

London Borough of Lewisham Pension Fund

Review of Investment Managers' Performance for Fourth Quarter of 2013



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For and on behalf of Hymans Robertson LLP
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Real people. Real skills. Real results.

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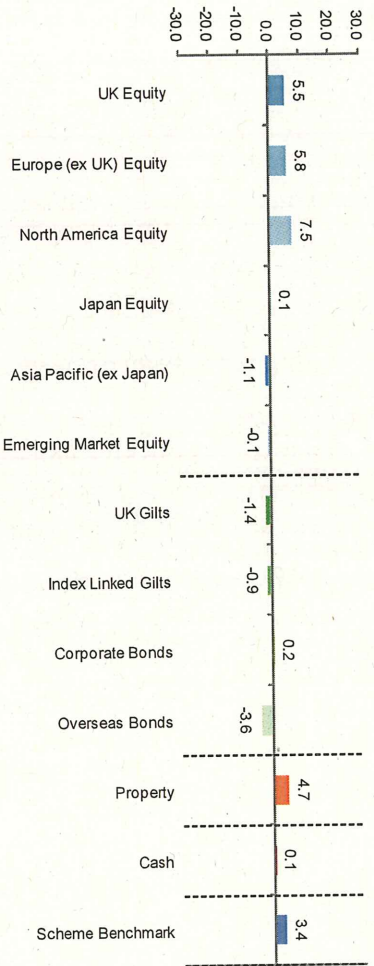
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Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in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

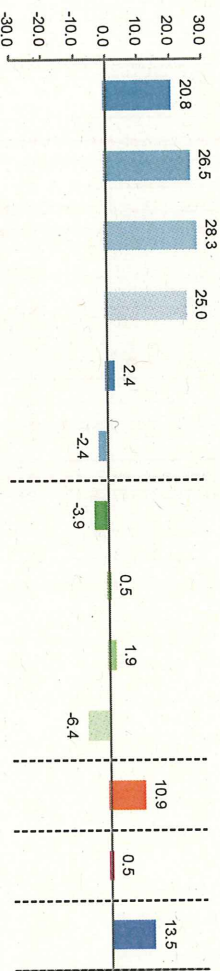
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Historic Returns for World Markets to 31 December 2013

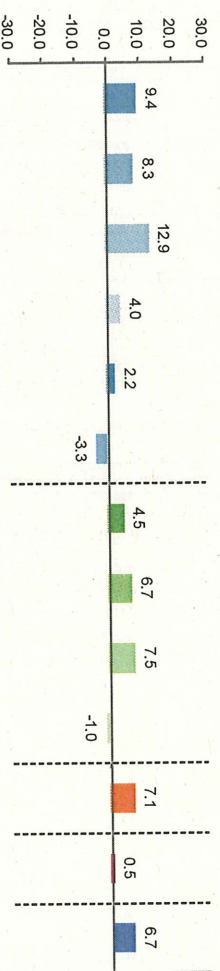
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Historic Returns - Comment

The quarter to end December 2013 started with the 'shutdown' of the US government, over the failure to agree a federal budget. Concerns over whether the federal debt ceiling would be renewed, and the possibility of the US defaulting on its sovereign debt, created a sense of crisis. World financial markets responded with caution to these events.

On the economic front, news was very mixed. Forecasts for global economic growth for 2013 and 2014 were revised down by a number of credible agencies. Weakness in emerging markets was cited as one of the main contributory factors. The UK was an exception, with forecasts for economic growth revised upwards for 2013 and 2014. In the December autumn statement, the Chancellor of the Exchequer claimed that the country is heading in the 'right direction', although the Office for Budget Responsibility emphasised that it viewed the recent improvement as a cyclical boost rather than a structural improvement.

In December, and after much speculation, the US central bank announced a scaling back of its monthly asset buying program, from \$85bn to \$75bn a month. This is likely to be phased out entirely during 2014 but official guidance indicates no rise in interest rates until there is clear evidence of sustainable economic growth. In contrast to US policy, the European central bank provided further monetary easing through a reduction in short-term interest rates, as inflation in the Eurozone dipped below 1% p.a.

Key events during the quarter were:

Global Economy

- Forecasts for UK economic growth were revised upwards by the Office for Budget Responsibility;
- Global economic growth forecasts were revised down by the IMF;
- Strong economic growth in UK and US contrasted sharply with slow growth in the Eurozone;
- Short-term interest rates were unchanged in UK and US and cut, from 0.50% to 0.25%, in the Eurozone;
- UK inflation (CPI) fell to a four year low (2.1%) in November.

Equities

- The best performing sectors relative to the 'All World' Index were Technology (+4.2%) and Industrials (+1.5%); the worst were Utilities (-4.8%) and Basic Materials (-2.5%);
- Shares in Royal Mail rose strongly against the issue price of 330p.

Bonds and Currencies

- UK government bonds yields drifted higher on rising optimism about economic outlook;
- Sterling's trade weighted index closed 2013 at its highest level for over 4 years.

Portfolio Summary

Valuation Summary

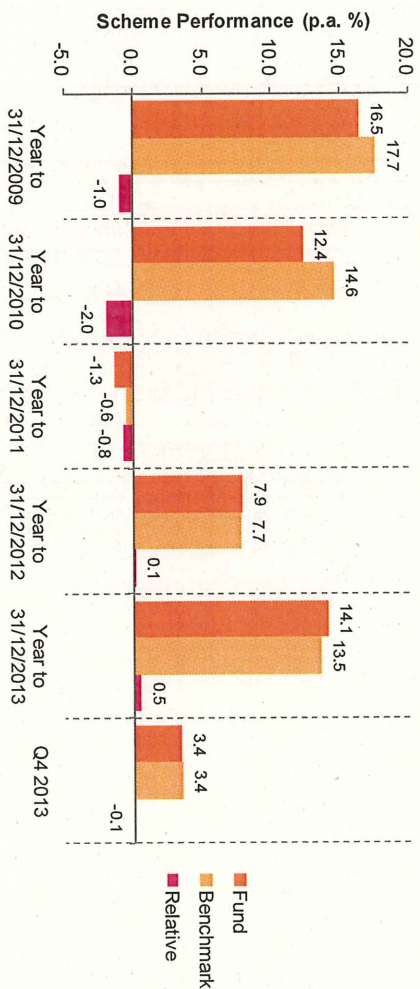
Asset Class	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q3 2013	Q4 2013			
Global Equity	540.9	567.4	63.2	60.0	3.1
Bonds	166.7	166.2	18.5	17.9	0.6
Property	72.5	75.1	8.4	10.0	-1.6
Private Equity	38.4	38.9	4.3	3.0	1.3
Trustee Bank Account	3.3	1.6	0.2	3.0	-2.8
UK Financing Fund	13.7	13.8	1.5	1.0	0.5
Commodities	35.0	34.9	3.9	5.0	-1.1
Total Inc. Trustee Bank Account	870.5	898.0	100.0	100.0	

Comments

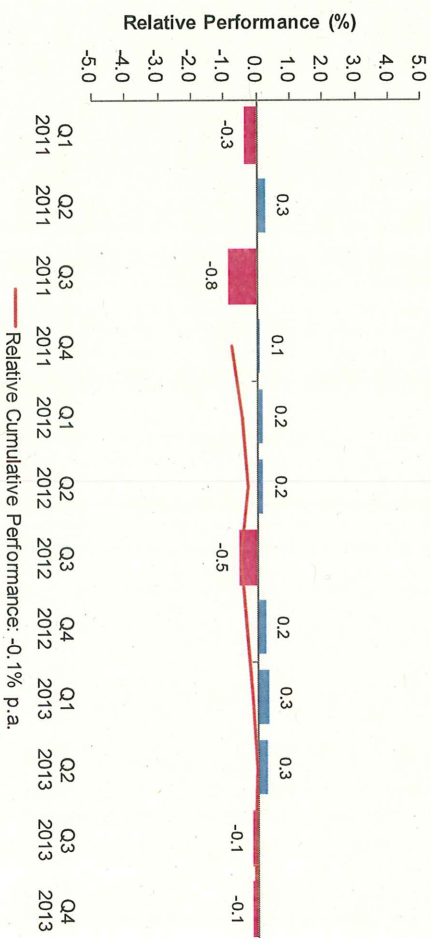
The value of the Fund's assets rose by £27.5m over the quarter to £898m as at 31 December 2013, with the Fund's equity mandates the main contributors to the increase. The Fund returned 3.4% over the quarter, matching its benchmark return.

Relative performance from the Fund's active managers was mixed, with underperformance from Schroders (Property) and HarbourVest (Private Equity) 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.

Performance Summary

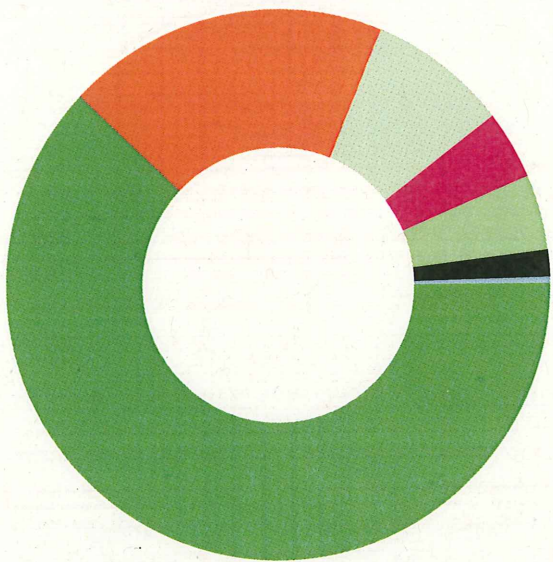


Relative Quarterly and Relative Cumulative Performance

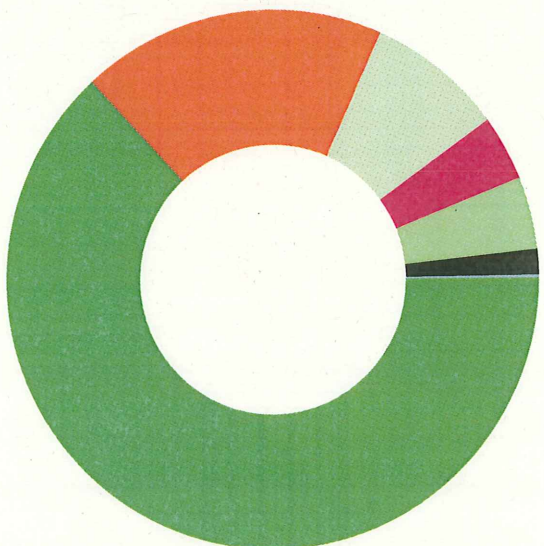


Fund Asset Allocation

Asset allocation as at 30 September 2013



Asset allocation as at 31 December 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



Manager Summary

Manager Valuations

Manager	Q3 2013	Q4 2013	Actual Proportion %	Target Proportion %	Difference %
BlackRock - Passive Multi-asset	353.1	366.0	40.8	39.0	1.8
UBS - Passive Multi-asset	354.5	367.6	40.9	39.0	1.9
Schroders - Property	72.5	75.1	8.4	10.0	-1.6
Investec - Commodities	35.0	34.9	3.9	5.0	-1.1
Harbourvest - Venture Capital	38.4	38.9	4.3	3.0	1.3
M&G - UK Companies Financing Fund	13.7	13.8	1.5	1.0	0.5
Cash	3.3	1.6	0.2	3.0	-2.8
Total	870.5	898.0	100.0	100.0	0.0

Manager Summary [1]

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	5% p.a. above benchmark	●
Harbourvest - Venture Capital	29 Jun 2006	MSCI All Country World Developed Index	4-6% p.a. above benchmark	●
M&G - UK Companies Financing Fund	01 May 2010	LIBOR		●

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

Key: - Replace - On-Watch - Retain

[1] Assets were transferred from Alliance Bernstein to State Street in Q3 2013 and are being managed passively, pending the outcome of a review of the investment strategy.



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 Benchmark 3.8 3.7	3.7 3.7	3.6 4.3	-2.0 -3.3	1.3 5.7	1.1 0.1	N/A N/A	3.4 3.4
	Relative 0.1	0.0	-0.7	1.3	-4.1	1.0	N/A	-0.1
12 Months (%)	Absolute Benchmark 16.6 16.3	15.5 15.5	7.9 9.2	-3.8 -11.2 8.4	12.9 25.0	4.8 0.5	N/A N/A	14.1 13.5
	Relative 0.3	0.0	-1.2	4.6	-9.7	4.3	N/A	0.5
3 Years (% p.a.)	Absolute Benchmark N/A N/A	N/A N/A	4.1 5.7	-5.7 -9.9	10.7 10.1	4.1 0.7	N/A N/A	6.7 6.7
	Relative N/A	N/A	-1.5	4.6	0.6	3.4	N/A	-0.1
Since Inception (% p.a.)	Absolute Benchmark 17.5 17.7	17.4 17.4	2.5 3.5	-1.3 -3.5	6.1 6.7	3.6 0.7	N/A N/A	7.5 7.8
	Relative -0.2	0.0	-1.0	2.3	-0.5	2.9	N/A	-0.3

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



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 - 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 3.8%, marginally outperforming 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 from a passive manager.

Performance Summary to 31 December 2013

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	3.8	16.6	N/A	17.5
Benchmark	3.7	16.3	N/A	17.7
Relative	0.1	0.3	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.

UBS remains one of our preferred passive managers.

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 3.7%, 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.

Performance Summary to 31 December 2013

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	3.7	15.5	N/A	17.4
Benchmark	3.7	15.5	N/A	17.4
Relative	0.0	0.0	N/A	0.0

* Inception date 15 Nov 2012.

Schroders - Property

HR View Comment & Rating



During the quarter, Schroders announced that William Hill will be stepping down as Head of Property. Hill has been at Schroders for almost 25 years and in his current position for 22 of those years. He has clearly been influential in driving forward the property business at Schroders, therefore his departure is significant news. He does not have another role lined up and will become an adviser to Schroders on property matters in order to ensure a smooth handover in the coming months.

Duncan Owen will replace Hill as Head of Property with immediate effect. Owen joined Schroders in the role of Head of Property Investment at the beginning of 2012 when Schroders bought over the Invista business. Owen was CEO at Invista and has over 23 years of UK and European real estate experience. Clearly Owen has already taken over some of Hill's responsibilities; indeed he is already Chairman of the Investment Committee for the Schroders Property Fund.

Although this is significant news, it should not impact the day to day management of property portfolios. Our manager research team will be meeting with Duncan Owen and we will provide an update following this.

Performance Summary - Comment

The Schroder UK Property Fund returned 3.6% over the quarter, underperforming its benchmark by 0.7%. In what has been a relatively fast moving investment market, Schroders believe the underperformance is due to the slower pace at which properties are revalued. The manager expects this underperformance to reverse in the next few quarters.

The recovery in UK commercial property values gathered pace in the second half of 2013 and Schroders are optimistic that this momentum is set to continue into 2014. The Fund continues to emphasise an underweight position to retail and overweight to office and industrial property, reflecting their preference to own property which generates above average income returns.

The Fund's overweight position to central London offices has been a significant driver of performance over the past three years. Looking ahead, good quality secondary offices outside of London are looking increasingly attractive and Schroders say they may look to reduce their exposure to Central London in favour of this.

Performance Summary to 31 December 2013

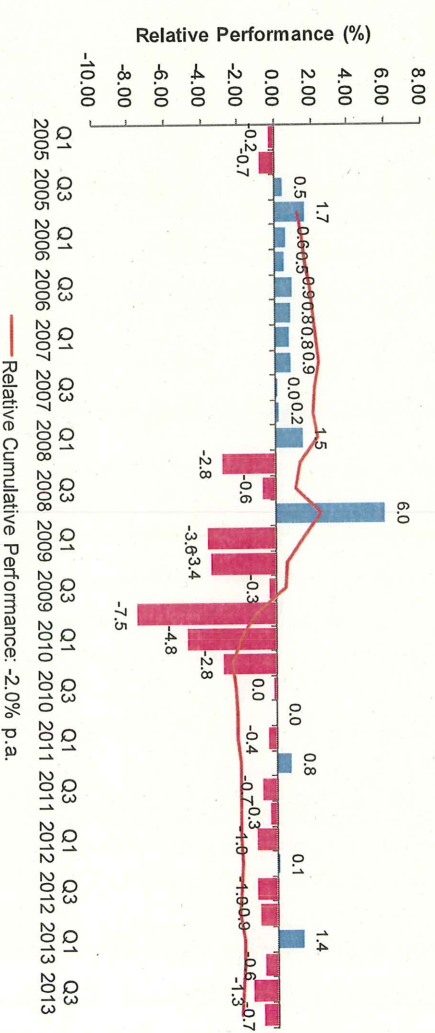
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	3.6	7.9	4.1	2.5
Benchmark	4.3	9.2	5.7	3.5
Relative	-0.7	-1.2	-1.5	-1.0

* Inception date 12 Oct 2004.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-1.5	0.0

Relative Quarterly and Relative Cumulative Performance



Investec - Commodities

HR View Comment & Rating



There was no significant news to report over the quarter.

Performance Summary - Comment

The Investec Global Commodities & Resources Fund produced negative returns, however continued to outperform its Dow Jones-UBS Commodities Total Return benchmark over the quarter and remains ahead of benchmark over the one year period and since inception.

The Fund's short position in energy equities detracted from performance, with the short position in Cheniere (a US natural gas company) again being the main detractor to performance. Another detractor to performance was the Fund's exposure to precious metal equities due to the downward pressure on the price of gold.

The portfolios exposure to base metal & bulks contributed positively to performance over the quarter. Growth returned to the steel industry towards the end of 2013, especially in the European steel market, benefiting the portfolio position in Arcelor Mittal.

Performance Summary to 31 December 2013

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	-2.0	-3.8	-1.3
Benchmark	-3.3	-11.2	-3.5
Relative	1.3	8.4	2.3

* Inception date 25 Feb 2010.

3 Year Relative Return

Actual % p.a.	Target % p.a.
4.6	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 - Comment

The HarbourVest mandate returned 1.3% over the quarter, significantly underperforming its benchmark by 4.1%.

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 31 December 2013

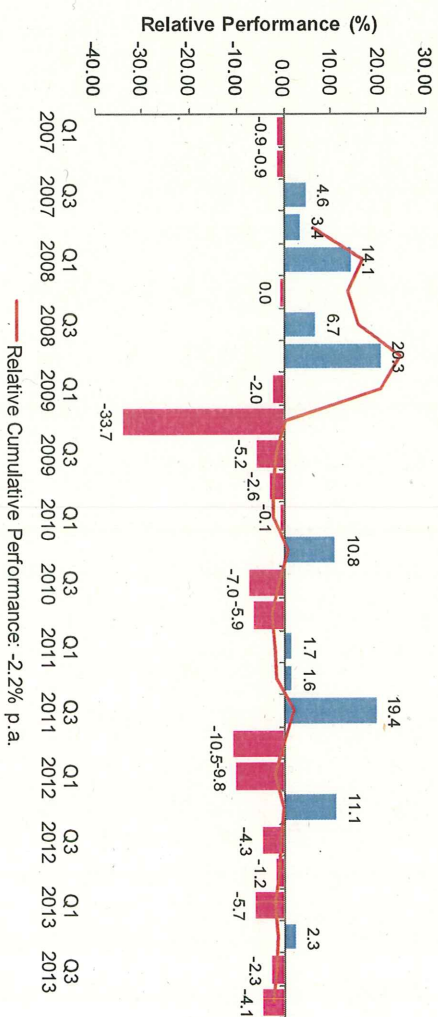
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	1.3	12.9	10.7	6.1
Benchmark	5.7	25.0	10.1	6.7
Relative	-4.1	-9.7	0.6	-0.5

* Inception date 29 Jun 2006.

3 Year Relative Return

Actual % p.a.	Target % p.a.
0.6	5.0

Relative Quarterly and Relative Cumulative Performance



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 - Comment

The UK Companies Financing Fund (UKCFF) returned 1.1% over the quarter, outperforming its LIBOR benchmark return by 1%.

The weighted average credit rating was stable at BB+, with an average maturity of 5.0 years. The weighted average credit spread was 445bp at the end of the period.

Performance Summary to 31 December 2013

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	1.1	4.8	3.6
Benchmark	0.1	0.5	0.7
Relative	1.0	4.3	2.9

* Inception date 01 May 2010.

3 Year Relative Return

Actual % p.a.	Target % p.a.
3.4	0.0

Performance Calculation

Geometric vs Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\left((1 + \text{Fund Performance}) / (1 + \text{Benchmark Performance}) \right) - 1$$

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		Relative Performance	Geometric Method		Difference
	Fund Performance	Benchmark Performance		Fund Performance	Benchmark Performance	
Quarter 1	7.00%	2.00%	5.00%	7.00%	2.00%	0.10%
Quarter 2	28.00%	33.00%	-5.00%	28.00%	33.00%	-1.24%
Linked 6 months			-0.25%			-1.21%
6 Month Performance	36.96%	35.66%	1.30%	36.96%	35.66%	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.