

London Borough of Lewisham Pension Fund

Review of Investment Managers' Performance for Fourth Quarter of 2014



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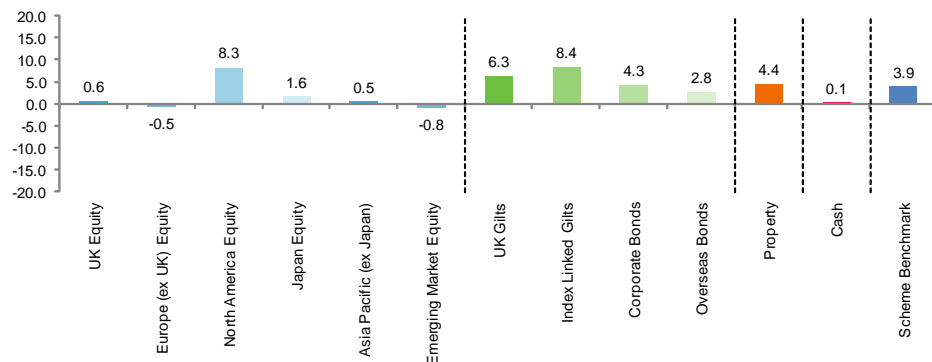
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Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in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

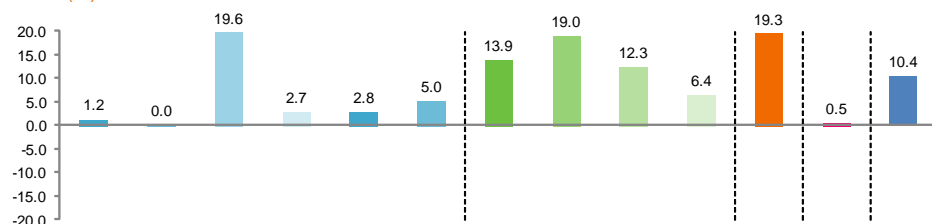
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Historic Returns for World Markets to 31 December 2014

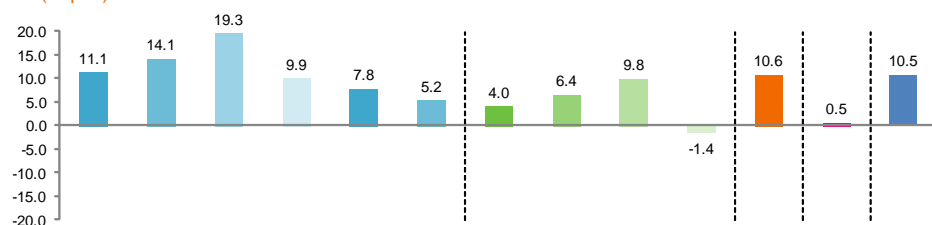
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Historic Returns - Comment

The quarter was one of sharp contrasts in terms of economic growth. Data published during the quarter indicated both the US and UK are speeding ahead of a struggling Eurozone. Japan moved back into a recession, while China's economy decelerated, albeit from a very high rate. Whilst the recent oil price plunge may have thrown big exporters like Russia into disarray, the IMF indicated that a prolonged price slump could boost global economic growth by between 0.3% and 0.7% in 2015.

Short term interest rates in the UK, US and Eurozone were unchanged during the quarter. In the US, expectations of a rate rise in the immediate future were curbed by the central bank, the Federal Reserve, which said it can be patient over any decision to raise rates. In the UK, the general consensus is that there will be no increase in short-term interest rates until the second half of 2015 at the very earliest. No such expectation of a rate rise in the Eurozone, where the European Central Bank (ECB) initiated an asset buying programme, to stimulate the region's flagging economy and to fend off deflationary pressures.

In general, equity markets rose, albeit by modest amounts, over the quarter despite some volatility in early October and sharp falls in December on concerns over the immediate impact of falling oil prices.

Global Economy

- UK Chancellor's autumn statement indicated further significant austerity measures to come;
- The price of oil hit a five year low (and down by half since June 2014);
- UK inflation (CPI) fell to a 12 year low of 1% (v. target of 2%) in November;
- Eurozone inflation rate fell to 0.3% in November, from 0.4% in October;
- Russia increased short term interest rates from 10.5% to 17.0%;
- Japan's central bank increased its asset buying programme to stimulate the economy.

Equities

- The strongest sectors relative to the FTSE ALL World Index were Consumer Services (+6.3%) and Technology (+2.7%); the weakest were Oil & Gas (-16.0%) and Basic Materials (-7.0%);
- US equities rose to a record high. The Dow Jones index reached 18,000 for the first time.

Bonds and currencies

- Long dated gilt yields fell to 2.5%, below the 3% floor prevailing over the last three years;
- The US \$ rose against Sterling, the Euro and Yen. Russian Rouble fell sharply as the oil price collapsed and western sanctions took hold.

Portfolio Summary

Valuation Summary

Asset Class	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q3 2014	Q4 2014			
Global Equity	596.2	629.1	63.2	62.4	0.9
Bonds	183.7	188.2	18.9	18.6	0.3
Property	84.5	88.0	8.8	10.0	-1.2
Private Equity	42.2	43.4	4.4	3.0	1.4
Trustee Bank Account	0.4	0.1	0.0	0.0	0.0
UK Financing Fund	14.2	14.3	1.4	1.0	0.4
Commodities	33.7	32.1	3.2	5.0	-1.8
Total inc. Trustee Bank Account	955.0	995.2	100.0	100.0	

Comments

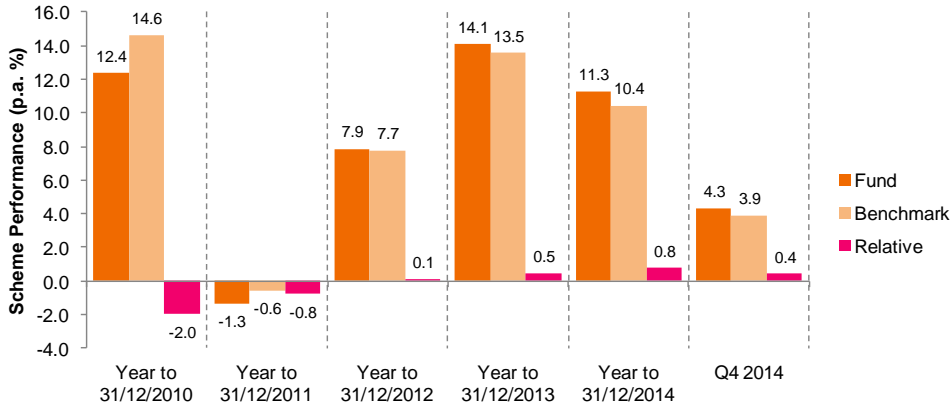
The value of the Fund's assets increased by £40.2m over the quarter to £995.2m as at 31 December 2014.

The Fund returned 4.3% (net of fees) over the quarter, outperforming its benchmark by 0.4%. The UBS passive multi-asset mandate matched its benchmark return whilst BlackRock's passive multi-asset mandate outperformed.

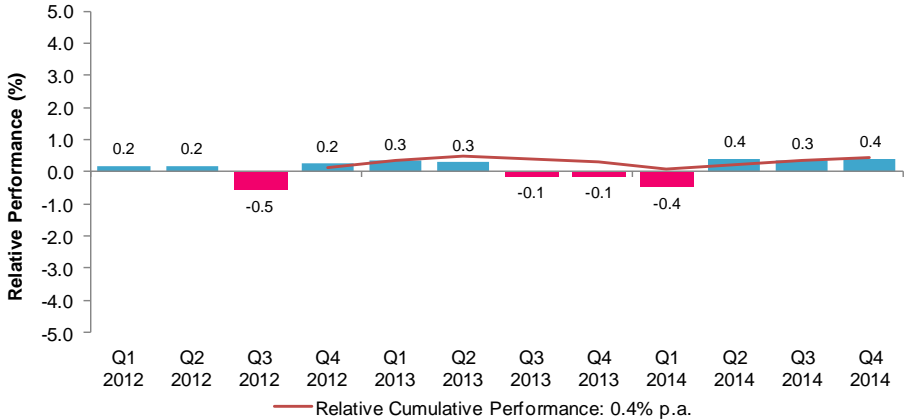
There was also positive relative performance from Investec and M&G outperforming their respective benchmarks by 3.8% and 0.9%. HarbourVest delivered a strong absolute return of 4.4% over the quarter, but underperformed its benchmark by 0.7%.

Over the year to 31 December 2014, the Fund has returned 11.3%, ahead of its benchmark by 0.8%.

Performance Summary ^[1]



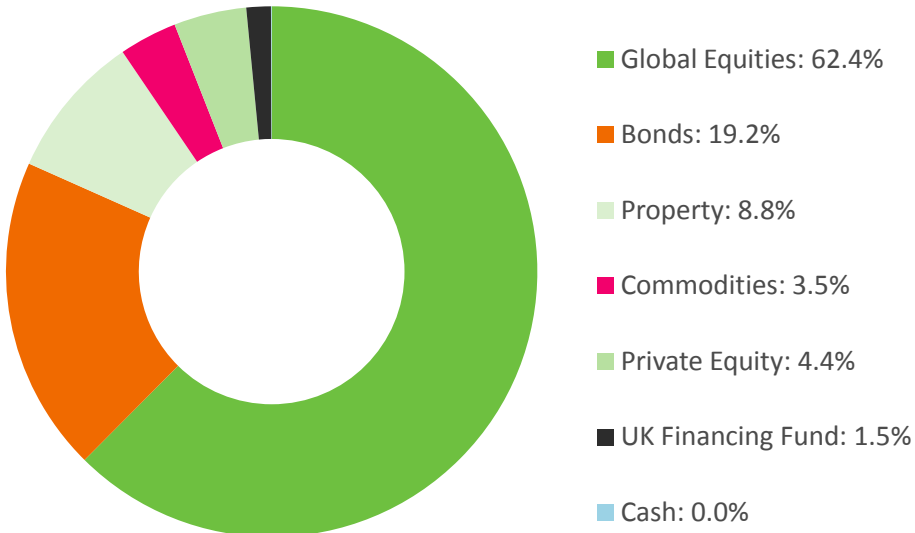
Relative Quarterly and Relative Cumulative Performance



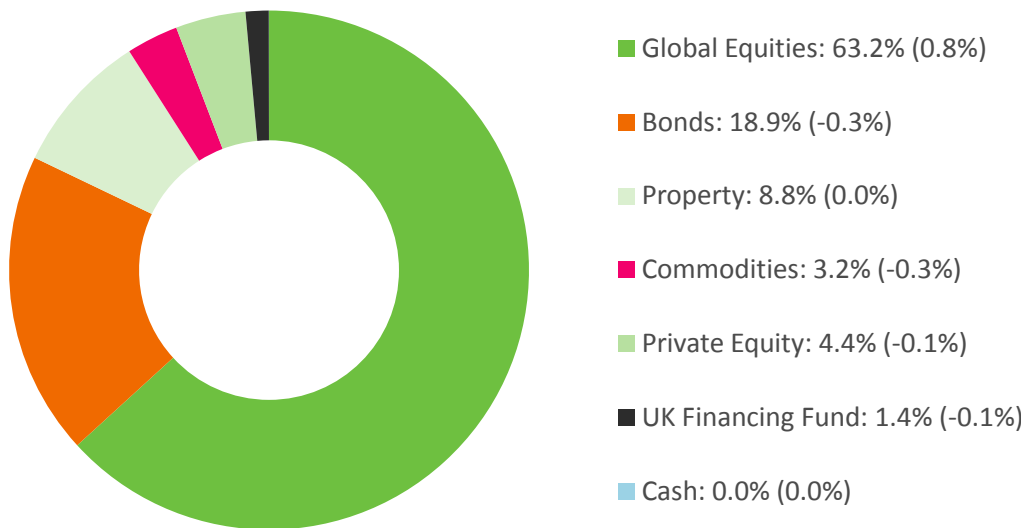
Source: [1] DataStream, Fund Manager, Hymans Robertson

Fund Asset Allocation

Asset allocation as at 30 September 2014



Asset allocation as at 31 December 2014



Comments

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

There were no major changes to the Fund's asset allocation during the quarter with any minor changes due to the relative performance of the Fund's mandates and market movements. The allocation to Commodities fell slightly, reflecting the fall in commodity markets, while the allocation to global equities increased by 0.8%.

Source: [i] Fund Manager, Hymans Robertson



Manager Summary

Manager Valuations

Manager	Value (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q3 2014	Q4 2014			
BlackRock - Passive Multi-asset	389.9	409.1	41.1	40.5	0.6
UBS - Passive Multi-asset	390.0	408.2	41.0	40.5	0.5
Schroders - Property	84.5	88.0	8.8	10.0	-1.2
Investec - Commodities	33.7	32.1	3.2	5.0	-1.8
Harbourvest - Venture Capital	42.2	43.4	4.4	3.0	1.4
M&G - UK Companies Financing Fund	14.2	14.3	1.4	1.0	0.4
Cash	0.4	0.1	0.0	0.0	0.0
Total	955.0	995.2	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



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	4.9	4.6	4.5	-5.2	4.4	1.0	N/A	4.3
	Benchmark	4.6	4.6	4.6	-8.6	5.1	0.1	N/A	3.9
	Relative	0.4	0.0		3.8		0.9	N/A	0.4
12 Months (%)	Absolute	11.6	11.0	17.2	-7.4	16.7	4.7	N/A	11.3
	Benchmark	11.1	11.0	17.2	-11.9	12.1	0.5	N/A	10.4
	Relative	0.5	0.0		5.1	4.1	4.1	N/A	0.8
3 Years (% p.a.)	Absolute	N/A	N/A	7.6	-5.4	11.6	4.6	N/A	11.0
	Benchmark	N/A	N/A	8.6	-9.6	16.0	0.5	N/A	10.5
	Relative	N/A	N/A		4.6		4.0	N/A	0.4
Since Inception (% p.a.)	Absolute	14.7	14.3	2.7	-3.3	7.5	3.8	N/A	N/A
	Benchmark	14.2	14.4	4.6	-5.4	7.6	0.5	N/A	N/A
	Relative	0.4			2.3		3.2	N/A	N/A
			-0.1	-1.8					

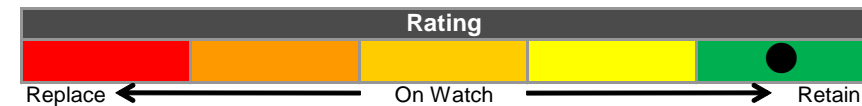
[1] Since inception: BlackRock (20 Nov 12), UBS (15 Nov 12), Schroders (12 Oct 04), Investec (25 Feb 10), HarbourVest (29 Jun 06), M&G (01 May 10)

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 relating to BlackRock's passive business. We continue to rate BlackRock as one of our preferred managers of passive mandates.

Performance Summary to 31 December 2014

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	4.9	11.6	14.7
Benchmark	4.6	11.1	14.2
Relative	0.4	0.5	0.4

* Inception date 20 Nov 2012.

Performance Summary - Comment

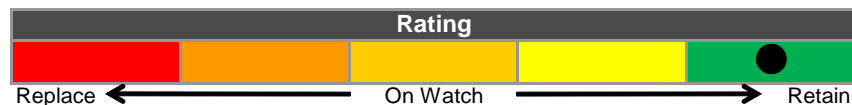
The BlackRock composite benchmark comprises the FTSE All Share (20.5%), MSCI AC World (56.5%), FTSE > 15 Year Fixed Gilts (7.6%), FTSE > 5 Year Index Linked Gilts (7.7%) and iBoxx £ Non-Gilts All Stocks (7.7%).

The BlackRock multi-asset mandate produced a positive tracking error over the quarter, outperforming its benchmark by 0.4%. The majority of the underlying funds tracked their respective benchmarks, whilst the Emerging Markets, Canadian and European equity index funds each exhibited positive tracking errors (tracking error refers to performance differences to benchmark due to differences (usually minor) between the index fund composition and the underlying index). We are comfortable that the tracking error of the BlackRock mandate is within the range of what we might expect, on occasion, from a passive mandate.

The strongest performers over the quarter, in absolute terms, were the Over 15 Year UK Gilt Index and US Equity Index Funds, returning 11.2% and 8.9% respectively. The weakest performers in absolute terms were the European Equity Index Fund and the Emerging Markets Index Sub Fund, which both returned -0.5%.

UBS - Passive Multi-Asset

HR View Comment & Rating



There is no significant news to report over the quarter relating to the UBS passive business. We continue to rate UBS as one of our preferred managers of passive mandates.

Performance Summary to 31 December 2014

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	4.6	11.0	14.3
Benchmark	4.6	11.0	14.4
Relative	0.0	0.0	-0.1

* Inception date 15 Nov 2012.

Performance Summary - Comment

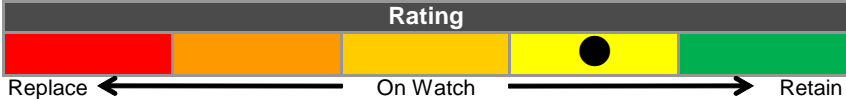
The UBS benchmark comprises the FTSE All Share (20.5%), FTSE All World (inc UK) (56.5%), FTSE > 15 Year Fixed Gilts (7.6%), FTSE > 5 Year Index Linked Gilts (7.7%) and iBoxx Sterling Non-Gilts All Stocks (7.7%) indices.

During the quarter, the UBS mandate returned 4.6%, matching its composite benchmark. Over the last year and since inception, the mandate has broadly matched its benchmark, as we would expect from a passive manager.

All underlying allocations broadly matched their benchmark, with UK Government Fixed interest delivering the strongest return (11.2%) and UK Equities delivering the weakest return (0.5%).

Schroders - Property

HR View Comment & Rating



Despite downgrading Schroders (as part of our ongoing review of our preferred managers universe) we still regard them highly and rate them as '4 - Retain'.

Performance Summary to 31 December 2014 [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	4.5	17.2	7.6	2.7
Benchmark	4.6	17.2	8.6	4.6
Relative	-0.1	-0.0	-0.9	-1.8

* Inception date 12 Oct 2004.

Performance Summary - Comment

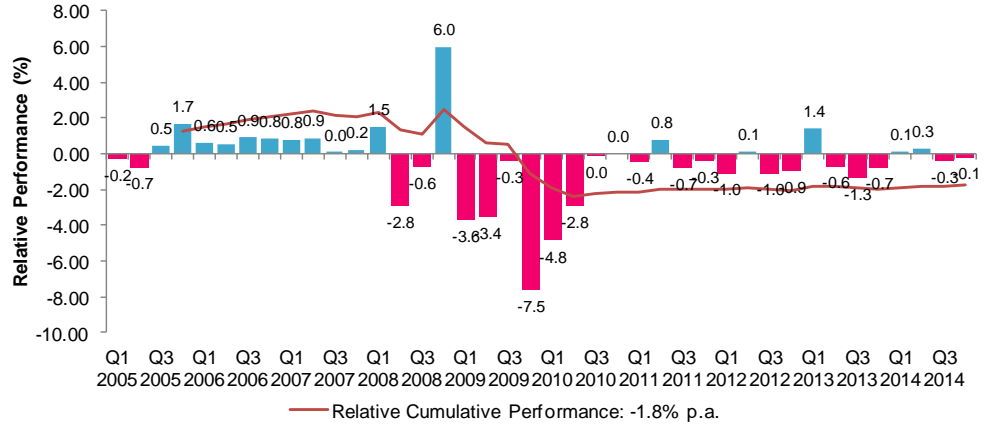
The Schroders multi-manager property mandate marginally underperformed the IPD index by 0.1% over the quarter, delivering an absolute return of 4.5%.

The main contributor to underperformance was the higher cash weighting in the mandate, which stood at 13.8% at the end of December. The cash allocation has increased over Q4 2014 as the manager continues to take advantage of perceived high valuations to lock in returns, and seeks new opportunities for investment. Schroders expects the cash holding to decline over the coming quarters as money is allocated to new investments.

The Continental Europe Fund contributed positively to performance over the quarter but has been a major drag to performance during 2014 due to a combination of weak occupier markets and a weakening Euro. Schroders will continue to look to reduce this holding through 2015 subject to pricing and liquidity.

Industrial properties continued to generate strong returns. Schroders like the sector as yields are attractive and supply and demand fundamentals remain positive. They are looking to add to this sector over 2015. Schroders has continued to reduce its allocation to central London offices, as the manager believes secondary property may start to outperform prime.

Relative Quarterly and Relative Cumulative Performance



Investec - Commodities

HR View Comment & Rating



There is no significant news to report over the quarter. We continue to rate Investec - Commodities as '5-Preferred Strategy'.

Performance Summary to 31 December 2014 [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-5.2	-7.4	-5.4	-3.3
Benchmark	-8.6	-11.9	-9.6	-5.4
Relative	3.8	5.1	4.6	2.3

* Inception date 25 Feb 2010.

Performance Summary - Comment

The Investec Global Commodities & Resources Fund fell by 5.2% over the quarter but outperformed its benchmark by 3.8%.

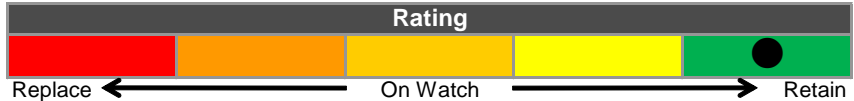
The Fund's exposure to the energy sector was the largest detractor from absolute performance over the period, as oil prices plummeted by 40%. The Fund's long equity position to base & bulk metals also hurt performance. The Fund's position in diversified miner Glencore International dragged on returns, as a result of its exposure to copper and coal prices.

Within the agricultural sector, the Fund's exposure to the plantation and lumber sectors was the main contributor to positive performance over the quarter. At a stock level, New Britain Palm Oil and Canfor contributed positively over the quarter, with the latter enjoying good returns on the back of continued strength in US housing.

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

Harbourvest - Venture Capital

HR View Comment & Rating



There is no significant news to report over the quarter.

We continue to rate HarbourVest as one of our preferred managers for private equity mandates. 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.

Performance Summary - Comment

The mandate returned 4.4% over the quarter, underperforming its benchmark by 0.7%.

The performance of HIPEP V Direct has improved significantly, with the fund's total value increasing to 1.3x contributed capital at the end of September 2014, up from 1.15 at the end of 2013. Preliminary performance reports indicate that performance has continued to improve in the fourth quarter, with the Total Value to Paid In (TVPI) ratio now standing at 1.5x. HarbourVest Fund VIII Venture also saw a significant improvement, standing at 1.6x, while HIPEP V Partnership now stands at 1.38x.

The returns shown in the table and chart are sourced from Northern Trust.

Performance Summary to 31 December 2014 [i]

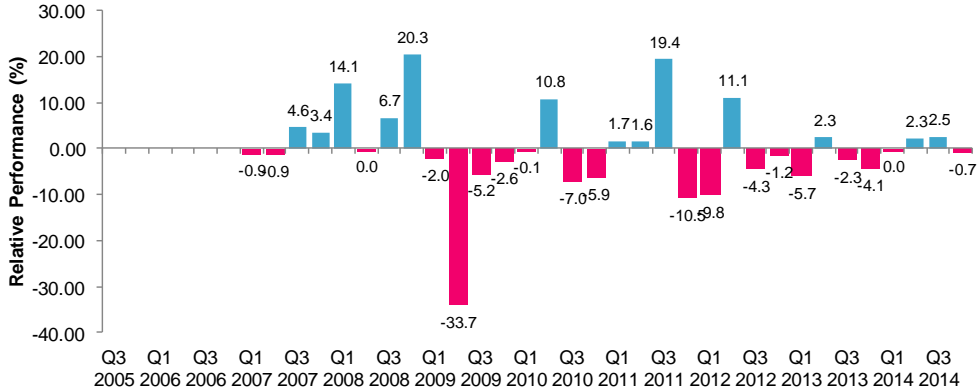
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	4.4	16.7	11.6	7.5
Benchmark	5.1	12.1	16.0	7.6
Relative	-0.7	4.1	-3.8	-0.1

* Inception date 29 Jun 2006.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-3.8	5.0

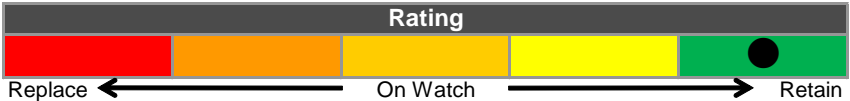
Relative Quarterly and Relative Cumulative Performance



Source: [i] 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 M&G UK Companies Financing Fund '5 - Preferred Strategy'.

The Fund comprises a portfolio of eight loans with a notional value of £680m. As at 31 December 2014 all loans were in compliance with their respective covenants.

Performance Summary to 31 December 2014 [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	1.0	4.7	4.6	3.8
Benchmark	0.1	0.5	0.5	0.5
Relative	0.9	4.1	4.0	3.2

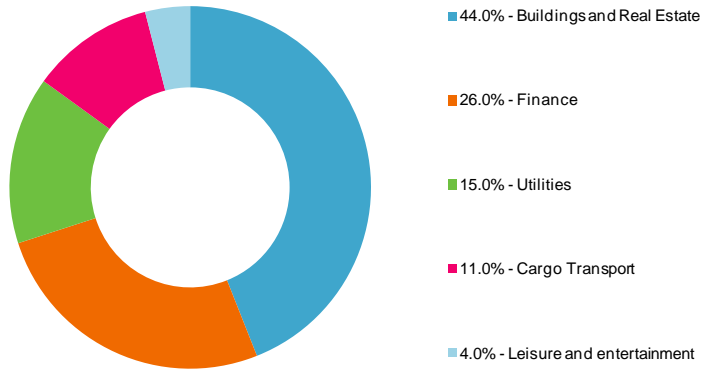
* Inception date 01 May 2010.

Performance Summary - Comment

The UK companies Financing Fund returned 1.0% over the quarter, outperforming its LIBOR benchmark by 0.9%. The mandate has outperformed its benchmark over all time periods.

The weighted average credit rating was BB+, with an average maturity of 4.8 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.

