

London Borough of Lewisham Pension Fund

Review of Investment Managers' Performance for First Quarter of 2014



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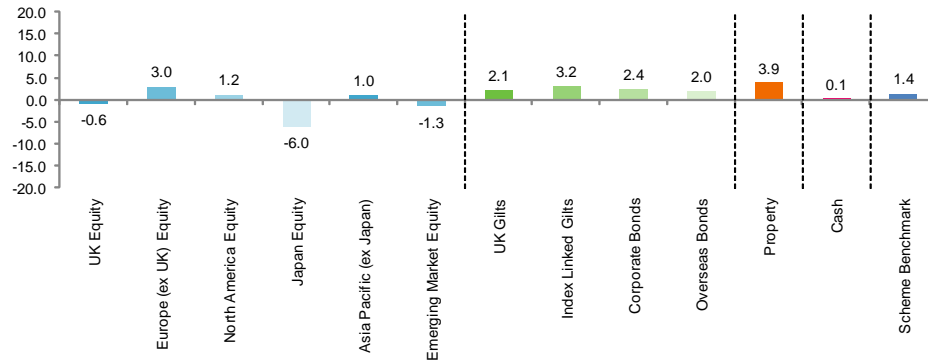
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Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in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

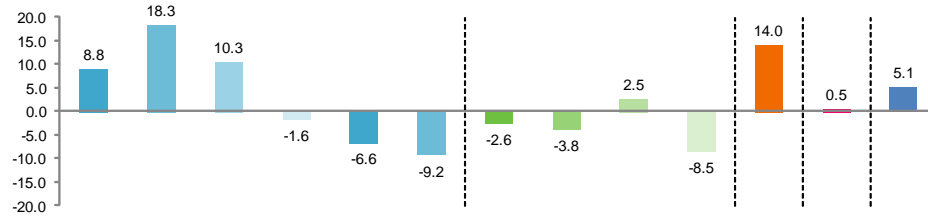
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Historic Returns for World Markets to 31 March 2014

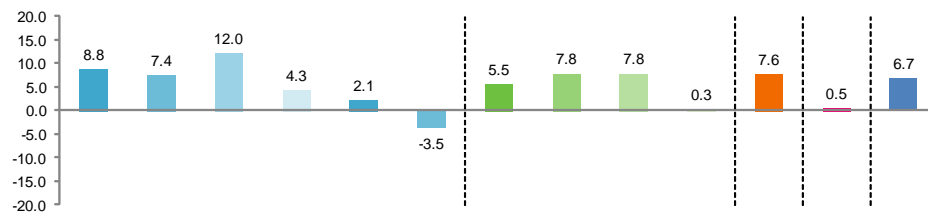
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Historic Returns - Comment

In the March budget, branded as a budget for 'savers', the Chancellor of the Exchequer announced an increase in the threshold for tax free savings and greater flexibility in the operation of defined contribution pension plans. At the same time, the Office for Budget Responsibility (OBR) revised its forecast for UK economic growth in 2014, from 2.4% to 2.7%. On this basis, the economy will surpass its pre-crisis peak later this year. Despite the more optimistic tone of published economic data, a number of commentators expressed concerns over the strength and breadth of the recovery and whether it is sufficient to resolve problems of a more structural nature. Consequently, further austerity measures remain on the agenda.

In the US, strong economic growth and improved labour market conditions provided the Central Bank with the opportunity to reduce further its bond buying programme. In addition, policy statements from senior officials indicated that short term interest rates may rise in early 2015. In the UK, the Bank of England was less forthright, with the Governor warning that the economic recovery is not yet secure and that when interest rates rise they will do so only gradually.

Far-East equity markets were unsettled by the prospect of less supportive policy in the US but quickly recovered their losses. Other negative influences affecting equity markets included continuing tensions in the Middle-East and the stand-off between Russia and Ukraine over Crimea.

Key events during the quarter were:

Global Economy

- Forecasts of UK economic growth for 2014 and 2015 were revised upwards by the Office for Budget Responsibility;
- UK inflation (CPI) fell to a four year low of 1.7% (v. target of 2%) in February;
- Eurozone inflation fell to 0.5% in March (the lowest rate since November 2009);
- Japan reported a record trade deficit in 2013, as a weak Yen pushed up the cost of imports;
- China set an economic growth target of 7.5% for 2014 (same as 2013);
- Short-term interest rates were unchanged in the UK, Eurozone, US and Japan.

Equities

- The best performing sectors relative to the 'All World' Index were Utilities (+6.4%) and Health Care (+5.2%); the worst were Telecommunications (-3.3%) and Consumer Services (-2.5%);
- The UK government announced a plan to sell further shares in Lloyds Banking Group, to bring its holding down to 25%.

Bonds and Currencies

- Bond markets rose (yields fell) on easing of inflationary pressures in the UK, Europe and US;
- Argentinian devaluation caused sharp fluctuations in other emerging market currencies.

Portfolio Summary

Valuation Summary

Asset Class	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q4 2013	Q1 2014			
Global Equity	567.4	569.1	62.7	60.0	2.7
Bonds	166.2	171.6	18.9	17.9	1.0
Property	75.1	77.8	8.6	10.0	-1.4
Private Equity	38.9	39.2	4.3	3.0	1.3
Trustee Bank Account	1.6	1.7	0.2	3.0	-2.8
UK Financing Fund	13.8	14.0	1.5	1.0	0.5
Commodities	34.9	33.7	3.7	5.0	-1.3
Total inc. Trustee Bank Account	898.0	907.0	100.0	100.0	

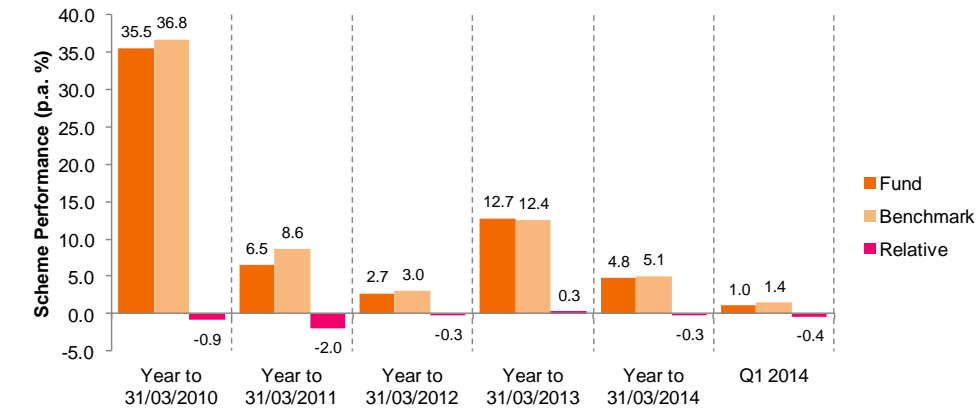
Comments

The value of the Fund's assets rose by £9.0m over the quarter to £907.0m as at 31 March 2014. The Fund returned 1.0% over the quarter, underperforming its benchmark return by 0.4%.

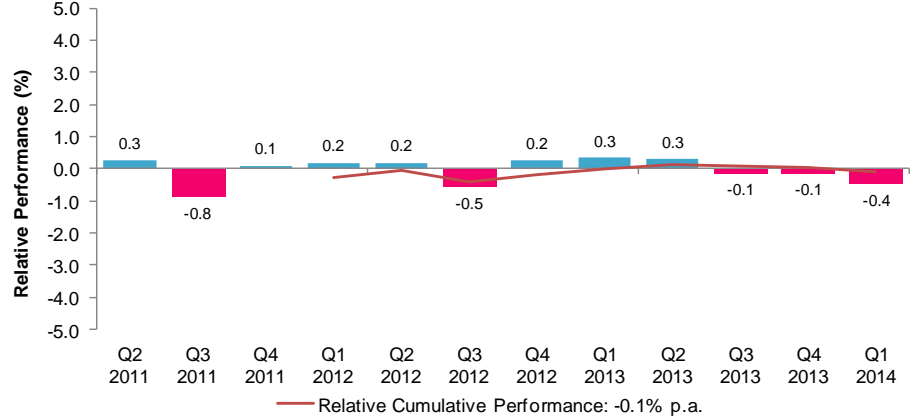
The Fund's underperformance was due largely to underperformance from the Investec Commodities mandate, although this was partially offset by positive relative performance from the Schroders Property mandate and M&G UK Financing Fund. The HarbourVest mandate performed broadly in line with its benchmark.

As expected, the passive multi-asset mandates with BlackRock and UBS performed broadly in line with their composite benchmarks for the quarter.

Performance Summary ^[1]



Relative Quarterly and Relative Cumulative Performance

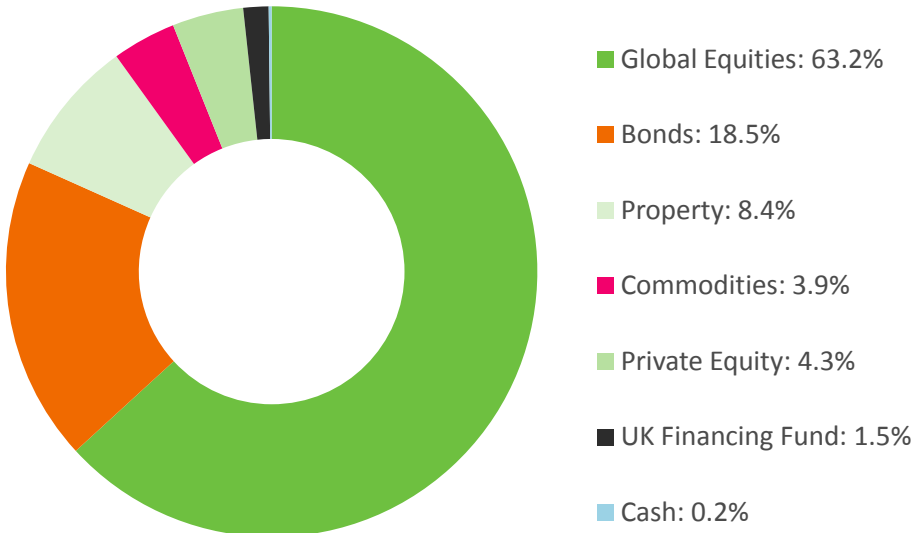


Source: [1] DataStream, Fund Manager, Hymans Robertson

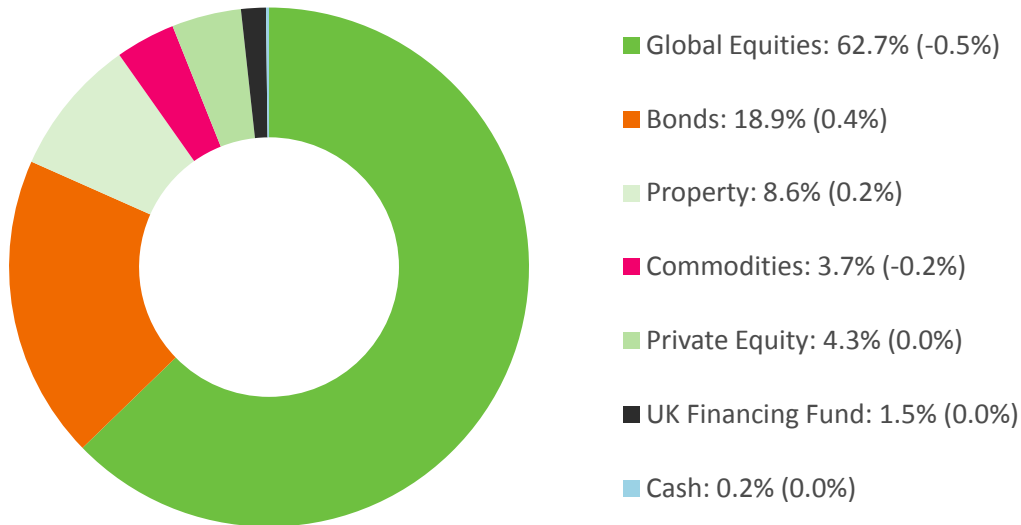


Fund Asset Allocation^[1]

Asset allocation as at 31 December 2013



Asset allocation as at 31 March 2014



Source: ^[1] Fund Manager, Hymans Robertson

Comments ^[1]

The charts above show the Fund's asset allocation as at 31 December 2013 and 31 March 2014. The figures in brackets as at 31 March 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 %
	Q4 2013	Q1 2014			
BlackRock - Passive Multi-asset	366.0	370.0	40.8	39.0	1.8
UBS - Passive Multi-asset	367.6	370.7	40.9	39.0	1.9
Schroders - Property	75.1	77.8	8.6	10.0	-1.4
Investec - Commodities	34.9	33.7	3.7	5.0	-1.3
Harbourvest - Venture Capital	38.9	39.2	4.3	3.0	1.3
M&G - UK Companies Financing Fund	13.8	14.0	1.5	1.0	0.5
Cash	1.6	1.7	0.2	3.0	-2.8
Total	898.0	907.0	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	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	0.9	0.9	3.4	-1.8	0.7	1.1	N/A	1.0
	Benchmark	0.9	0.9	3.3	6.3	0.7	0.1	N/A	1.4
	Relative	0.0	0.0	0.1			1.0	N/A	
12 Months (%)	Absolute	5.2	5.1	9.2	-11.2	4.5	4.3	N/A	4.8
	Benchmark	5.2	5.1	11.9	-10.8	9.0	0.5	N/A	5.1
	Relative	0.0					3.7	N/A	
3 Years (% p.a.)	Absolute	N/A	N/A	4.6	-5.8	6.8	4.1	N/A	6.6
	Benchmark	N/A	N/A	5.7	-8.6	9.4	0.6	N/A	6.7
	Relative	N/A	N/A		3.1		3.4	N/A	
Since Inception (% p.a.)	Absolute	14.9	14.8	2.8	-1.7	6.0	3.6	N/A	7.4
	Benchmark	15.1	14.8	3.8	-1.8	6.6	0.7	N/A	7.8
	Relative		0.0		0.2		3.0	N/A	
		-0.2		-0.9		-0.5			-0.3

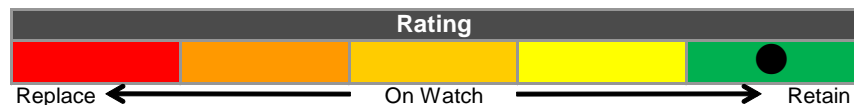
[1] Since inception: BlackRock (20 Nov 12), UBS (15 Nov 12), Schroders (12 Oct 04), Investec (25 Feb 10), HarbourVest (29 Jun 06), M&G (01 May 10)

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



BlackRock - Passive Multi-Asset

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 31 March 2014

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	0.9	5.2	N/A	14.9
Benchmark	0.9	5.2	N/A	15.1
Relative	0.0	0.0	N/A	-0.2

* Inception date 20 Nov 2012.

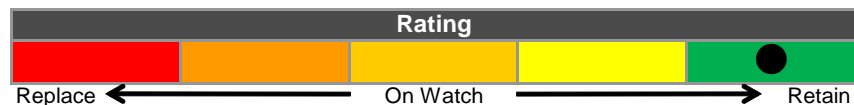
Performance Summary - Comment

The BlackRock composite benchmark comprises the FTSE All Share (20.5%), MSCI AC World (56.5%), FTSE 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 0.9%, 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. Three underlying funds; the UK Equity index, the Japanese Equity index and the Emerging Market index produced negative absolute returns. All other underlying funds produced positive absolute returns, broadly reflecting the underlying index returns.

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 31 March 2014

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	0.9	5.1	N/A	14.8
Benchmark	0.9	5.1	N/A	14.8
Relative	0.0	-0.0	N/A	0.0

* Inception date 15 Nov 2012.

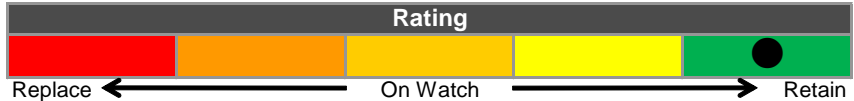
Performance Summary - Comment

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 0.9%, 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.

Schroders - Property

HR View Comment & Rating



We continue to rate Schroder's Multi Manager team highly. We note that Schroders have announced further developments to the Schroders UK Property fund management team (the portfolio includes a c12.8% allocation to this particular pooled fund). James Lass is to take sole responsibility for the UK fund whilst Ian Mason is moving on to the role of Fund Advisor on the West End of London Property Unit Trust and Hercules Unit Trust (sector specialist funds run by Schroders). Lass has been Fund Manager of SPF for the past year while Mason directed the strategy. Lass will now be solely responsible for both framing and the implementation of SPF's strategy, overseen by Schroders' Investment Committee. The portfolio remains well positioned and Mason will continue to lead the ongoing projects in Bracknell and Croydon on behalf of SPF. This does not impact our view on the Multi Manager team, which remains positive.

Performance Summary - Comment

The Schroder UK Property Fund returned 3.4% over the quarter outperforming its benchmark by 0.1%. Longer term, the fund has underperformed its benchmark over the 12 month and 3 year periods.

The recovery in UK commercial property that we witnessed in the second half of 2013 continued into 2014. Schroders expect London to continue to record the strongest rental growth over the remainder of 2014 and have therefore remained overweight to central London and South East.

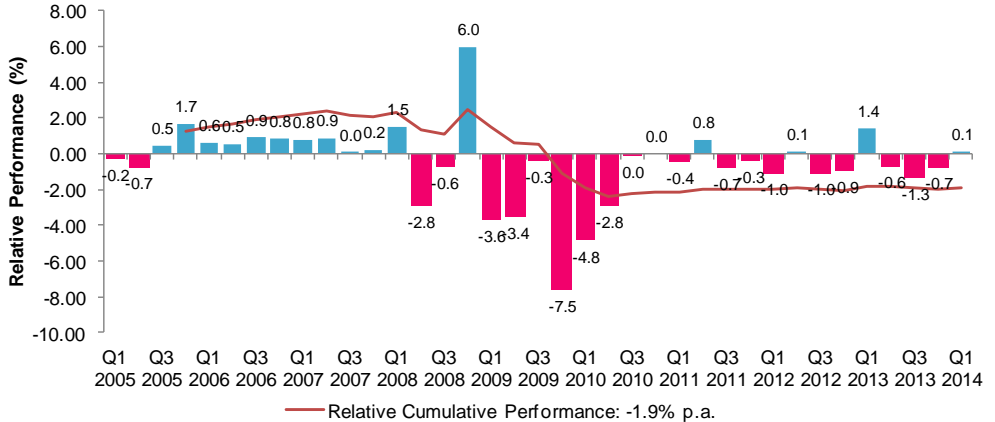
The Threadneedle Strategic Property fund and the Schroders UK Property fund both contributed positively to performance during the quarter. The Continental European Fund continues to be the poorest performing core fund, generating negative returns of -0.3% for three months and -2.1% for 12 months.

Performance Summary to 31 March 2014 ^[1]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	3.4	9.2	4.6	2.8
Benchmark	3.3	11.9	5.7	3.8
Relative	0.1	-2.4	-1.0	-0.9

* Inception date 12 Oct 2004.

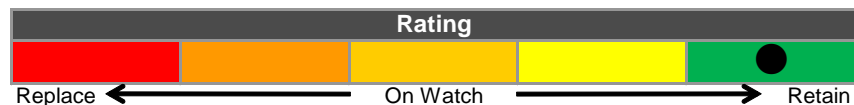
Relative Quarterly and Relative Cumulative Performance



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.

While performance has been below benchmark this quarter, we note that this level of volatility is not uncommon for this mandate, and performance remains ahead of benchmark over the past 3 years and since inception.

Performance Summary - Comment

The Investec Global Commodities & Resources Fund delivered a disappointing return for the quarter, underperforming its Dow Jones-UBS Commodities Total Return benchmark by 7.6%. Despite this, the mandate is strongly ahead over the longer term period of 3 years, and remains marginally ahead of its benchmark since inception.

The fund's stock selection within the energy sector was the major contributor to underperformance over the quarter. The biggest detractors included the mandate's short position in Chenire Energy and long positions in Ophir Energy and CNOOC. Base & Bulk metals holdings also detracted from performance as concerns intensified over a potential slowdown in Chinese GDP growth.

Against this backdrop, the fund's exposure to precious metal equities contributed positively, as did holdings in the agriculture & soft commodities sector.

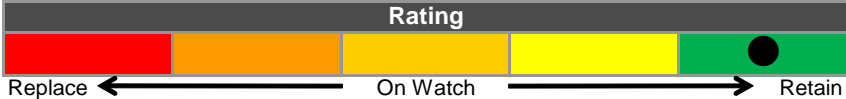
Performance Summary to 31 March 2014 ^[1]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-1.8	-11.2	-5.8	-1.7
Benchmark	6.3	-10.8	-8.6	-1.8
Relative	-7.6	-0.4	3.1	0.2

* Inception date 25 Feb 2010.

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.

Recent personnel changes at the firm include the departure of Claudio Siniscalco, a Principal based in the London office, the promotion of a couple of Principals to Managing Director and the addition of Kathleen Bacon to the Global Investment Committee. George Anson's tenure as Chair of the EVCA is about to come to an end so he will be able to devote more time to his day job at HarbourVest. The firm was approved as AIFMD-compliant in April 2014 and will shortly be raising AIFM-compliant funds.

Performance Summary - Comment

The HarbourVest mandate returned 0.7% over the quarter, matching its benchmark return. 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 31 March 2014 ^[i]

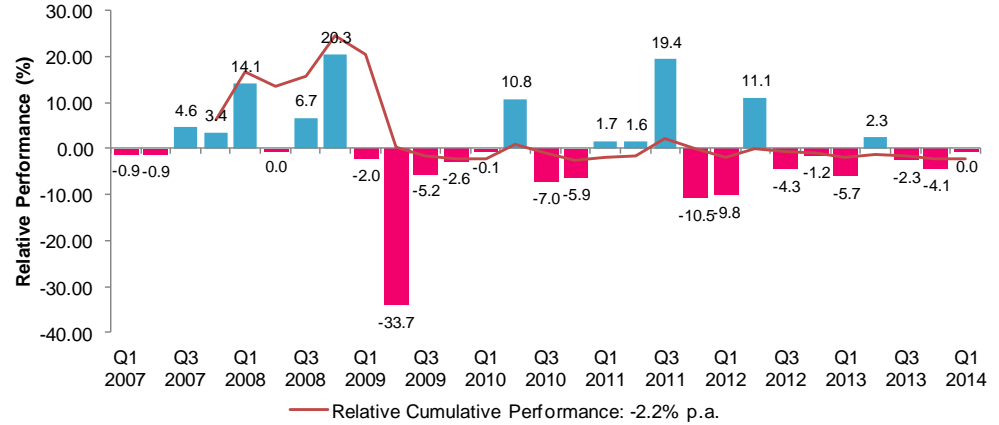
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	0.7	4.5	6.8	6.0
Benchmark	0.7	9.0	9.4	6.6
Relative	-0.0	-4.2	-2.4	-0.5

* Inception date 29 Jun 2006.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-2.4	5.0

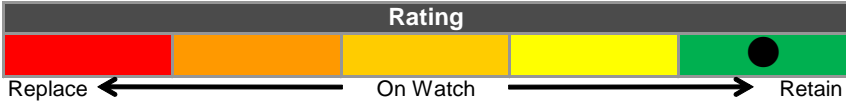
Relative Quarterly and Relative Cumulative Performance



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 31 March 2014 ^[i]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	1.1	4.3	3.6
Benchmark	0.1	0.5	0.7
Relative	1.0	3.7	3.0

* Inception date 01 May 2010.

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 was stable at BB+, with an average maturity of 5.2 years. The weighted average credit spread was 445bp at the end of the period.

The returns shown are sourced from Northern Trust.

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.

