

London Borough of Lewisham Pension Fund

Review of Investment Managers' Performance for Third Quarter of 2014

 Prepared By:

Scott Donaldson - Partner
Albert Chen - Investment Consultant
Ben Fox - Investment Analyst

For and on behalf of Hymans Robertson LLP
October 2014

Contents

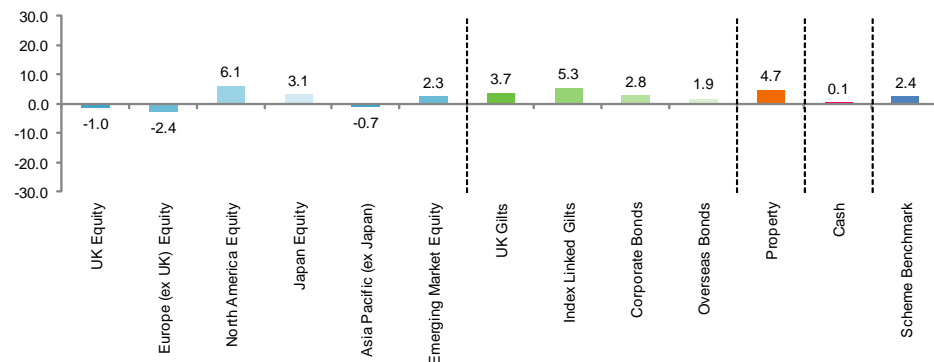
	Page
➤ Markets	
Historic Returns for World Markets to 30 September 2014	3
➤ Fund Overview	
Portfolio Summary	4
Fund Asset Allocation	5
➤ Manager Overview	
Manager Summary	6
Performance Summary - Managers	7
➤ Managers	
BlackRock - Passive Multi-Asset	8
UBS - Passive Multi-Asset	9
Schroders - Property	10
Investec - Commodities	11
Harbourvest - Venture Capital	12
M&G - UK Companies Financing Fund	13
➤ Appendices	
Performance Calculation	14

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.

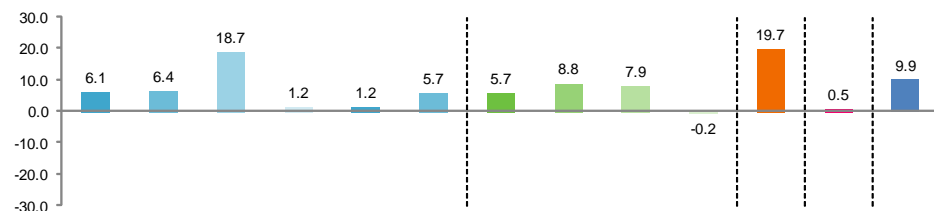
Hymans Robertson LLP has relied upon third party sources and all copyright and other rights are reserved by such third party sources as follows: DataStream data: © DataStream; Fund Manager data: Fund Manager; Hymans Robertson data: © Hymans Robertson; Investment Property Databank Limited data: © and database right Investment Property Databank Limited and its licensors 2014. All rights reserved. IPD has no liability to any person for any losses, damages, costs or expenses suffered as a result of any use or reliance on any of the information which may be attributed to it. Whilst every effort has been made to ensure the accuracy of such estimates or data - including third party data - we cannot accept responsibility for any loss arising from their use. © Hymans Robertson LLP 2014

Historic Returns for World Markets to 30 September 2014

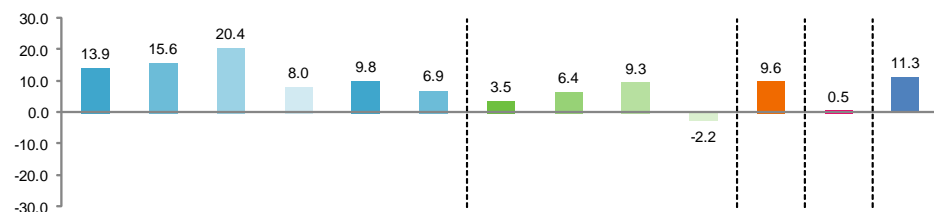
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Historic Returns - Comment

Economic news in recent months was mixed. Europe, China and Japan all posted slightly disappointing estimates for economic growth during the three months to the end of September. The figures for the UK and the US were ahead of expectations and continue to be the strongest of the developed economies. The OECD and IMF indicated they expect lower global economic growth in 2014 and 2015 than they forecast earlier this year, partly due to the impact of the geopolitical tensions in Ukraine and the Middle East. The referendum in Scotland caused relatively little volatility in UK markets.

Short term interest rates in the UK and US were unchanged during the quarter. The European Central Bank (ECB) reduced interest rates, from 0.15% to 0.05% in September, following a similar cut in June. It also announced an asset purchase program, aimed at providing liquidity to the financial system and boosting lending. This contrasts with recent central bank policy in other major economies. Investors expect that the Bank of England and the US central bank may raise short-term rates in early 2015 as unemployment and growth measures continue to improve, although rate rises may be delayed by the lower than expected wage growth and inflation seen in recent months.

In general, equity markets rose over the quarter, despite modest declines in the UK and continental Europe. Commodity prices broadly fell, as geopolitical tensions had little impact on energy production, demand for industrial metals in China fell, and agricultural prices were impacted by a bumper grain harvest.

Key events during the quarter were:

Global Economy

- The UK recession was shallower than first thought, according to the Office for Budget Responsibility;
- UK inflation (CPI) fell to a five year low of 1.5% (v. target of 2%) in August;
- Eurozone inflation fell to 0.3% in September (the lowest rate since October 2009);
- Strong economic growth in the UK and US contrasted sharply with slow growth in the Eurozone;
- Short-term interest rates were unchanged in the UK and US and cut, from 0.15% to 0.05%, in the Eurozone, which also introduced a form of quantitative easing.

Equities

- The best performing sectors relative to the FTSE All World Index were Health Care (+5.9%) and Technology (+5.7%); the worst were Oil & Gas (-7.4%) and Basic Materials (-4.1%);
- Shares in Alibaba, a Chinese internet company, rose 38% on their first day of trading on the New York Stock Exchange in September, in a world-record \$25bn flotation.

Bonds and Currencies

- Gilt yields fell (prices rose) as inflation continued to undershoot its target;
- Sterling fell by c.5% against the US dollar but rose slightly against the euro and the yen.

Portfolio Summary

Valuation Summary

Asset Class	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q2 2014	Q3 2014			
Global Equity	583.1	596.2	62.4	62.4	0.1
Bonds	174.9	183.7	19.2	18.6	0.6
Property	81.4	84.5	8.8	10.0	-1.2
Private Equity	40.7	42.2	4.4	3.0	1.4
Trustee Bank Account	0.3	0.4	0.0	0.0	0.0
UK Financing Fund	14.1	14.2	1.5	1.0	0.5
Commodities	35.2	33.7	3.5	5.0	-1.5
Total inc. Trustee Bank Account	929.7	955.0	100.0	100.0	

Comments

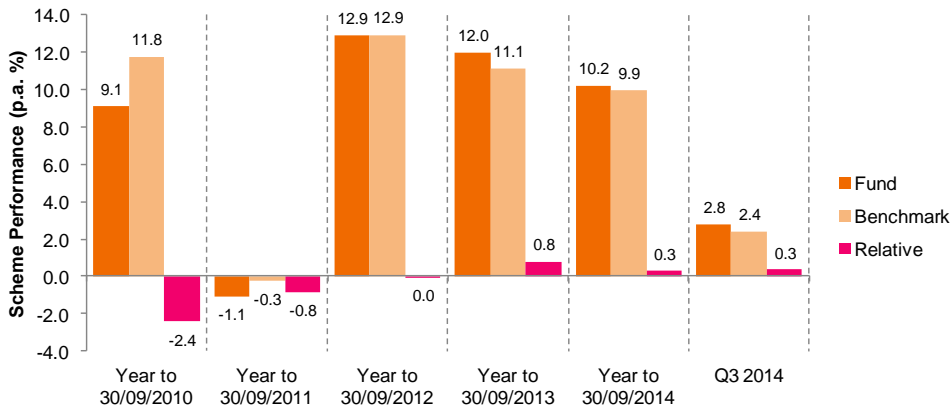
The value of the Fund's assets increased by £25.3m over the quarter to £955.0m as at 30 September 2014.

The Fund returned 2.8% over the quarter, outperforming its benchmark by 0.3%.

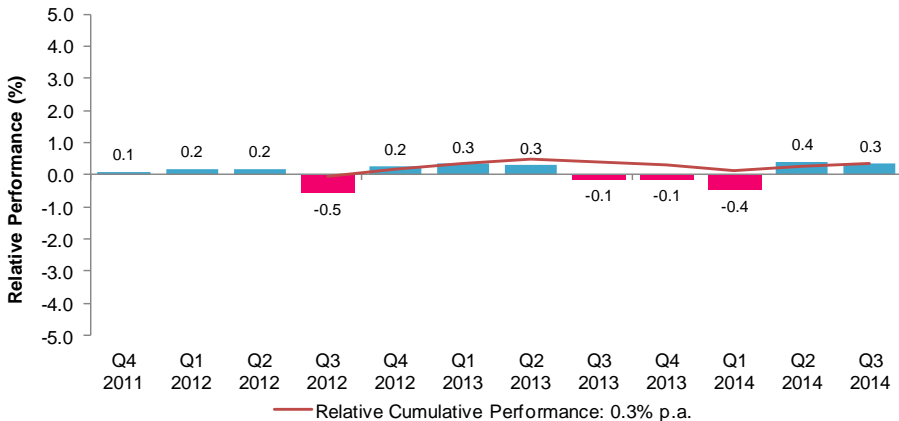
The passive multi-asset mandates with BlackRock and UBS broadly matched their benchmarks over the quarter, as we would expect.

There was also positive relative performance from most of the Fund's active mandates. HarbourVest performed strongly over the quarter, delivering an absolute return of 5.9% and outperforming its benchmark by 2.5%. The Schroders property mandate delivered strong absolute performance of 3.7% for the quarter, but underperformed by 0.3%.

Performance Summary ^[1]



Relative Quarterly and Relative Cumulative Performance

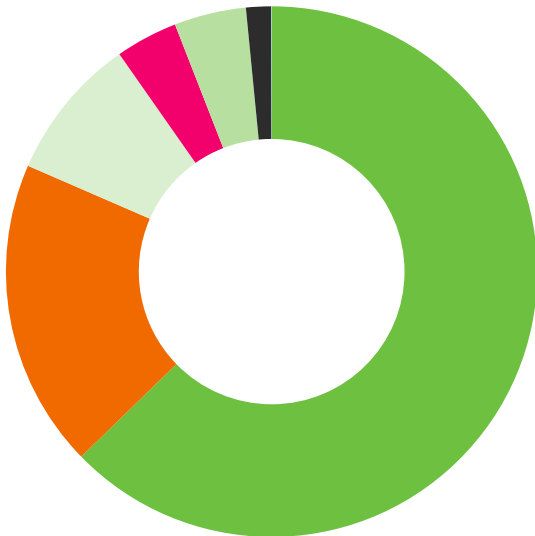


Source: [1] DataStream, Fund Manager, Hymans Robertson



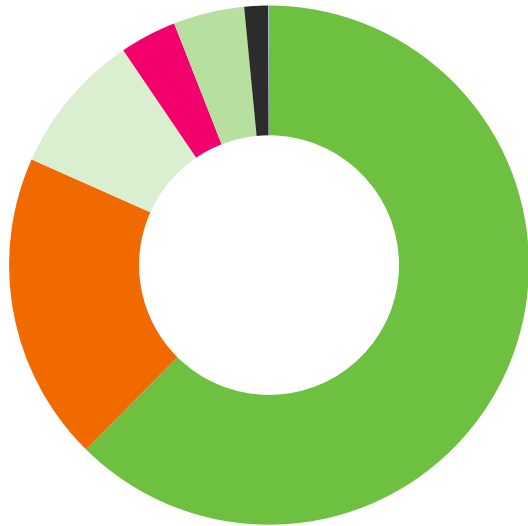
Fund Asset Allocation

Asset allocation as at 30 June 2014



- Global Equities: 62.7%
- Bonds: 18.8%
- Property: 8.8%
- Commodities: 3.8%
- Private Equity: 4.4%
- UK Financing Fund: 1.5%
- Cash: 0.0%

Asset allocation as at 30 September 2014



- Global Equities: 62.4% (-0.3%)
- Bonds: 19.2% (0.4%)
- Property: 8.8% (0.1%)
- Commodities: 3.5% (-0.3%)
- Private Equity: 4.4% (0.0%)
- UK Financing Fund: 1.5% (0.0%)
- Cash: 0.0% (0.0%)

Comments

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

There were no major changes to the Fund's asset allocation over the quarter, with any minor changes due to the relative performance of the Fund's mandates and market movements.

Source: [i] Fund Manager, Hymans Robertson



Manager Summary

Manager Valuations

Manager	Value (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q2 2014	Q3 2014			
BlackRock - Passive Multi-asset	378.6	389.9	40.8	40.5	0.3
UBS - Passive Multi-asset	379.4	390.0	40.8	40.5	0.3
Schroders - Property	81.4	84.5	8.8	10.0	-1.2
Investec - Commodities	35.2	33.7	3.5	5.0	-1.5
Harbourvest - Venture Capital	40.7	42.2	4.4	3.0	1.4
M&G - UK Companies Financing Fund	14.1	14.2	1.5	1.0	0.5
Cash	0.3	0.4	0.0	0.0	0.0
Total	929.7	955.0	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	0.75% p.a. above benchmark	
Investec - Commodities	25 Feb 2010	Bloomberg Total Return Commodity 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] ^[i]

		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	3.0	2.8	3.7	-4.5	5.9	1.1	N/A	2.8
	Benchmark	2.8	2.8	4.0	-7.0	3.3	0.1	N/A	2.4
	Relative	0.2			2.7	2.5	1.0	N/A	0.3
12 Months (%)	Absolute	10.4	10.1	16.2	-4.5	13.3	4.8	N/A	10.2
	Benchmark	10.2	10.2	16.9	-6.7	12.7	0.5	N/A	9.9
	Relative	0.2			2.3	0.5	4.2	N/A	0.3
3 Years (% p.a.)	Absolute	N/A	N/A	6.4	-3.5	8.8	4.5	N/A	11.7
	Benchmark	N/A	N/A	7.9	-6.6	17.0	0.6	N/A	11.3
	Relative	N/A	N/A		3.3		3.9	N/A	0.3
Since Inception (% p.a.)	Absolute	13.8	13.7	3.5	-2.3	7.0	3.8	N/A	7.6
	Benchmark	13.5	13.7	4.4	-3.8	6.9	0.6	N/A	7.9
	Relative	0.2			1.6	0.1	3.1	N/A	-0.3

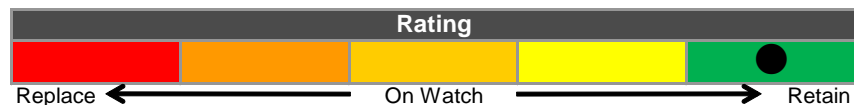
[1] Since inception: BlackRock (20 Nov 12), UBS (15 Nov 12), Schroders (12 Oct 04), Investec (25 Feb 10), HarbourVest (29 Jun 06), M&G (01 May 10)

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



BlackRock - Passive Multi-Asset

HR View Comment & Rating



There has been no significant news to report over the quarter.

BlackRock continues to be one of our preferred passive managers.

Performance Summary to 30 September 2014

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	3.0	10.4	13.8
Benchmark	2.8	10.2	13.5
Relative	0.2	0.2	0.2

* Inception date 20 Nov 2012.

Performance Summary - Comment

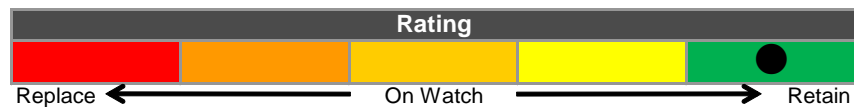
The BlackRock composite benchmark comprises the FTSE All Share (20.5%), MSCI AC World (56.5%), FTSE > 15 Year Fixed Gilts (7.6%), FTSE > 5 Year Index Linked Gilts (7.7%) and iBoxx £ Non-Gilts All Stocks (7.7%).

The BlackRock multi-asset mandate delivered a positive return of 3.0% over the quarter, marginally ahead of its composite benchmark. All of the underlying allocations within the mandate were broadly in line with their respective benchmarks.

Within the mandate, the UK Gilt Index and North American Equity Index funds generated the strongest returns (+7.2% and +6.5%, respectively), while the European Equity Index and the UK Equity Index funds were the weakest performers, delivering negative returns of -2.3% and -1.0%, respectively.

UBS - Passive Multi-Asset

HR View Comment & Rating



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

UBS remains one of our favoured passive managers.

Performance Summary to 30 September 2014

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)	Since Inception* (% p.a.)
Fund	2.8	10.1	13.7	13.7
Benchmark	2.8	10.2	13.7	13.7
Relative	-0.0	-0.0	-0.0	-0.0

* Inception date 15 Nov 2012.

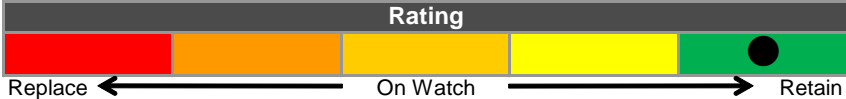
Performance Summary - Comment

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 matched its composite benchmark, delivering a return of 2.8%. All of the underlying allocations within the mandate performed in line with their respective benchmarks.

Schroders - Property

HR View Comment & Rating



There were no noteworthy changes over the quarter to report.

Performance Summary to 30 September 2014 ^[1]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	3.7	16.2	6.4	3.5
Benchmark	4.0	16.9	7.9	4.4
Relative	-0.3	-0.6	-1.4	-0.9

* Inception date 12 Oct 2004.

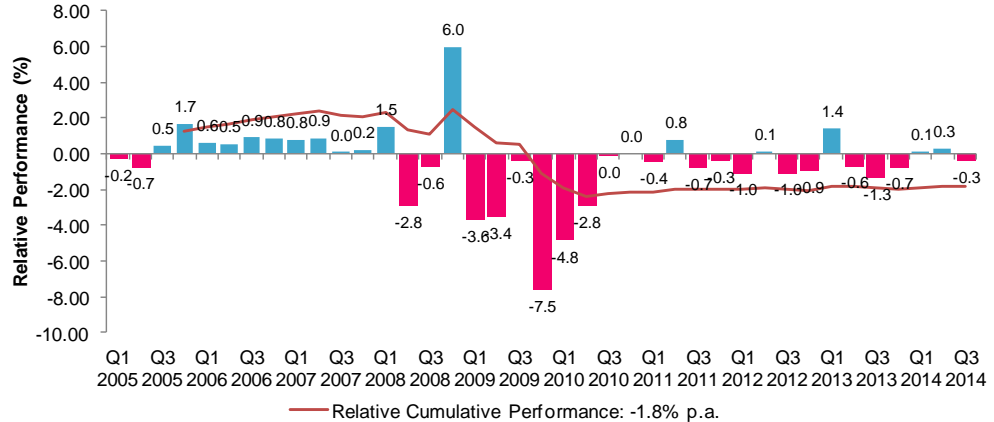
Performance Summary - Comment

The Schroders multi-manager property mandate underperformed the IPD index by 0.3% over the quarter, delivering an absolute return of 3.7%. While performance in absolute terms has been strong over the quarter and past year, relative performance has been hampered by exposure to European property.

The portfolio's UK assets performed well over the quarter, returning 4.7% in aggregate. Schroders believe that increasing occupational demand spreading from the capital, alongside high levels of transactional activity should result in strong UK property performance over the remainder of the year. However, this was offset by poor returns from the Continental Europe Fund (CEF), which comprised 5% of the portfolio at quarter end (down from 7.7% a year ago). The manager has indicated that CEF will continue to return capital to investors at the earliest opportunity, subject to pricing, market circumstances and fund liquidity requirements.

Within the fund's UK holdings, the Industrial Property Investment Fund has helped performance, benefitting from increasing occupier demand throughout the UK. The West End of London PUT has also continued to be a strong contributor to performance over 12 months and 3 years periods. However, compression in yields and strong rental growth has resulted in the manager serving notice to redeem a portion of the holding.

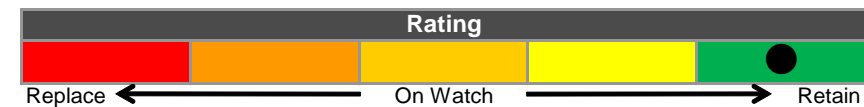
Relative Quarterly and Relative Cumulative Performance



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

Investec - Commodities

HR View Comment & Rating



There was no significant news to report over this quarter.

Performance Summary to 30 September 2014 ^[1]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-4.5	-4.5	-3.5	-2.3
Benchmark	-7.0	-6.7	-6.6	-3.8
Relative	2.7	2.3	3.3	1.6

* Inception date 25 Feb 2010.

Performance Summary - Comment

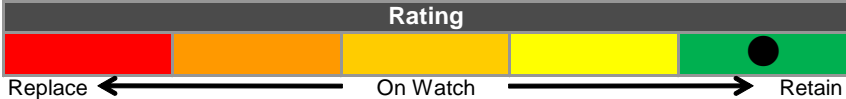
The Investec Global Commodities & Resources Fund declined by 4.5% over the quarter, but outperformed its benchmark index by 2.7%.

The fund's long equity holdings, particularly in Energy and Base & Bulk metals, were the most significant contributors to negative returns, although this was partially offset by positive returns for the fund's short equity positions across all sectors. The fund's positions in "agriculture & softs" (including protein, sugar, paper, water, equipment, fertiliser) were the strongest performers, contributing only a marginal loss over the quarter.

Of minor note, the benchmark name was changed in July 2014, with the Dow Jones-UBS Commodities Total Return Index now known as the Bloomberg Commodity Total Return Index.

Harbourvest - Venture Capital

HR View Comment & Rating



There was no significant news to report over the quarter.

HarbourVest continues to be one of our preferred private equity fund of fund managers.

Performance Summary to 30 September 2014 ^[i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	5.9	13.3	8.8	7.0
Benchmark	3.3	12.7	17.0	6.9
Relative	2.5	0.5	-7.1	0.1

* Inception date 29 Jun 2006.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-7.1	5.0

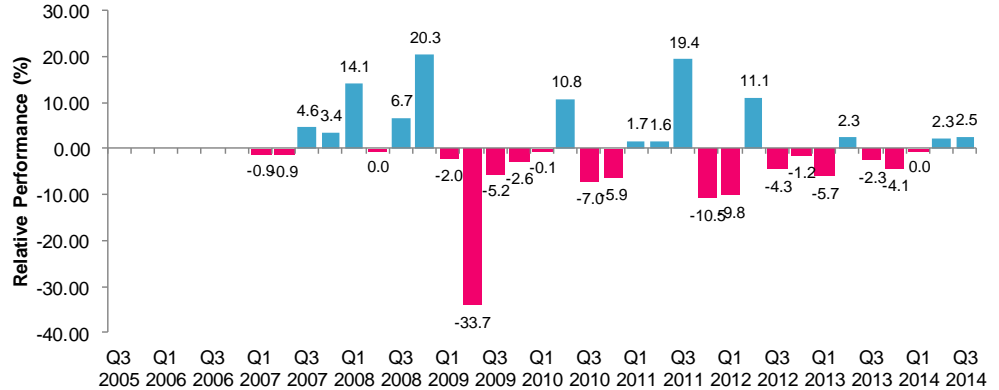
Performance Summary - Comment

The HarbourVest mandate returned 5.9% this quarter, outperforming its benchmark by 2.5%.

HarbourVest remains one of our favoured private equity investment managers. Founded in 1982, it is one of the longest-established and largest fund of fund managers in the private equity business. Although headquartered in the US, the firm has a long history of managing private equity investments for UK clients and now looks after some £3.4 billion for 38 UK pension schemes, of which 22 are public sector funds. As of 31 March 2014 the two US-focused funds to which the Fund has committed (HarbourVest Fund VIII Buyout and HarbourVest Fund VIII Venture) were significantly outperforming the two non-US funds (HIPEP V and HIPEP V Direct). The performance of the HIPEP V Direct fund is disappointing, with a net internal rate of return of 2.5% p.a.. However, there remains significant unrealised value in this fund and we would expect these figures to improve as exits are achieved. This is also true of the three other funds, all of which are now in the cash flow positive phase and returning reasonable amounts of cash to the Fund.

The returns shown are from Northern Trust.

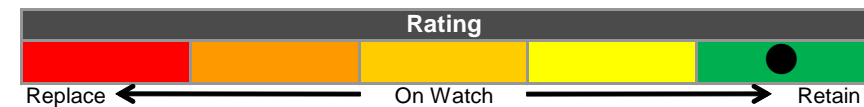
Relative Quarterly and Relative Cumulative Performance



Source: [i] DataStream, Hymans Robertson

M&G - UK Companies Financing Fund

HR View Comment & Rating



There was no significant news to report over the quarter.

Performance Summary to 30 September 2014 ^[i]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	1.1	4.8	3.8
Benchmark	0.1	0.5	0.6
Relative	1.0	4.2	3.1

* Inception date 01 May 2010.

Performance Summary - Comment

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

The weighted average credit rating was BB+, with an average maturity of 5.0 years. The weighted average credit spread was 437bp at the end of the period.

The returns shown are sourced from Northern Trust.

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.

