

London Borough of Lewisham Pension Fund

Review of Investment Managers' Performance for Third Quarter of 2015



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For and on behalf of Hymans Robertson LLP
November 2015

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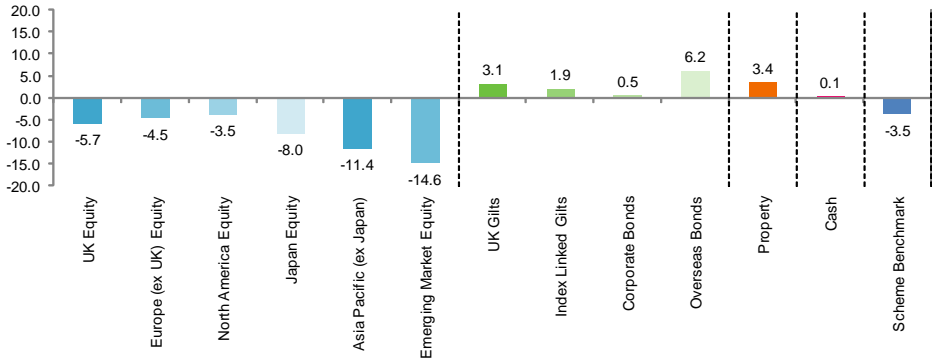
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Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in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

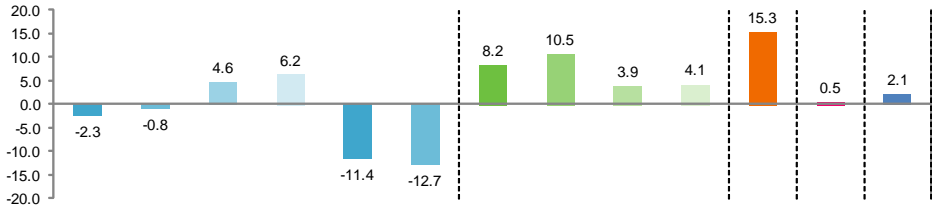
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Historic Returns for World Markets to 30 September 2015

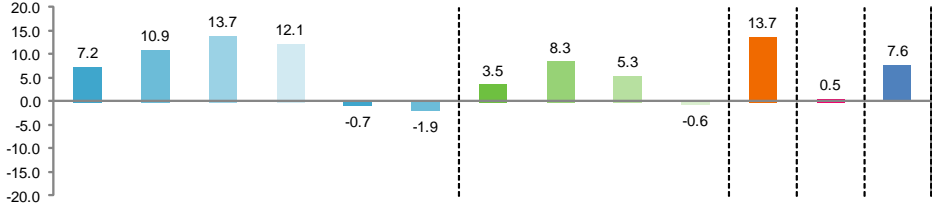
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Historic Returns - Comment

Global equity markets recorded their worst three month returns in four years. In the UK the FTSE All Share index fell by 5.7%; in the US, the S&P 500 index fell by 2.9%. August was a particularly difficult month, with global equities falling by more than 5% and government bonds offering little in the way of a safe haven.

The economic slowdown in China dominated the headlines during the quarter, with the country's economy growing at its slowest rate in over six years. In August, the benchmark interest rate was cut for the fifth time since November 2014.

An increase in short-term interest rates in the US had been widely anticipated at the start of the quarter, but developments in China shifted expectations. Many commentators are now anticipating that the first US rate rise will be pushed into 2016. However, the US economy continued to be robust, with falling unemployment and upward revisions to growth forecasts. The chairman of the Federal Reserve suggested, at the end of the quarter, that a US rate rise was still likely before the end of 2015.

Key events during the quarter included;

Global Economy

- Short-term interest rates were unchanged in the UK, US, Eurozone and Japan;
- Headline inflation in the US, Eurozone and UK remained close to zero;
- The VIX volatility index spiked as equity markets collapsed, peaking at more than double its historic average since 1990;
- Oil prices slid back to their lows of early 2015, dipping under \$50 per barrel;
- Commodity prices suffered their biggest quarterly decline since 2008.

Equities

- The strongest sectors relative to the FTSE All World Index were Utilities (+7.6%) and Consumer Services (+5.1%); the weakest were Basic Materials (-11.4%) and Oil & Gas (-9.9%);
- Emerging market equities struggled; local currency weakness compounded the falls for UK investors.

Bonds and currencies

- Sterling fell against the Dollar, Euro and Yen, largely reversing gains made during the preceding quarter;
- UK gilt yields fell (prices rose), with nominal yields falling further than real yields.

[1] All returns are in Sterling terms. Indices shown (from left to right) are as follows: Equities – FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, S&P/IFCI Composite; Bonds – FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds; Property – IPD UK Monthly Property Index; Cash – UK Interbank 7 Day.

Portfolio Summary

Valuation Summary ^[1]

Asset Class	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q2 2015	Q3 2015			
Global Equity	644.4	609.5	62.5	62.4	0.1
Bonds	185.4	188.7	19.3	18.6	0.7
Property	92.8	96.1	9.9	10.0	-0.2
Private Equity	42.9	39.9	4.1	3.0	1.1
Trustee Bank Account	0.4	13.3	1.4	0.0	1.4
UK Financing Fund	14.6	14.7	1.5	1.0	0.5
Commodities	29.8	13.1	1.3	5.0	-3.7
Total inc. Trustee Bank Account	1010.2	975.2	100.0	100.0	

Note: For the purpose of this report, we have included in the Trustee Bank Account valuation the expected cash of c£13.06m following the partial disinvestment from the Investec Commodities mandate on 30 September.

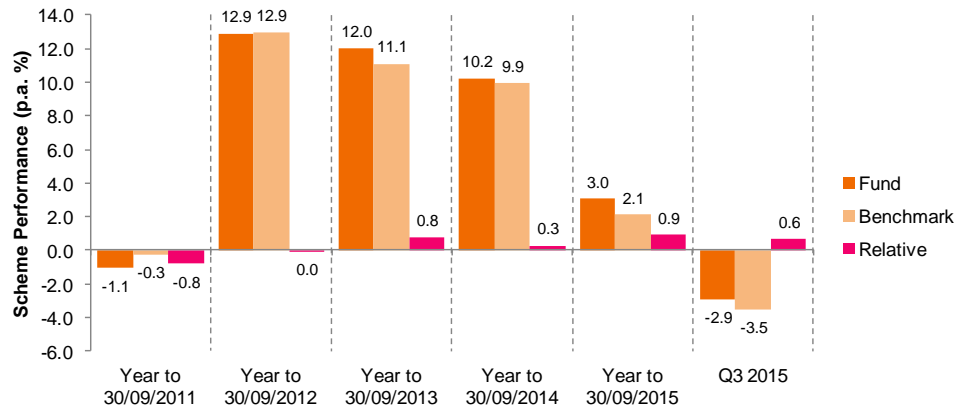
Comments

The value of the fund's assets fell by £35.0m over the quarter to £975.2m as at 30 September 2015, due largely to the falls in equity markets over the quarter. Although the Fund's portfolio generated a negative return of -2.9% (net of fees) over the quarter, it outperformed its benchmark return by 0.6%.

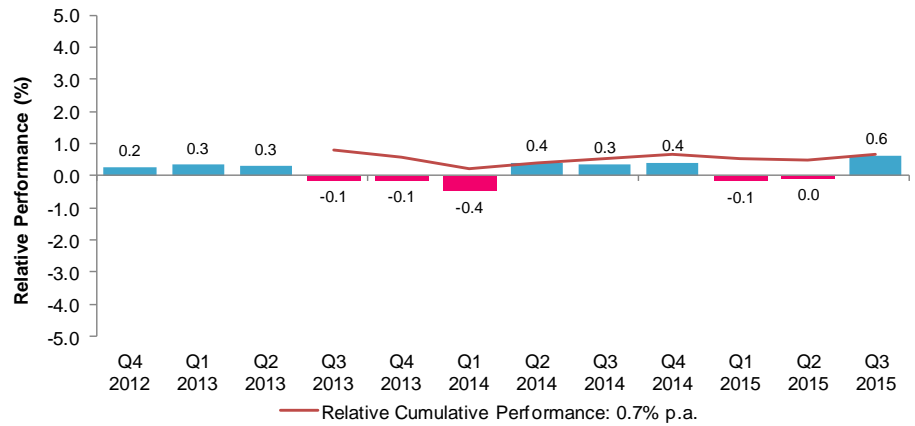
The BlackRock and UBS passively managed mandates broadly tracked their composite benchmarks, as would be expected. HarbourVest Venture Capital was the strongest performing active mandate over the quarter, generating a return of 5.9%, outperforming its benchmark by 11.2%. The Schroders Property and M&G UK Companies Financing mandates also outperformed their respective benchmarks, while the Investec Commodities mandate underperformed its benchmark by 1.5%.

Following the Committee's decision to disinvest from the Investec Commodities mandate, half of the mandate holdings (c£13.06m) were disinvested on 30 September 2015. The remainder of the mandate was disinvested on 30 October 2015.

Performance Summary ^[1]



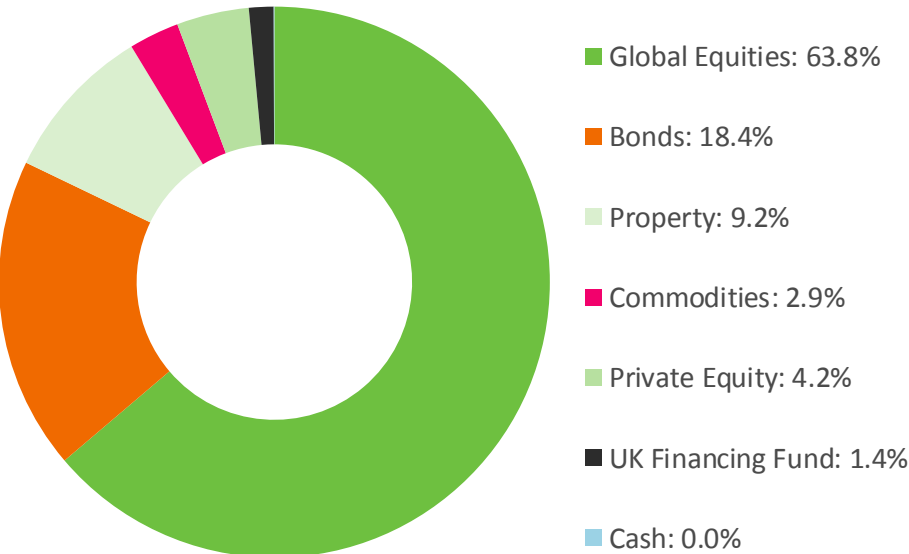
Relative Quarterly and Relative Cumulative Performance



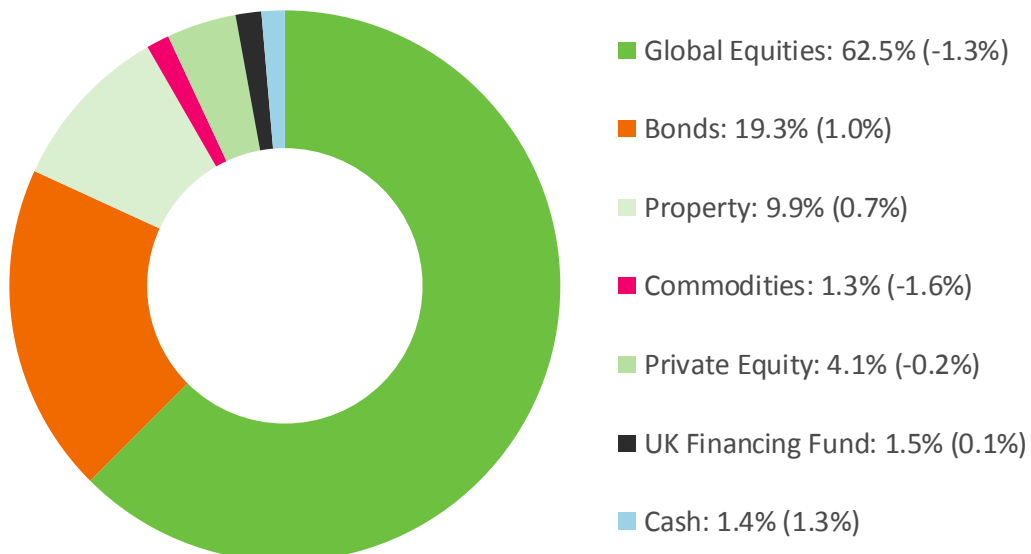
[1] Commodities include the £13.1 million divestment from Investec Commodities Fund, which occurred on 30 September 2015 and settled on 6 October 2015.

Fund Asset Allocation

Asset allocation as at 30 June 2015



Asset allocation as at 30 September 2015



Comments

The charts above show the Fund's asset allocation as at 30 June 2015 and 30 September 2015. The figures in brackets as at 30 September 2015 represent the net changes over the quarter.

Following the Committee's decision to disinvest from the Investec Commodities mandate, half of the mandate (c£13.06m) was disinvested on 30 September 2015; this is reflected in the reduced allocation to commodities as at 30 September 2015. The expected cash of c£13.06m was due to settle after the end of the quarter, and for the purposes of this report has been included in the cash allocation.

There were no other major changes to the Fund's asset allocation during the quarter, with other changes in allocations due to the relative performance of the Fund's mandates and market movements. The allocation to equities fell, reflecting the negative performance from equity markets over the quarter.

Source: [i] Fund Manager, Hymans Robertson



Manager Summary

Manager Valuations ^[1]

Manager	Value (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q2 2015	Q3 2015			
BlackRock - Passive Multi-asset	415.5	399.6	41.0	40.5	0.5
UBS - Passive Multi-asset	414.3	398.6	40.9	40.5	0.4
Schroders - Property	92.8	96.1	9.9	10.0	-0.1
Investec - Commodities	29.8	26.1	2.7	5.0	-2.3
Harbourvest - Venture Capital	42.9	39.9	4.1	3.0	1.1
M&G - UK Companies Financing Fund	14.6	14.7	1.5	1.0	0.5
Cash	0.4	0.3	0.0	0.0	0.0
Total	1010.2	975.2	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

[1] Investec Commodities includes the £13.1 million divestment from the fund, which occurred on 30 September 2015 and settled on 6 October 2015.



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	-3.8	3.5	-12.6	5.9	1.1	N/A	-2.9
		-3.9	-3.8	3.0	-11.2	-4.8	0.2	N/A	-3.5
	Relative	0.1	0.0	0.5	-1.5	11.2	0.9	N/A	0.6
12 Months (%)	Absolute Benchmark	2.4	2.2	13.6	-23.2	16.9	4.5	N/A	3.0
		2.2	2.2	14.4	-20.8	2.1	0.6	N/A	2.1
	Relative	0.3	0.0	-0.7	-3.1	14.5	3.9	N/A	0.9
3 Years (% p.a.)	Absolute Benchmark	N/A	N/A	11.1	-10.5	14.1	4.7	N/A	8.3
		N/A	N/A	11.7	-14.2	11.5	0.5	N/A	7.6
	Relative	N/A	N/A	-0.6	4.3	2.3	4.2	N/A	0.7
Since Inception (% p.a.)	Absolute Benchmark	9.7	9.5	7.1	-6.4	8.2	3.9	N/A	N/A
		9.4	9.5	7.6	-7.2	6.6	0.5	N/A	N/A
	Relative	0.2	-0.1	-0.4	0.9	1.6	3.3	N/A	N/A

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

BlackRock - Passive Multi-Asset

HR View Comment & Rating



There is no significant news to report over the quarter and we continue to rate BlackRock as one of our preferred passive managers.

Performance Summary to 30 September 2015

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	-3.8	2.5	9.7
Benchmark	-3.9	2.2	9.4
Relative	0.1	0.3	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 > 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 broadly matched its composite benchmark over the quarter, delivering a return of -3.8%.

The underlying equity funds all delivered negative absolute returns over the quarter, driven by fears over China's slowdown. The weakest performers were Emerging Markets and Asia Pacific (ex Japan), due to their higher exposure to China. All of the underlying bond funds delivered positive absolute returns during Q3.

UBS - Passive Multi-Asset

HR View Comment & Rating



There is no significant news to report over the quarter and we continue to rate UBS highly for its passive management capabilities.

Performance Summary to 30 September 2015

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	-3.8	2.2	9.5
Benchmark	-3.8	2.2	9.5
Relative	0.0	0.0	-0.1

* Inception date 15 Nov 2012.

Performance Summary - Comment

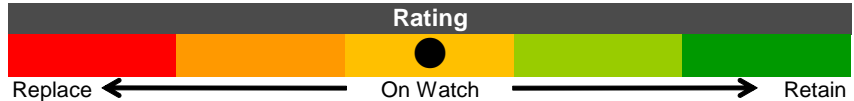
The UBS benchmark comprises the FTSE All Share (20.5%), FTSE All World (inc UK) (56.5%), FTSE > 15 Year Fixed Gilts (7.6%), FTSE > 5 Year Index Linked Gilts (7.7%) and iBoxx Sterling Non-Gilts All Stocks (7.7%) indices.

The UBS multi-asset mandate matched its composite benchmark over the quarter, delivering a return of -3.8%. The mandate has matched its benchmark within a reasonable tolerance level over all time periods. All underlying funds matched their respective benchmarks.

Reflecting a difficult quarter for equity markets (as previously mentioned), the underlying equity funds delivered a negative absolute return. The underlying bond funds all performed positively over the quarter as yields fell.

Schroders - Property

HR View Comment & Rating



Schroders have seen some significant changes to their team over the course of the quarter with Tony Doherty and Keeran Kang both announcing their intention to leave the firm. This follows the earlier departure of Jennifer Murray.

Schroder's immediate need has been to address the lack of senior resource within the Real Estate Capital Partners (RECaP) business. By utilising internal resource, Neil Turner is moving into the RECaP business. Turner has been Head of Indirect Investment and Research since 2013, with overall responsibility for both listed and unlisted strategies. Turner has also had more "hands-on" experience of the business, having been originally involved in the development of the multi-manager business in 2005, working alongside the then Head of Multi-Manager, Jenny Buck. Turner currently also chairs the indirect investment committee and hence has knowledge of portfolio strategy although he does not yet have the detailed knowledge of the underlying vehicles.

Schroder has also sought to broaden the role of the remaining members of the team. Patrick Bone and Gianlorenzo Polella, who both have 8 years investment experience, are to be given fund management responsibilities. Schroder did consider recruiting externally for the fund manager role, but making use of internal resource was regarded as a preferable option. Schroder is recruiting for both Senior and Junior Analyst roles but has again drawn on existing resource in the form of Jeremy Marsh, currently Head of UK Real Estate Research, to provide senior analyst support, although it is likely that this will be on an interim basis. Given the underlying illiquidity of the assets – indirect property portfolios do not change quickly – we believe that the risk to clients arising from these changes is relatively low. We have downgraded our rating of Schroder's indirect property management capabilities to "On Watch", although we do not have concerns over the mandate at this time.

Performance Summary - Comment

The Schroders mandate returned 3.5% over the quarter, outperforming its benchmark by 0.5%. Over the longer periods shown, the mandate has lagged its benchmark.

The Continental European Fund 1 (CEF 1), which has detracted from performance in recent quarters, was the strongest performer over Q3 as performance was boosted by the timing of a distribution which occurred in Q2 but was not realised until Q3. This return of capital was invested back into the industrial sector.

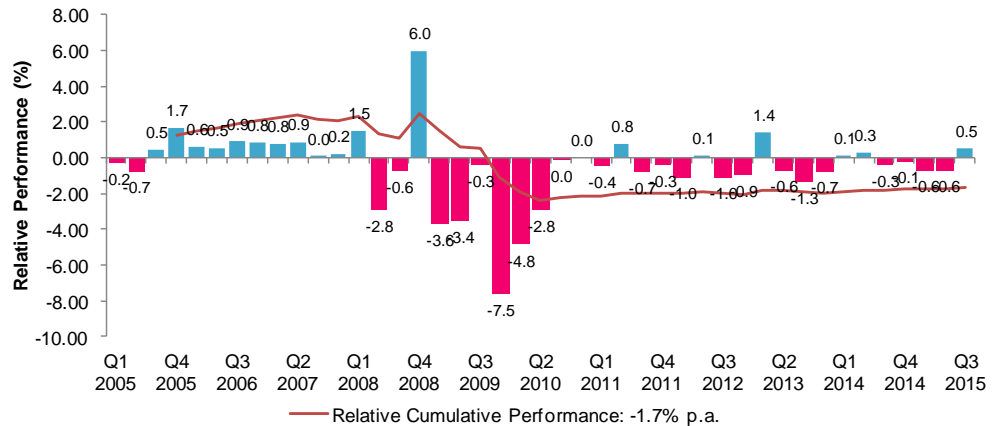
Schroders are looking to address the mandate's current underweight exposure to UK offices and are finalising the trust documents for a new fund, the Regional Office PUT. This should enable the mandate to access more of the UK office market.

Performance Summary to 30 September 2015 ^[i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	3.5	13.6	11.1	3.3
Benchmark	3.0	14.4	11.7	5.1
Relative	0.5	-0.7	-0.6	-1.7

* Inception date 12 Oct 2004.

Relative Quarterly and Relative Cumulative Performance



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

Investec - Commodities

HR View Comment & Rating



At the September PIC meeting, the Committee agreed to disinvest completely from Investec's commodities mandate. Subsequently, half of the mandate (c£13.06m) was disinvested on 30 September 2015, with the remainder of the mandate disinvested on 30 October 2015.

It is intended that the disinvested proceeds will be held in cash, pending the selection of a manager for a diversified multi-asset mandate for the Fund.

Performance Summary - Comment

The third quarter was another challenging one for commodities and resources. Weak Chinese economic data coupled with negative sentiment towards Chinese equities put pressure on commodities which experienced a large sell-off during the quarter. It was also a difficult quarter for the energy sector, with oil prices falling back to their early lows of 2015, dipping to under \$50 per barrel.

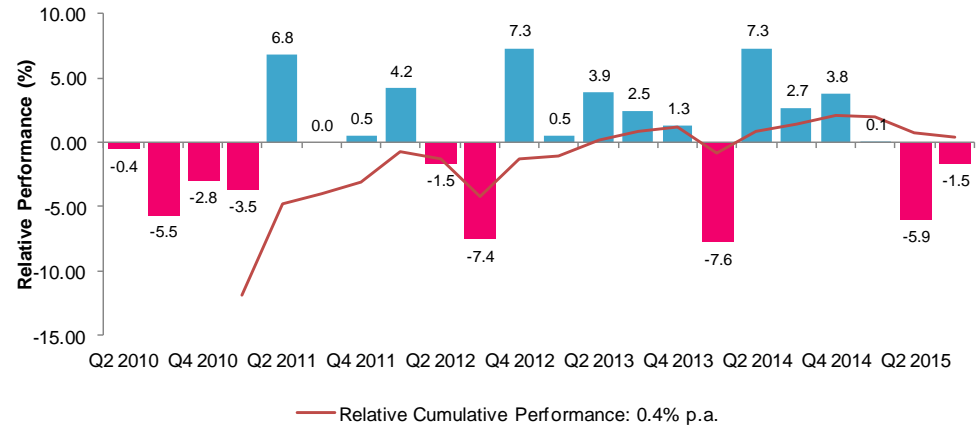
The Fund returned -12.6% over the quarter, underperforming its benchmark by 1.5%. Since inception, the Fund has outperformed its benchmark, by 0.9% p.a. but has delivered a negative return of -6.4% p.a. reflecting the sustained difficult period for commodities.

Performance Summary to 30 September 2015 [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-12.6	-23.2	-10.5	-6.4
Benchmark	-11.2	-20.8	-14.2	-7.2
Relative	-1.5	-3.1	4.3	0.9

* Inception date 25 Feb 2010.

Relative Quarterly and Relative Cumulative Performance



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

Harbourvest - Venture Capital

HR View Comment & Rating



There is no significant news to report over the quarter. HarbourVest remain one of our preferred private equity managers.

The returns in the tables and charts at right have been sourced from Northern Trust.

Performance Summary to 30 September 2015 ^[1]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	5.9	16.9	14.1	8.2
Benchmark	-4.8	2.1	11.5	6.6
Relative	11.2	14.5	2.3	1.6

* Inception date 29 Jun 2006.

3 Year Relative Return

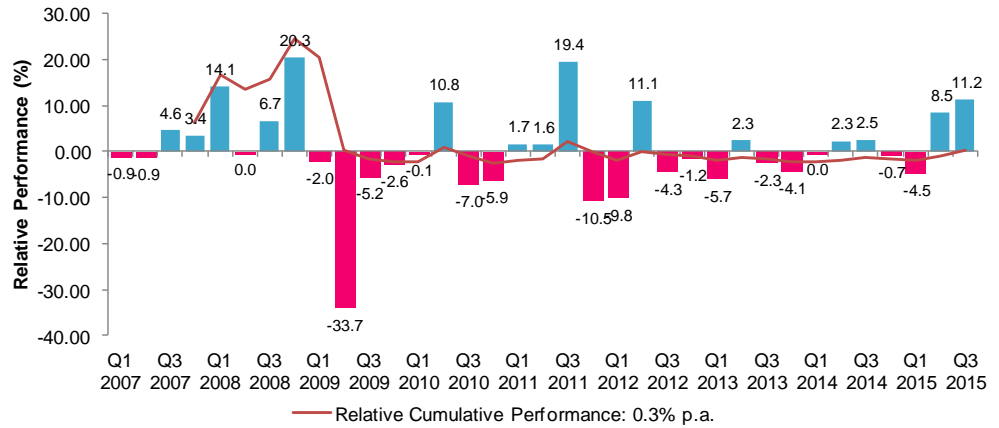
Actual % p.a.	Target % p.a.
2.3	5.0

Performance Summary - Comment

The Fund is invested in the Buyout and Venture sleeves of the US-focused HarbourVest Partners Fund VIII; the Europe, Asia and Emerging Markets fund, HIPEP V and the Direct sleeve of HIPEP V. The Fund has also committed to investing US\$30m in each of the HIPEP VII and Fund X funds, for which contributions will be called down over time.

Fund VIII has delivered good returns since inception in 2006, with the Buyout sleeve delivering a net IRR of 10.1%, and the Venture sleeve delivering a net IRR of 11.7%. HIPEP V has been less impressive since inception in 2005, delivering a net IRR of 8.1%, while the Direct fund has returned a net IRR of just 5.2%. These figures are the latest available from HarbourVest (as at 30 June 2015) and show an improving trend compared to Q1 15.

Relative Quarterly and Relative Cumulative Performance



Source: [1] DataStream, Hymans Robertson

M&G - UK Companies Financing Fund

HR View Comment & Rating



There is no significant news to report over the quarter. We continue to rate the M&G UK Companies Financing Fund highly.

Performance Summary to 30 September 2015 ^[i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	1.1	4.5	4.7	3.9
Benchmark	0.2	0.6	0.5	0.5
Relative	0.9	3.9	4.2	3.3

* Inception date 01 May 2010.

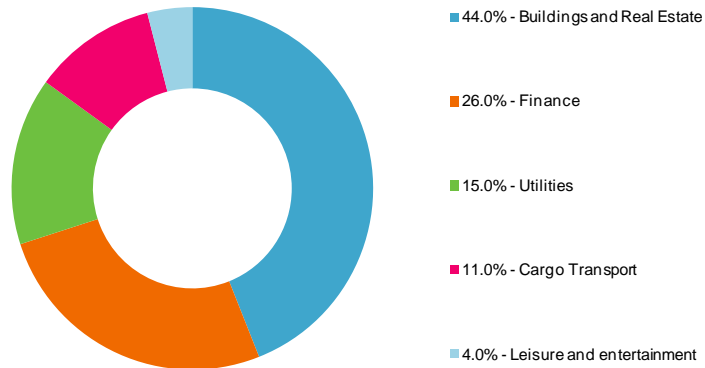
Performance Summary - Comment

The UK companies Financing Fund returned 1.1% over the quarter, outperforming its LIBOR benchmark by 0.9%. The mandate has outperformed its benchmark over all time periods.

The Fund comprises of a portfolio of eight loans with a notional value of £680m. As at 30 September 2015, all loans were in compliance with their respective covenants.

The weighted average credit rating was BB+, with an average maturity of 4.0 years. The weighted average credit spread was 430 bps at the end of the period.

Industry split



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:

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

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.

