A	7.8
Relative		N/A	N/A		3.1		3.3	N/A	
				-1.3		-2.5			0.0
Since Inception (% p.a.)	Absolute	15.2	15.5	2.2	-0.8	6.2	3.5	N/A	7.3
	Benchmark	15.6	15.5	3.1	-2.8	6.1	0.7	N/A	7.7
Relative			0.0		2.1	0.1	2.8	N/A	
		-0.3		-0.9					-0.3



BlackRock - Passive Multi-Asset

HR View Comment & Rating



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

BlackRock remains one of our preferred passive managers.

Performance Summary to 30 September 2013

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	2.0	N/A	N/A	15.2
Benchmark	2.1	N/A	N/A	15.6
Relative	-0.1	N/A	N/A	-0.3

* Inception date 20 Nov 2012.

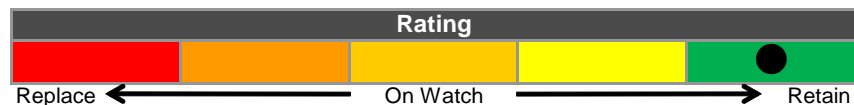
Performance Summary - Comment

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%).

Over the quarter, the BlackRock multi-asset mandate delivered a positive return of 2.0%, marginally underperforming its composite benchmark return of 2.1%. All of the underlying allocations within the mandate performed broadly in line with their respective benchmarks, as we would expect.

UBS - Passive Multi-Asset

HR View Comment & Rating



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

UBS remains one of our preferred passive managers.

Performance Summary to 30 September 2013

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception*
Fund	2.2	N/A	N/A	15.5
Benchmark	2.1	N/A	N/A	15.5
Relative	0.1	N/A	N/A	0.0

* 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-Linked 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 2.2%, marginally outperforming its composite benchmark return of 2.1%. 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 that Keeran Kang has been promoted to the role of Fund Manager within the Property Multi-Manager team. Kang will continue to be based in the UK and still work on individual UK segregated accounts, but over the coming months she will be working with Rob Bingen in Amsterdam to familiarise herself with their international platform of investments before taking over as Fund Manager on their two European fund of fund vehicles - the Schroder Real Estate Fund of Funds Continental European Fund I (which the Fund has exposure to) and Fund II.

Centralising the management of the Property Multi-Manager business in London has been an objective of Schroders for some time. It should be more efficient to run Property Multi-Manager from one location and Schroders expect to benefit from the experience of a growing direct investment team based in the UK with a pan-European focus.

Performance Summary - Comment

The Schroders Property mandate underperformed its IPD Pooled Property Fund benchmark by 1.3% over the quarter and remains behind benchmark over the 1 year and 3 year periods. Significant underperformance from the portfolio's non-UK assets (8% of the portfolio) compared to the outperformance from its UK assets remains a dominant theme due to a weak European property market caused by the Eurozone crisis.

Towards the end of the quarter, Schroders sold its Rockspring Hanover PUT holdings (8% of the portfolio). The units were sold at a discount to the valuation and thus had a negative impact on performance over the period. This sale has temporarily increased the portfolio's cash position but this is expected to be significantly reduced during Q4 as these funds are reinvested into the L&G Managed Property Fund.

The manager continued to maintain an overweight position to central London offices and 'alternative' property over the quarter due to the potential for attractive yields and the degree of indexation on offer. The West End of London PUT (a specialist central London office fund) and the Real Income Fund (an 'alternative' property fund) were the top two contributors to performance.

The manager believes that the prospects for UK property look good over the near term due to the pick up in economic activity having a positive effect on occupier markets.

Performance Summary to 30 September 2013 ^[1]

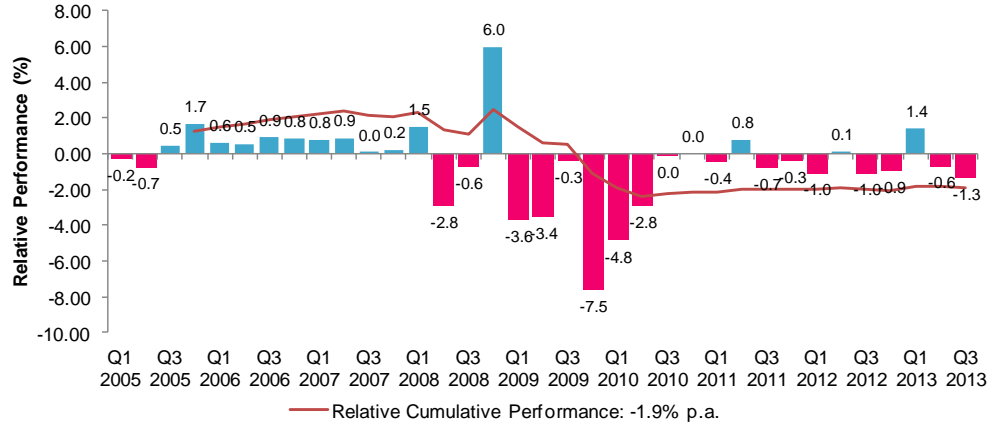
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	1.1	3.7	3.6	2.2
Benchmark	2.4	5.2	4.9	3.1
Relative	-1.3	-1.4	-1.3	-0.9

* Inception date 12 Oct 2004.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-1.3	0.0

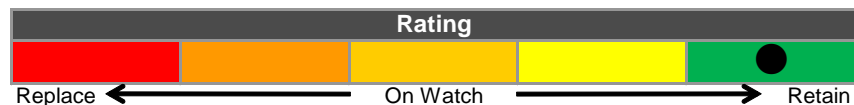
Relative Quarterly and Relative Cumulative Performance



Source: [1] 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 September 2013 ^[1]

	3 Months (%)	12 Months (%)	Since Inception*
Fund	-2.0	-2.0	-0.8
Benchmark	-4.3	-14.6	-2.8
Relative	2.5	14.8	2.1

* Inception date 25 Feb 2010.

3 Year Relative Return

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

Performance Summary - Comment

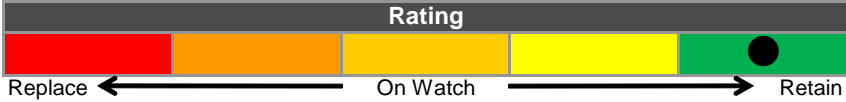
The Investec Global Commodities & Resources Fund outperformed its Dow Jones-UBS Commodities Total Return benchmark over the quarter and remains ahead of benchmark over the 1 year period and since inception.

With the energy sector performing well over the quarter due to the rising risk premium in oil prices caused by tension in the Middle East, the Fund's long positions in energy equities, such as Suncor and Gazprom, were positive contributors to performance over the quarter. Overall performance was offset by the Fund's short positions in energy equities, with the short position in Cheniere (a US natural gas company) the main detractor to performance during the period.

In contrast to the previous quarter, the Fund's position in the base metals & bulks subsector was a positive contributor to performance as commodity price forecasts increased due to supportive policy reform in China, and the US and Europe showing signs of recovery. The Fund's holding in BHP Billiton (a global resources company) was the largest contributor to performance during the quarter.

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 2013 ^[i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception*
Fund	-0.9	12.2	8.7	6.2
Benchmark	1.4	20.6	11.5	6.1
Relative	-2.3	-6.9	-2.5	0.1

* Inception date 29 Jun 2006.

3 Year Relative Return

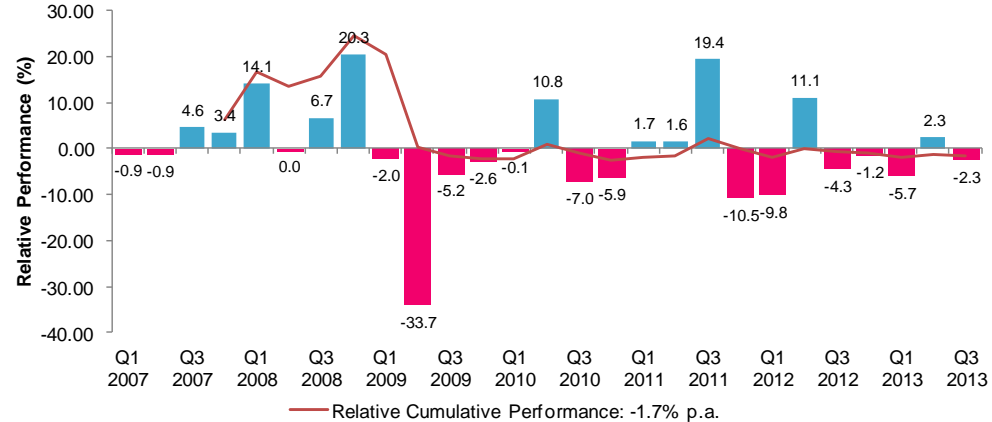
Actual % p.a.	Target % p.a.
-2.5	5.0

Performance Summary - Comment

The HarbourVest mandate returned -0.9% over the quarter, underperforming its benchmark by 2.3%.

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.

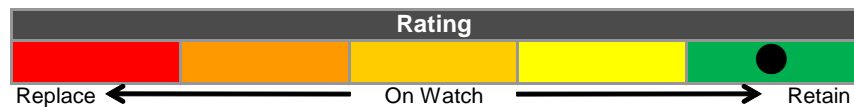
Relative Quarterly and Relative Cumulative Performance



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 September 2013 ^[1]

	3 Months (%)	12 Months (%)	Since Inception*
Fund	1.1	4.9	3.5
Benchmark	0.1	0.5	0.7
Relative	1.0	4.4	2.8

* Inception date 01 May 2010.

3 Year Relative Return

Actual % p.a.	Target % p.a.
3.3	0.0

Performance Summary - Comment

The UK Companies Financing Fund (UKCFF) returned 1.1% over the quarter, outperforming its LIBOR benchmark return of 0.1%.

The weighted average credit rating of the portfolio was stable at BB+, with an average maturity of 5.2 years. The weighted average credit spread was unchanged over the quarter at 445bp.

M&G expect the current stable low interest environment to be supportive for the portfolio of companies within the fund and in particular feel that house builders will benefit from government support in the sector.

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.

