

# London Borough of Lewisham Pension Fund

Review of Investment Managers' Performance for Second Quarter of 2014

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For and on behalf of Hymans Robertson LLP  
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# Historic Returns for World Markets to 30 June 2014

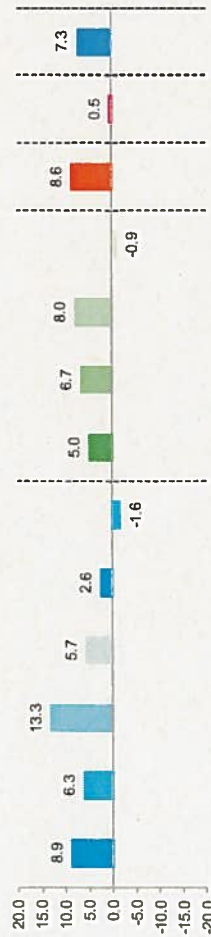
3 Months (%)



12 Months (%)



3 Years (% p.a.)



## Historic Returns - Comment

In general, equity markets were buoyant over the quarter. Economic signals were mixed and included the publication of disappointing economic growth figures for the US and Eurozone during the three months to end March. The OECD, IMF and World Bank cut their forecasts for global economic growth in 2014, but still expect a higher level of activity compared with last year. In contrast, there were examples of positive news, with signs of modest economic growth in some Eurozone countries and strong manufacturing and jobs data from the US.

Short-term interest rates in the UK and US were unchanged during the quarter. In June, the European Central Bank (ECB) reduced interest rates, from 0.25% to 0.15%, against a background of low economic growth and concerns over a deflationary spiral. This is in contrast to central bank policy in other major economies. There was speculation that the Bank of England may soon raise short-term rates on the basis of low unemployment, reasonable growth and encouraging forward-looking manufacturing data. The US central bank, the Federal Reserve, continues to taper its QE programme (expected to finish in October), although it did dismiss the possibility of using a rate rise to curb the recent growth in asset values.

Conflicts and political tensions caused volatility in energy markets. Oil prices hit a nine month high, reflecting concerns that global supply might be affected by the re-intensification of conflict in Iraq.

Key events during the quarter were:

### Global Economy

- The OECD, IMF and World Bank reduced their forecasts for global economic growth for 2014;
- Growth forecasts for the 28 nation European Union were revised modestly upwards by the European Commission, from 1.5% to 1.6%;
- The ECB was the first major central bank to introduce a negative deposit rate (the rate which commercial banks receive on their deposits at the Bank), cutting the rate from 0% to -0.1%;
- UK unemployment rate fell to a 5 year low.

### Equities

- The best performing sectors relative to the FTSE All World Index were Oil & Gas (+6.4%) and Utilities (+2.4%); the worst were Consumer Services (-1.8%) and Financials (-1.7%);
- Merger and acquisition activity dominated headlines. Sizeable international deals were attempted, but not always concluded – most notably the unsuccessful hostile takeover bid for AstraZeneca from pharmaceutical giant Pfizer.

### Bonds and Currencies

- Gilt yields fell marginally (prices rose) at medium & long maturities, but rose at the 'short end';
- Sterling hit a six year high against the dollar, reflecting speculation that the Bank of England will raise interest rates ahead of other central banks.

# Portfolio Summary

## Valuation Summary

| Asset Class                            | Values (£m)  |              |              | Actual Proportion % | Target Proportion % | Difference % |
|--|--------------|--------------|--------------|---------------------|---------------------|--------------|
|  | Q1 2014      | Q2 2014      | Q2 2014      |                     |                     |              |
| Global Equity                          | 589.1        | 583.1        | 62.7         | 62.4                | 0.4                 |              |
| Bonds                                  | 171.6        | 174.9        | 18.8         | 18.6                | 0.2                 |              |
| Property                               | 77.8         | 81.4         | 8.8          | 10.0                | -1.2                |              |
| Private Equity                         | 39.2         | 40.7         | 4.4          | 3.0                 | 1.4                 |              |
| Trustee Bank Account                   | 1.7          | 0.3          | 0.0          | 0.0                 | 0.0                 |              |
| UK Financing Fund                      | 14.0         | 14.1         | 1.5          | 1.0                 | 0.5                 |              |
| Commodities                            | 33.7         | 35.2         | 3.8          | 5.0                 | -1.2                |              |
| <b>Total inc. Trustee Bank Account</b> | <b>907.0</b> | <b>929.7</b> | <b>100.0</b> | <b>100.0</b>        |                     |              |

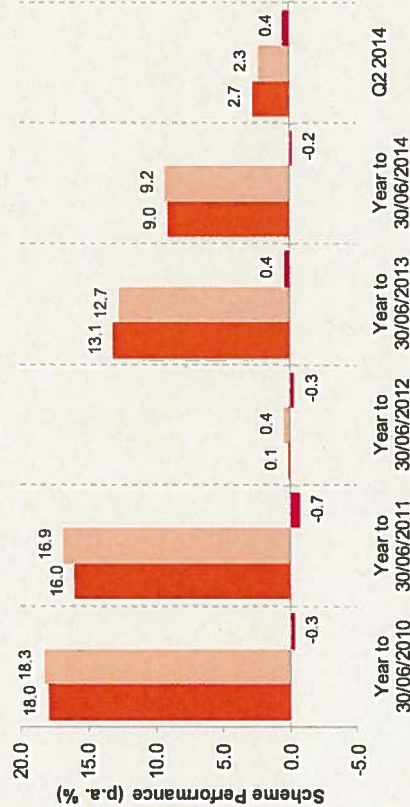
## Comments

The value of the Fund's assets rose by £22.7m over the quarter to £929.7m as at 30 June 2014.

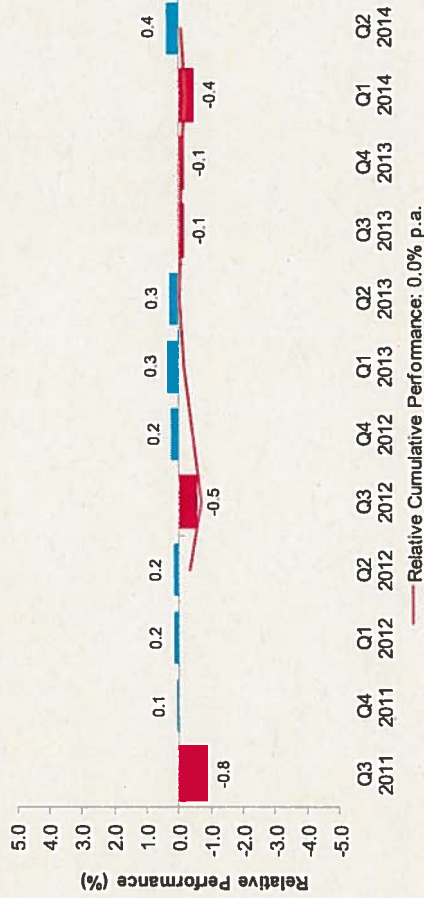
The Fund returned 2.7% over the quarter, outperforming its benchmark return by 0.4%, with positive relative performance from all of the Fund's actively managed mandates. Of these, the Investec commodities mandate was the major contributor. As expected, the passive multi-asset mandates with BlackRock and UBS performed broadly in line with their composite benchmarks for the quarter.

Note: The Fund's target allocations have been updated to reflect the previous re-investment (end Q3 2013) of the temporary cash allocation of 3.0% into the BlackRock and UBS passive multi-asset mandates.

## Performance Summary

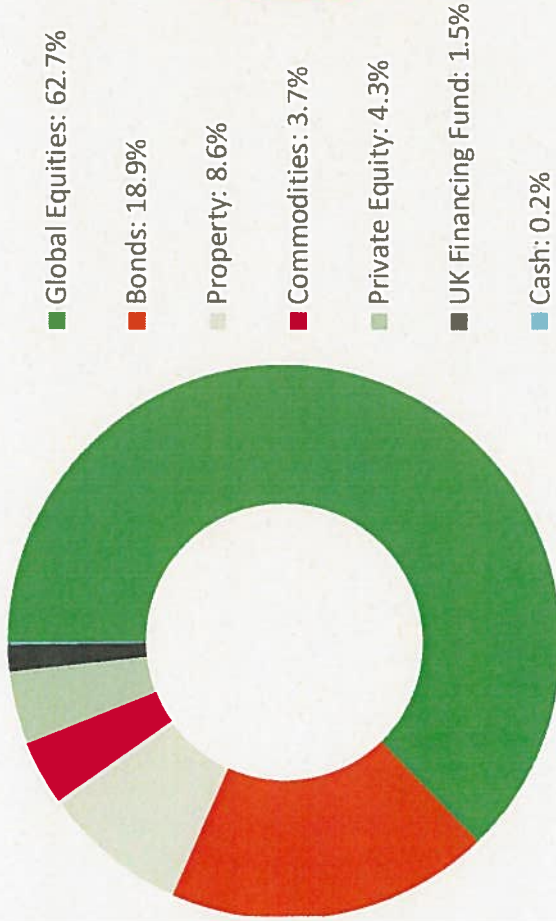


## Relative Quarterly and Relative Cumulative Performance

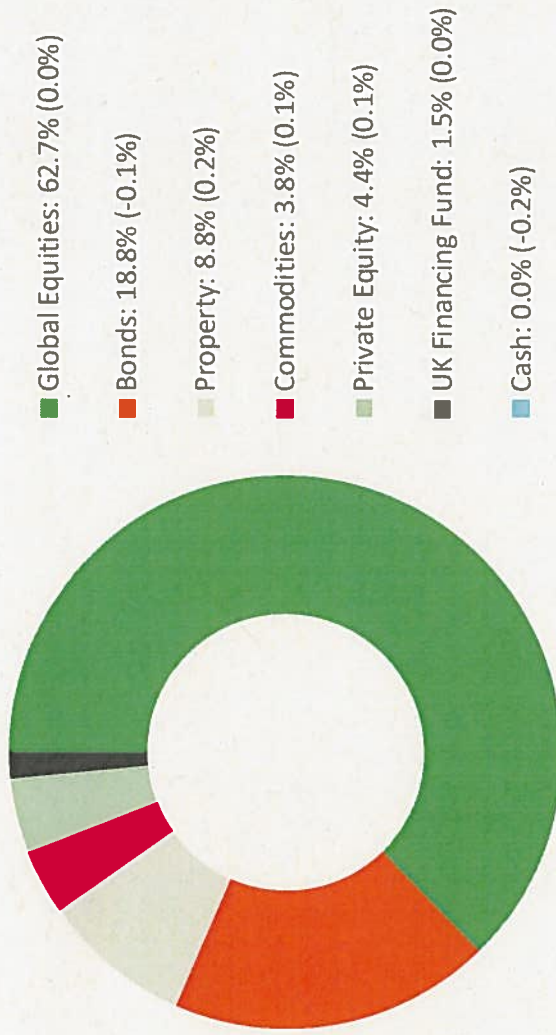


## Fund Asset Allocation

Asset allocation as at 31 March 2014



Asset allocation as at 30 June 2014



### Comments

The charts above show the Fund's asset allocation as at 31 March 2014 and 30 June 2014. The figures in brackets as at 30 June 2014 represent the net changes over the quarter.

There were no significant changes to the Fund's asset allocation over the quarter, with minor changes in the allocations attributable to relative market movements and the relative performance of the Fund's mandates.

## Manager Summary

### Manager Valuations

| Manager                           | Value (£m)   |              |              | Actual Proportion % | Target Proportion % | Difference % |
|-----------------------------------|--------------|--------------|--------------|---------------------|---------------------|--------------|
|                                   | Q1 2014      | Q2 2014      | Q2 2014      |                     |                     |              |
| BlackRock - Passive Multi-asset   | 370.0        | 378.6        | 40.7         | 40.5                | 0.2                 |              |
| UBS - Passive Multi-asset         | 370.7        | 379.4        | 40.8         | 40.5                | 0.3                 |              |
| Schroders - Property              | 77.8         | 81.4         | 8.8          | 10.0                | -1.2                |              |
| Investec - Commodities            | 33.7         | 35.2         | 3.8          | 5.0                 | -1.2                |              |
| Harbourvest - Venture Capital     | 39.2         | 40.7         | 4.4          | 3.0                 | 1.4                 |              |
| M&G - UK Companies Financing Fund | 14.0         | 14.1         | 1.5          | 1.0                 | 0.5                 |              |
| Cash                              | 1.7          | 0.3          | 0.0          | 0.0                 | 0.0                 |              |
| <b>Total</b>                      | <b>907.0</b> | <b>929.7</b> | <b>100.0</b> | <b>100.0</b>        | <b>0.0</b>          |              |

### 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               | 0.75% p.a. above benchmark  |          |
| 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 <sup>(1) (2)</sup>

|                                 | BlackRock - Passive Multi-asset | UBS - Passive Multi-asset | Schroders - Property | Investec - Commodities | Harbourvest - Venture Capital | M&G - UK Companies Financing Fund | Cash       | Total Fund |
|---------------------------------|---------------------------------|---------------------------|----------------------|------------------------|-------------------------------|-----------------------------------|------------|------------|
| <b>3 Months (%)</b>             |                                 |                           |                      |                        |                               |                                   |            |            |
| Absolute Benchmark              | 2.3<br>2.4                      | 2.4<br>2.4                | 4.6<br>4.3           | 4.7<br>-2.4<br>7.3     | 4.8<br>2.4                    | 1.4<br>0.1                        | N/A<br>N/A | 2.7<br>2.3 |
| Relative                        | 0.0                             | 0.0                       | 0.3                  |                        | 2.3                           | 1.2                               | N/A        | 0.4        |
| <b>12 Months (%)</b>            |                                 |                           |                      |                        |                               |                                   |            |            |
| Absolute Benchmark              | 9.3<br>9.4                      | 9.3<br>9.4                | 13.3<br>15.1         | -1.2<br>-4.0           | 5.9<br>10.6                   | 4.8<br>0.5                        | N/A<br>N/A | 9.0<br>9.2 |
| Relative                        | -0.1                            | -0.1                      | -1.6                 | 2.9                    | -4.2                          | 4.3                               | N/A        | -0.2       |
| <b>3 Years (% p.a.)</b>         |                                 |                           |                      |                        |                               |                                   |            |            |
| Absolute Benchmark              | N/A<br>N/A                      | N/A<br>N/A                | 5.5<br>6.6           | -4.2<br>-7.2           | 7.7<br>10.1                   | 4.5<br>0.6                        | N/A<br>N/A | 7.3<br>7.3 |
| Relative                        | N/A                             | N/A                       | -1.1                 | 3.2                    | -2.2                          | 3.8                               | N/A        | 0.0        |
| <b>Since Inception (% p.a.)</b> |                                 |                           |                      |                        |                               |                                   |            |            |
| Absolute Benchmark              | 14.1<br>14.2                    | 14.1<br>14.1              | 3.2<br>4.1           | -0.5<br>-2.3           | 6.5<br>6.7                    | 3.7<br>0.7                        | N/A<br>N/A | 7.5<br>7.8 |
| Relative                        | -0.2                            | 0.0                       | -0.9                 | 1.8                    | -0.2                          | 3.1                               | N/A        | -0.3       |

1] Since inception: BlackRock (20 Nov 12), UBS (15 Nov 12), Schroders (12 Oct 04), Investec (25 Feb 10), HarbourVest (29 Jun 06), M&G (01 May 10)

source: (1) DataStream, Fund Manager, Hymans Robertson, Investment Property Databank Limited

## BlackRock - Passive Multi-Asset

### IR 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 2.3%, broadly matching its composite benchmark return. All of the underlying allocations within the mandate performed broadly in line with their respective benchmarks, as we would expect from a passive manager. Two underlying funds; the European Equity Index and the Israel Equity Index produced negative absolute returns. All other underlying funds produced positive absolute returns, broadly reflecting the underlying index returns.

### Performance Summary to 30 June 2014

|           | 3 Months (%) | 12 Months (%) | 3 Years (% p.a.) | Since Inception* (% p.a.) |
|-----------|--------------|---------------|------------------|---------------------------|
| Fund      | 2.3          | 9.3           | N/A              | 14.1                      |
| Benchmark | 2.4          | 9.4           | N/A              | 14.2                      |
| Relative  | -0.0         | -0.1          | N/A              | -0.2                      |

\* Inception date 20 Nov 2012.



## UBS - Passive Multi-Asset

### IR 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 2.4%, 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 30 June 2014

|           | 3 Months (%) | 12 Months (%) | 3 Years (% p.a.) | Since Inception* (% p.a.) |
|-----------|--------------|---------------|------------------|---------------------------|
| Fund      | 2.4          | 9.3           | N/A              | 14.1                      |
| Benchmark | 2.4          | 9.4           | N/A              | 14.1                      |
| Relative  | 0.0          | -0.1          | N/A              | 0.0                       |

\* Inception date 15 Nov 2012.

# Schroders - Property

## IR View Comment & Rating



There were no significant developments to report over the quarter.

## Performance Summary - Comment

The multi-manager property mandate outperformed the IPD index by 0.5% over the quarter, returning 1.6% in absolute terms. Longer-term performance has been held back by poor performance from the mandate's exposure to European property.

Within the UK property market, capital values are beginning to see support from increasing rent values. Schroders believe this increase will offset the impact of an increase in interest rates in the short term. UK investments have outperformed over one and three years however, negative returns from European property has partially offset these gains. The manager continues to progressively reduce the mandate's European exposure (c6% of the portfolio at quarter-end) with proceeds being reinvested into the UK.

Industrial specialists such as the Industrial Property Investment fund performed well, benefiting from improved occupier demand across the country. The mandate's exposure to value added funds have continued to drive performance over all time periods.

Over the twelve month and 3 year periods specialist funds continue to be the strongest drivers of performance. West End of London PUT has performed particularly well, driven by positive rental growth and investor demand for the Central London office sector.

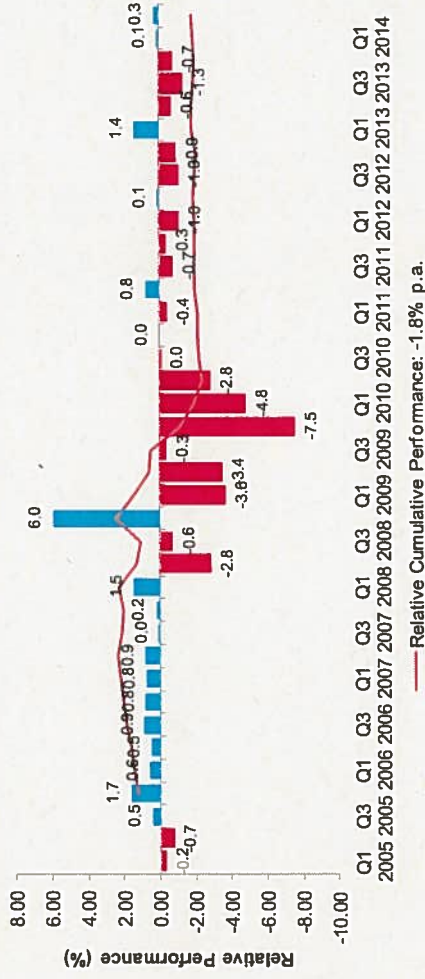
Source: [1] Fund Manager, Hymans Robertson, Investment Property Databank Limited

## Performance Summary to 30 June 2014 [1]

|           | 3 Months (%) | 12 Months (%) | 3 Years (% p.a.) | Since Inception* (% p.a.) |
|-----------|--------------|---------------|------------------|---------------------------|
| Fund      | 4.6          | 13.3          | 5.5              | 3.2                       |
| Benchmark | 4.3          | 15.1          | 6.6              | 4.1                       |
| Relative  | 0.3          | -1.6          | -1.1             | -0.9                      |

\* Inception date 12 Oct 2004.

## Relative Quarterly and Relative Cumulative Performance



## Investec - Commodities

### IR View Comment & Rating



There was no significant news to report over the quarter.

While performance has been significantly above benchmark this quarter, we note that this level of volatility is not uncommon for this mandate.

### Performance Summary - Comment

The Investec Global Commodities & Resources Fund delivered a positive return for the quarter, significantly outperforming its Dow Jones-UBS Commodities Total Return benchmark by 7.3%. The mandate remains ahead of its benchmark over 12 months, 3 years and since inception.

The fund's exposure to the energy sector was the largest contributor to absolute performance, in particular to integrated oil & gas companies. The funds exposure within the precious metals sector also added to performance, with the funds position in gold equity contributing to these returns. Within agriculture & softs, the funds equity exposure was the largest contributor, buoyed by falling feed prices and tight supply.

### Performance Summary to 30 June 2014 <sup>(1)</sup>

|           | 3 Months (%) | 12 Months (%) | 3 Years (% p.a.) | Since Inception* (% p.a.) |
|-----------|--------------|---------------|------------------|---------------------------|
| Fund      | 4.7          | -1.2          | -4.2             | -0.5                      |
| Benchmark | -2.4         | -4.0          | -7.2             | -2.3                      |
| Relative  | 7.3          | 2.9           | 3.2              | 1.8                       |

\* Inception date 25 Feb 2010.

# Harbourvest - Venture Capital

## IR View Comment & Rating



HarbourVest remains one of our favoured private equity fund of fund managers.

## Performance Summary - Comment

The HarbourVest mandate returned 4.8% over the quarter, outperforming its benchmark return of 1.4%. However, the mandate has underperformed its benchmark over 12 months, 3 years and since inception.

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 June 2014

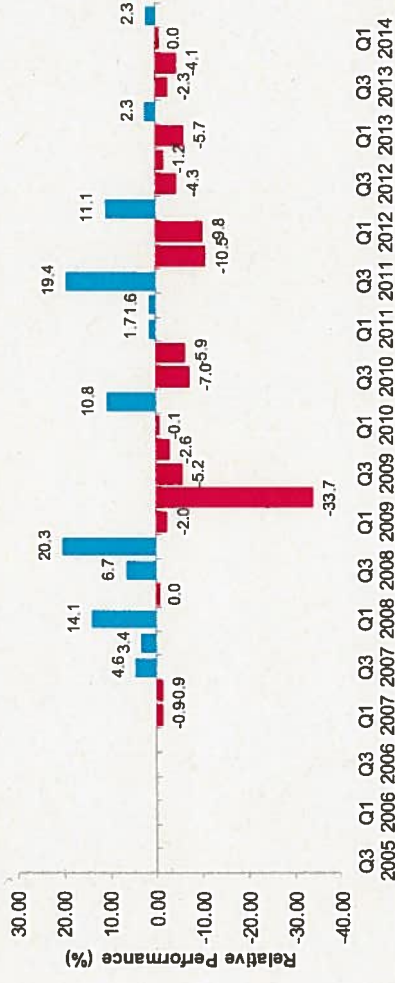
|           | 3 Months (%) | 12 Months (%) | 3 Years (% p.a.) | Since Inception* (% p.a.) |
|-----------|--------------|---------------|------------------|---------------------------|
| Fund      | 4.8          | 5.9           | 7.7              | 6.5                       |
| Benchmark | 2.4          | 10.6          | 10.1             | 6.7                       |
| Relative  | 2.3          | -4.2          | -2.2             | -0.2                      |

\* Inception date 29 Jun 2006.

## 3 Year Relative Return

| Actual % p.a. | Target % p.a. |
|---------------|---------------|
| -2.2          | 5.0           |

## Relative Quarterly and Relative Cumulative Performance



## M&G - UK Companies Financing Fund

### IR View Comment & Rating



There was no significant news to report over the quarter.

### Performance Summary - Comment

The UK Companies Financing Fund (UKCFF) returned 0.9% over the quarter, outperforming its LIBOR benchmark return of 0.1%.

The weighted average credit rating was stable at BB+, with an average maturity of 5.3 years. The weighted average credit spread was 437bps at the end of the period.

The returns shown are sourced from Northern Trust.

### Performance Summary to 30 June 2014 <sup>(1)</sup>

|           | 3 Months (%) | 12 Months (%) | Since Inception* (% p.a.) |
|-----------|--------------|---------------|---------------------------|
| Fund      | 1.4          | 4.8           | 3.7                       |
| Benchmark | 0.1          | 0.5           | 0.7                       |
| Relative  | 1.2          | 4.3           | 3.1                       |

\* Inception date 01 May 2010.

## 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 |                       |                      | 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<br>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.