

London Borough of Lewisham Pension Fund

Review of Investment Managers' Performance for Second Quarter of 2011



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For and on behalf of Hymans Robertson LLP
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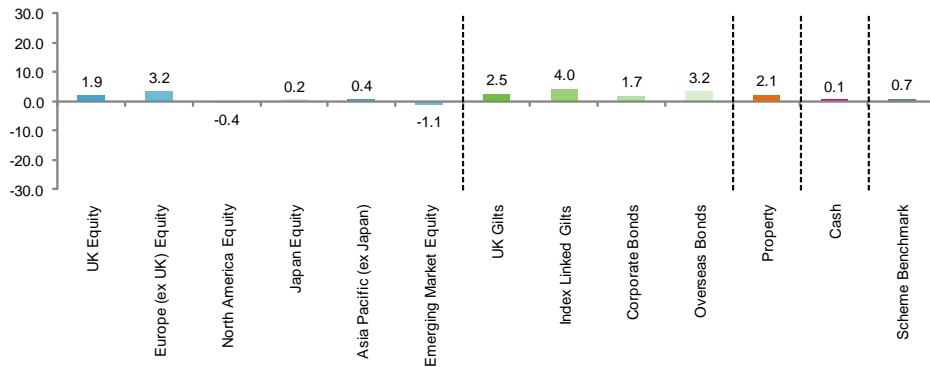
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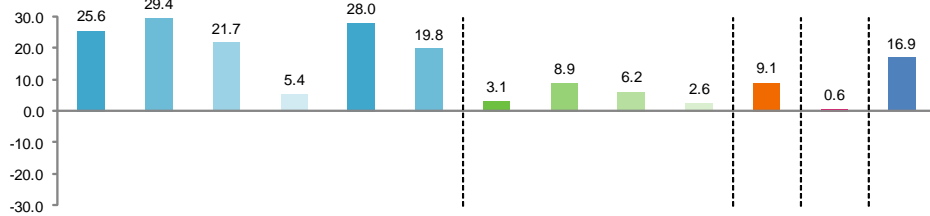
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Historic Returns for World Markets to 30 June 2011

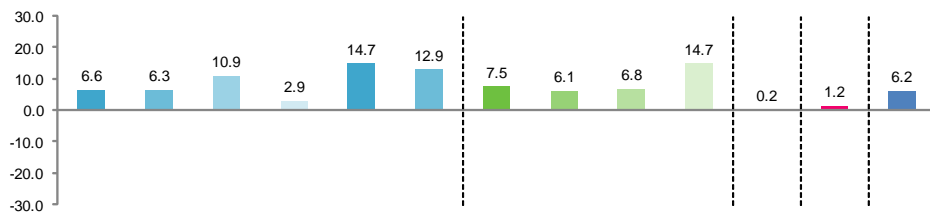
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Historic Returns - Comment

A dominant theme during much of the quarter was the debt crisis in Greece and how the matter might be resolved. Equities fell steeply as the crisis reached its peak in mid June. This was followed by a sharp rally, late in the quarter, as the European Union and IMF agreed a 'bailout'.

The direct negative influence on equities was the deterioration in the global economic outlook. Data published during the quarter indicated a significant slowdown in economic growth in the US. In the UK, economic growth during the first three months of 2011 (reported in Q2) merely offset the contraction recorded in the preceding quarter. Economic strength in Germany and France masked weakness in other Euro-zone countries. Global inflationary pressures intensified, adding to the strains on the global economy.

In bond markets, yields on ten year issues fell (prices rose) in countries perceived to offer security in uncertain times. In contrast, bond yields rose (prices fell) in heavily indebted euro-zone countries. Key events during the quarter were:

Global Economy

- US central bank lowered its forecast for economic growth in 2011 and 2012
- Short-term interest rates were held in UK, US and Japan; modest increase in euro-zone
- Rating agencies assigned a negative outlook on US government debt; the political stand-off in agreeing the US debt limit has been unhelpful
- US confirmed the end of its quantitative easing programme (effective end June)
- Japanese economy contracted for two consecutive quarters

Equities

- US equities reached a post 'crisis' high in April on strong corporate results
- The strongest sectors relative to 'All World' Index were Health Care (+7.7%) and Consumer Goods(+5.9%); the weakest were Oil & Gas (-5.7%) and Financials/Technology (both -2.7%)

Bonds

- Index linked gilts outperformed fixed interest issues on concerns over inflation
- The yield differentials between highly indebted Euro countries and Germany widened further

Due to economic uncertainty, market expectations for an increase in short-term interest rates have been pushed out, potentially into 2012, despite inflationary pressures. Indications that the US may engage in a further round of quantitative easing is a measure of its determination to support the economy if necessary.

Portfolio Summary

Valuation Summary

Asset Class	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q1 2011	Q2 2011			
Global Equity	472.3	474.6	61.3	60.0	1.3
Bonds	124.7	127.6	16.5	16.0	0.5
Property	69.3	71.0	9.2	10.0	-0.8
Hedge Fund of Funds	22.0	21.8	2.8	3.0	-0.2
Private Equity	28.0	31.2	4.0	3.0	1.0
UK Financing Fund	5.3	8.0	1.0	3.0	-2.0
Commodities	40.1	39.8	5.1	5.0	0.1
Total Client	761.7	774.1	100.0	100.0	

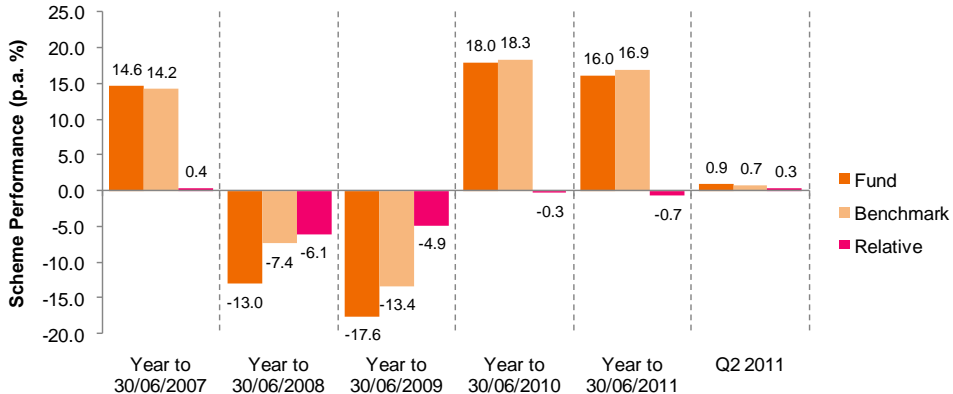
Comments

The Fund's portfolio value increased by £12.4m over the quarter, with most managers posting small positive returns.

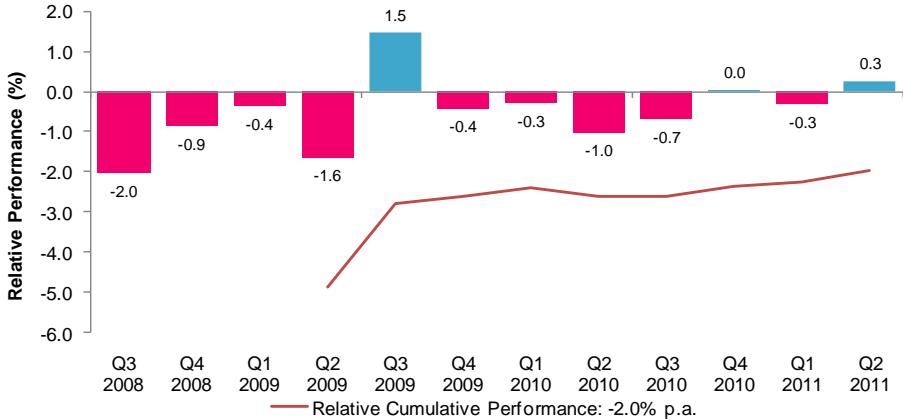
The Fund outperformed its benchmark, returning 0.9% relative to the benchmark return of 0.7%. The outperformance was largely due to the Investec commodities mandate which posted a mildly negative return as broader commodities indices fell more sharply.

During the quarter, an additional £1.3m was invested into the M&G UK Financing Fund and £65k was invested into the HarbourVest mandate to fund existing commitments.

Performance Summary

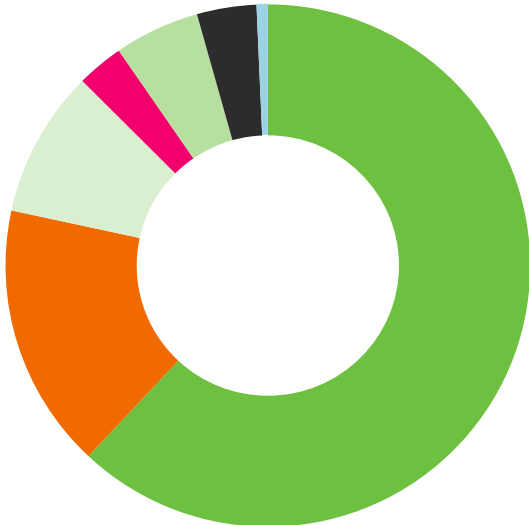


Relative Quarterly and Relative Cumulative Performance



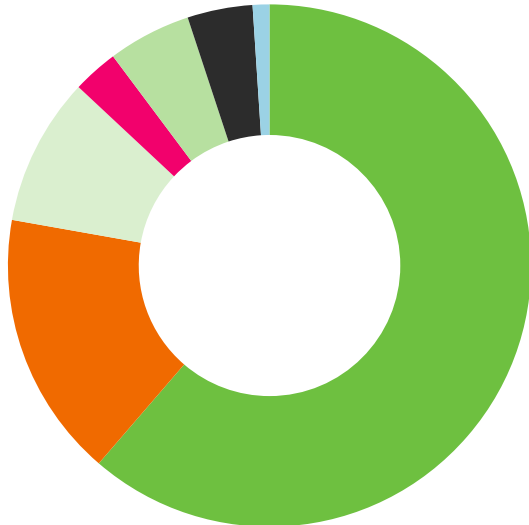
Fund Asset Allocation

Asset allocation as at 31 March 2011



- Global Equities: 62.0%
- Bonds: 16.4%
- Property: 9.1%
- Hedge Funds: 2.9%
- Commodities: 5.3%
- Private Equity: 3.7%
- UK Financing Fund: 0.7%

Asset allocation as at 30 June 2011



- Global Equities: 61.3% (-0.7%)
- Bonds: 16.5% (0.1%)
- Property: 9.2% (0.1%)
- Hedge Funds: 2.8% (-0.1%)
- Commodities: 5.1% (-0.1%)
- Private Equity: 4.0% (0.4%)
- UK Financing Fund: 1.0% (0.3%)

Comments

During the quarter, an additional £1.3m was invested into the M&G UK Financing Fund and £65k was invested into the HarbourVest mandate to fund existing commitments.

Excluding the above transactions, changes to asset allocations resulting from underlying asset class movements were minor.



Manager Summary

Manager Valuations

Manager	Value (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q1 2011	Q2 2011			
Alliance Bernstein - Global Equity	177.4	175.8	22.7	22.0	0.7
RCM - Global Equity	169.1	170.5	22.0	22.0	0.0
UBS - UK Equity (Index)	125.9	128.3	16.6	16.0	0.6
UBS - Fixed Interest	124.7	127.6	16.5	16.0	0.5
Schroders - Property	69.3	71.0	9.2	10.0	-0.8
Fauchier - Hedge Fund of Funds	22.0	21.8	2.8	3.0	-0.2
Investec - Commodities	40.1	39.8	5.1	5.0	0.1
Harbourvest - Venture Capital	28.0	31.2	4.0	3.0	1.0
M&G - UK Companies Financing Fund	5.3	8.0	1.0	3.0	-2.0
Total	761.7	774.1	100.0	100.0	0.0

Manager Summary

Manager	Date Appointed	Benchmark Description	Performance Target (% p.a.)	Rating *
Alliance Bernstein - Global Equity	01 Nov 2004	MSCI All Country World Index	1.5% p.a. above benchmark	
RCM - Global Equity	18 Sep 2008	MSCI All Country World Index	1.5% p.a. above benchmark	
UBS - UK Equity (Index)	27 Feb 2008	FTSE All Share	-	
UBS - Fixed Interest	31 Oct 2004	Composite Bond Index	1.1% p.a. above benchmark	
Schroders - Property	12 Oct 2004	IPD Pooled Property Fund Index	-	
Fauchier - Hedge Fund of Funds	28 Jun 2008	LIBOR + 5% p.a.	-	
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

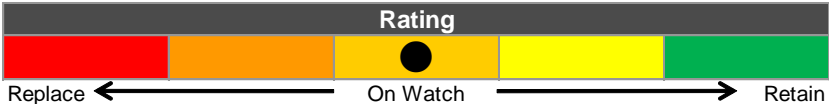
Performance Summary

		Alliance Bernstein - Global Equity	RCM - Global Equity	UBS - UK Equity (Index)	UBS - Fixed Interest	Schroders - Property	Fauchier - Hedge Fund of Funds	Investec - Commodities	Harbourvest - Venture Capital	M&G - UK Companies Financing Fund	Total Fund
3 Months (%)	Absolute Benchmark	-0.9 0.1	0.9 0.1	1.9 1.9	2.4 2.7	2.5 1.8	-1.0 1.4	-0.6 -6.9 6.8	2.1 0.5	0.8 0.2	0.9 0.7
	Relative	-1.0	0.8	0.0	-0.3	0.7	-2.4	1.6	0.7	0.3	
12 Months (%)	Absolute Benchmark	20.0 21.3	19.8 21.3	25.4 25.6	7.8 6.1	8.1 7.6	3.0 5.6	10.9 17.3	10.5 22.3	2.6 0.6	16.0 16.9
	Relative	-1.1	-1.2	-0.2	1.6	0.5	-2.5	-5.5	-9.6	2.0	-0.7
3 Years (% p.a.)	Absolute Benchmark	1.0 5.2	N/A N/A	6.7 6.6	10.7 10.0	-4.5 -1.4	N/A N/A	N/A N/A	-0.5 8.5	N/A N/A	4.1 6.2
	Relative	-3.9	N/A	0.1	0.6	-3.1	N/A	N/A	-8.3	N/A	-2.0
Since Inception (% p.a.)	Absolute Benchmark	6.7 8.9	12.6 16.7	4.8 4.6	10.3 8.5	2.2 2.9	1.1 6.2	8.9 10.7	4.0 4.8	2.2 0.6	7.6 8.1
	Relative	-2.0	-3.5	0.2	1.6	-0.6	-4.8	-1.6	-0.8	1.6	-0.4



Alliance Bernstein - Global Equity

HR View Comment & Rating



Claude Chene, the London based CEO of Europe and Head of Distribution for the UK & Ireland, has resigned to become Global Head of Distribution at Ignis Asset Management. Chene moved to the UK in 1998 to launch Alliance Bernstein's UK and European proposition. Following Chene's departure, Richard Haxe's role as Head of European Distribution will once again incorporate the UK and Ireland, whilst David Steyn, Global COO who is based in Munich, will take over as CEO of Europe. Chene's departure is disappointing, but has no direct impact on portfolio management.

Dan Roarty has joined as the new Technology Sector Head for Global and International Research Growth portfolios. He joined the firm on 2 May 2011 and officially took over management of the Technology sector on 1 July 2011. Prior to joining the firm, Roarty spent nine years at Nuveen Investments where he co-managed a large-cap growth strategy. His prior experience also includes Technology equity research in roles with Morgan Stanley and Goldman Sachs.

Performance Summary - Comment

Alliance Bernstein underperformed their benchmark during Q2 2011, with the mandate returning -0.9% against the benchmark return of +0.1%.

Exposure to selected Energy stocks (Forest Oil, Devon Energy) and Consumer Cyclical (Esprit, Gap) were the greatest detractors to performance over the quarter as investors moved to more defensive positioning. Offsetting the underperformance to some degree were positive contributions from selected stocks in the Capital Equipment (Nissan) and Medical (Sanofi) sectors.

At quarter end, the portfolio had moved to a greater underweight in Consumer Cyclical, while increasing the overweight position in Financials. The manager also increased the overweight exposure to Japan during the quarter, and shifted to an underweight regional allocation to North America.

Performance Summary to 30 June 2011

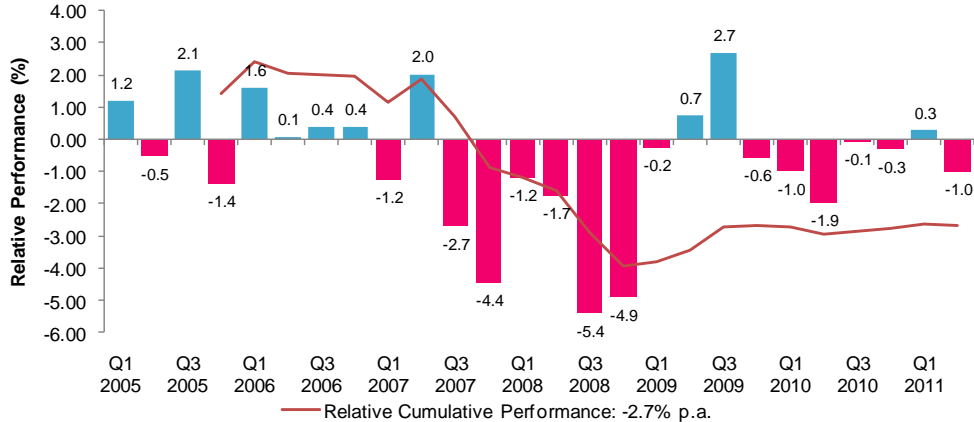
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-0.9	20.0	1.0	6.7
Benchmark	0.1	21.3	5.2	8.9
Relative	-1.0	-1.1	-3.9	-2.0

* Inception date 01 Nov 2004.

3 Year Relative Return

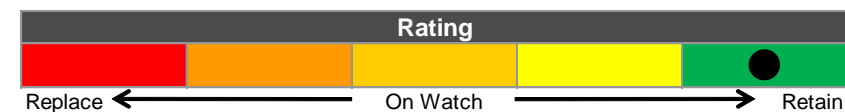
Actual % p.a.	Target % p.a.
-3.9	1.5

Relative Quarterly and Relative Cumulative Performance



RCM - Global Equity

HR View Comment & Rating



There were no significant staff changes to report during the period.

Performance Summary to 30 June 2011

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	0.9	19.8	12.6
Benchmark	0.1	21.3	16.7
Relative	0.8	-1.2	-3.5

* Inception date 18 Sep 2008.

3 Year Relative Return

Actual % p.a.	Target % p.a.
N/A	1.5

Performance Summary - Comment

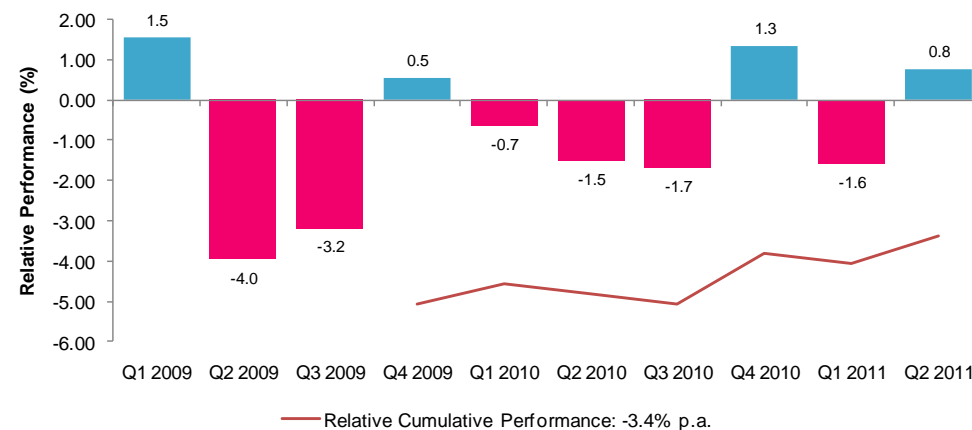
Over the quarter, RCM achieved a portfolio return of 0.9%, ahead of the benchmark return of 0.1%.

Positives came from stock selection in the Materials, Financials and Information Technology sectors. The best performing sector in the quarter was Healthcare and remains an area of high conviction for RCM going forward. The negatives came from an underweight position in Consumer Staples and stock selection in Consumer Discretionary, Telecommunications and Industrials sectors.

Over the quarter, RCM increased their exposure to consumer spending and reduced selected holdings in Energy and Healthcare. An underweight exposure to Utilities (1.2% of the fund vs. 3.8% of the benchmark) remains the largest negative active bet taken as the fund continues to be positioned to benefit from a growth up-turn in areas such as Germany and China.

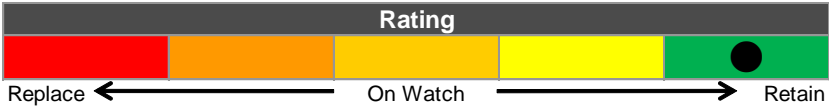
At stock level, the manager's conviction in holding Adidas paid off over the quarter and the stock continues to be held as RCM believe the outlook for the company remains strong.

Relative Quarterly and Relative Cumulative Performance



UBS - UK Equity

HR View Comment & Rating



There were no significant business updates for the UBS passive business during the quarter.

Performance Summary to 30 June 2011

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	1.9	25.4	4.8
Benchmark	1.9	25.6	4.6
Relative	-0.0	-0.2	0.2

* Inception date 27 Feb 2008.

3 Year Relative Return

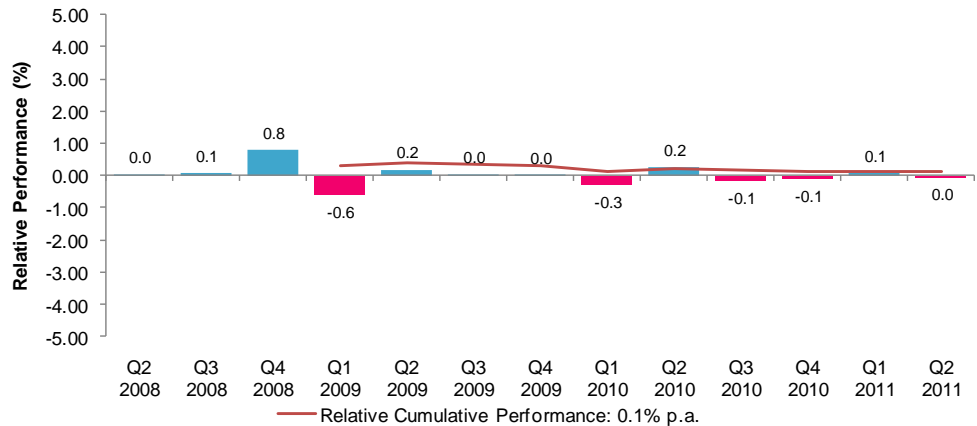
Actual % p.a.	Target % p.a.
0.1	0.0

Performance Summary - Comment

UBS succeeded in closely matching benchmark performance over the quarter, as would be expected of a passive manager.

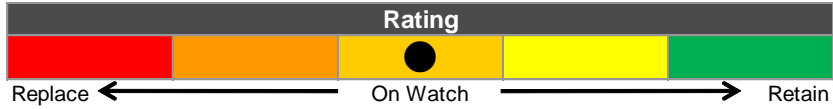
The strongest sector performers during the quarter were Healthcare and Consumer Goods, while Oil & Gas and Basic Materials were the weakest performers.

Relative Quarterly and Relative Cumulative Performance



UBS- Fixed Interest

HR View Comment & Rating



In June, UBS announced the departure of Bob Jolly, Head of Sterling Bonds, who reported into Rob Gambi, Global Head of Bonds. Alix Stewart has taken over as lead portfolio manager for all the UK Fixed Income strategies - she did have responsibility for a number of Sterling portfolios prior to Jolly's departure.

Jolly has left UBS to join Schroders in September as head of Global Macro. The timing of his departure is unfortunate as Gambi has done well to rebuild a strong team over the last 2 years. It will be interesting to see who Gambi brings in as a replacement for Jolly – the calibre of individual will provide insight into how supportive the firm as a whole is to the success of the Sterling Fixed Income team.

We have not rated UBS positively for Fixed Income capabilities for some time. This is no reflection of the investment individuals but rather a reflection of the firm's loss of confidence in its Bond team during the events of 2008/2009.

Performance Summary - Comment

The UBS fixed interest mandate underperformed its benchmark over the quarter, returning 2.4% versus the benchmark return of 2.7%, although it continues to remain ahead of benchmark over the longer term performance periods of 12 months and 3 years.

Following recent economic data and statements from policy makers, the manager views rate hikes as being unlikely this year. Duration positioning across the underlying funds is close to benchmark. The manager continues to remain positive on corporate bonds, supported by positive earnings surprises and large cash balances on corporate balance sheets.

During the quarter the manager removed the underweight to US Treasuries and reduced the relative overweight to UK gilts. The manager remains underweight German government bonds in the expectation that further rate rises will be priced into the German yield curve.

Performance Summary to 30 June 2011

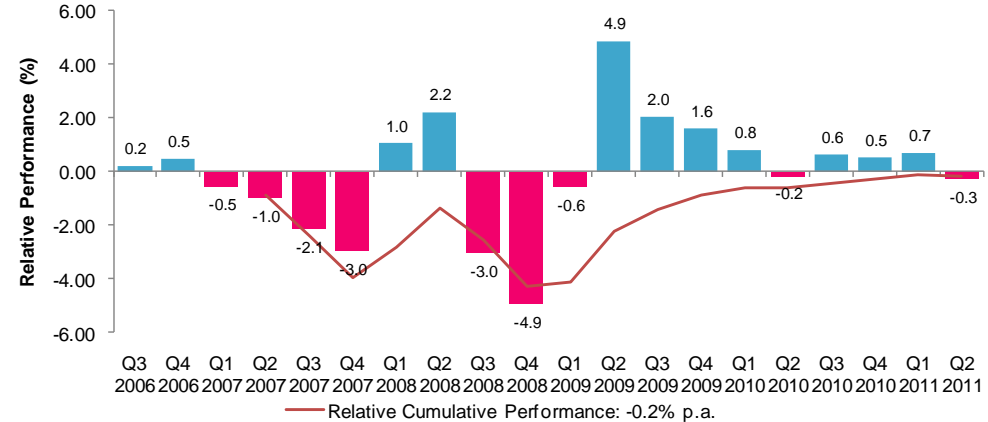
	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	2.4	7.8	10.3
Benchmark	2.7	6.1	8.5
Relative	-0.3	1.6	1.6

* Inception date 31 Oct 2004.

3 Year Relative Return

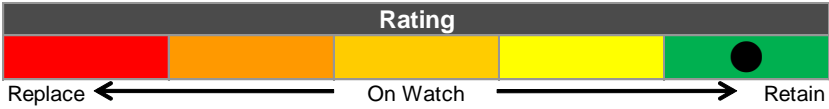
Actual % p.a.	Target % p.a.
0.6	1.1

Relative Quarterly and Relative Cumulative Performance



Schroders - Property

HR View Comment & Rating



In April, Schroders announced the appointment of Nick Scott as Head of Retail for the Schroder Exempt Property Unit Trust (SEPUT), one of the holdings within the Schroders multi-manager mandate (7.4% of NAV as at 30 June 2011).

Scott has joined from NewRiver Retail, with over 20 years of retail experience across both the occupational and investment markets. Scott spent over 10 years at Parkridge Developments Ltd where he was Director of Investment & Development, responsible for the creation of value enhancement strategies with specific emphasis on the retail sector.

There were no other changes to the Schroders property team during the quarter.

Performance Summary - Comment

The portfolio outperformed its benchmark over the quarter, returning 2.5% against the benchmark return of 2.4%. The portfolio's overweight exposure to buoyant central London office market was a major contributor. Improved performance from the portfolio's continental European holdings was also a positive.

During the quarter the manager received redemption proceeds from its UBS Triton holding and re-invested the funds in one of the portfolio core holdings, the Standard Life Property Fund, and the Real Income Fund. As noted in our previous quarterly report, the Real Income Fund is a new fund managed by Schroders which seeks to identify UK property that can maintain real income and protect value in a low growth environment.

Looking forward the manager continues to seek to reduce the portfolio exposure to 'opportunistic' style funds with higher debt levels in favour of the portfolio's existing 'core' holdings.

Performance Summary to 30 June 2011

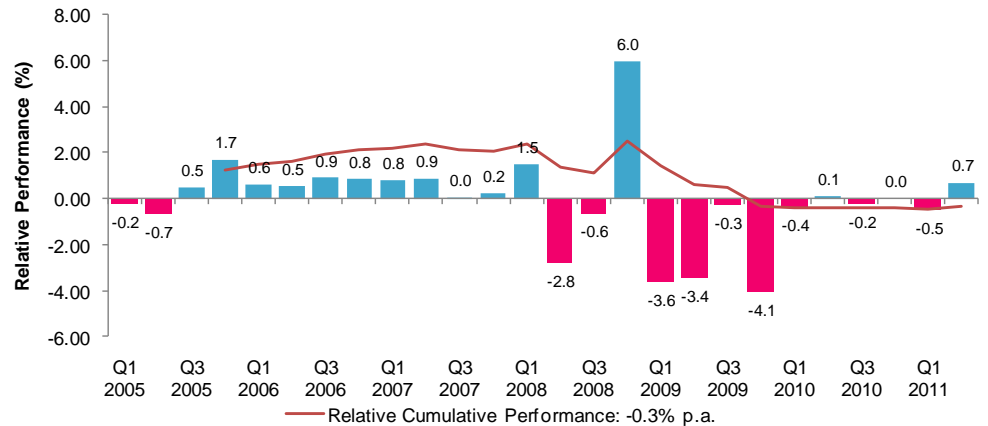
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	2.5	8.1	-4.5	2.2
Benchmark	1.8	7.6	-1.4	2.9
Relative	0.7	0.5	-3.1	-0.6

* Inception date 12 Oct 2004.

3 Year Relative Return

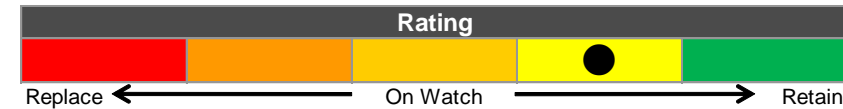
Actual % p.a.	Target % p.a.
-3.1	0.0

Relative Quarterly and Relative Cumulative Performance



Fauchier - Hedge Fund of Funds

HR View Comment & Rating



In April, Fauchier Partners extended the redemption period on one of their US funds from one month to 3 months to enable investment in less liquid strategies like long/short credit and distressed debt that have slightly longer withdrawal periods than global macro or long/short equities. Fauchier Partners said the decision to extend the notice period was independent of market conditions and had been planned. This is not the first term change for Fauchier since the crisis. In 2009 it extended the withdrawal term on another fund and last June investors in its Jubilee Special Situations product agreed to an 'investor level gate', under which each could not withdraw over 12.5% of their capital on any one redemption day.

We do not expect this to have a material impact on the funds our clients are invested in but we will continue to monitor the firm.

Performance Summary - Comment

The Fauchier mandate finished the quarter down -1.0%, underperforming relative to its benchmark return of 1.4%.

Detractors to performance included the fund's positions in Lansdowne UK Equity and Lansdowne Global Financials Fund, most notably because of both funds holding overweight positions in Lloyds TSB which has seen significant value wiped off its share price this year.

By strategy, the portfolio's macro fund holdings were the weakest performer amidst an uncertain outlook for global economic growth and markets being increasingly driven by politics rather than economics. Event driven managers generally profited from the uptick in corporate activity, however the fund's holdings in this strategy did not materially benefit from this positive environment.

Performance Summary to 30 June 2011

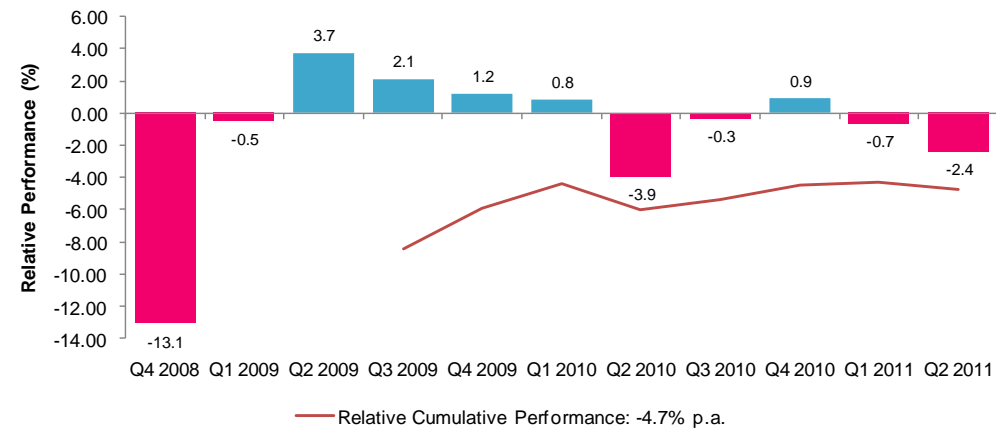
	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	-1.0	3.0	1.1
Benchmark	1.4	5.6	6.2
Relative	-2.4	-2.5	-4.8

* Inception date 28 Jun 2008.

3 Year Relative Return

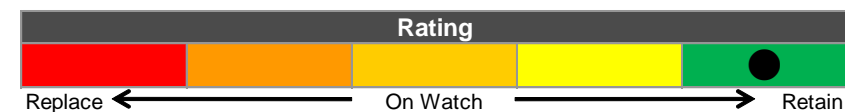
Actual % p.a.	Target % p.a.
N/A	5.0

Relative Quarterly and Relative Cumulative Performance



Investec - Commodities

HR View Comment & Rating



There have been no significant changes to the Investec commodities team to report during the quarter.

Performance Summary to 30 June 2011

	3 Months (%)	Since Inception* (% p.a.)
Fund	-0.6	8.9
Benchmark	-6.9	10.7
Relative	6.8	-1.6

* Inception date 25 Feb 2010.

3 Year Relative Return

Actual % p.a.	Target % p.a.
N/A	0.0

Performance Summary - Comment

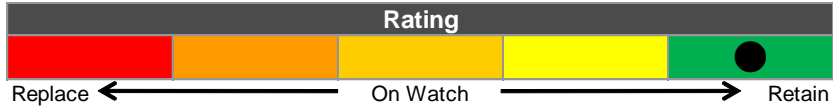
The Investec commodities mandate outperformed during a difficult quarter for commodity markets in general, returning -0.6% against the benchmark return of -6.9%.

Stock selection in the Base and Bulk commodities sector contributed to performance, with outperformance achieved in both Long and Short equity positions. Short positions in Zinc and Nickel also contributed as both commodities fell over 10% during the period.

The biggest detractors from a sector perspective were the portfolio's exposure to long equity positions in Energy. Long equity Gold positions, including African Barrick Gold and European Goldfields, also detracted from performance.

Harbourvest - Venture Capital

HR View Comment & Rating



HarbourVest remains one of our favoured fund of fund firms due to its global reach, broad and deep network of relationships, and array of impressive, experienced individuals.

Performance Summary to 30 June 2011

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	2.1	10.5	-0.5	4.0
Benchmark	0.5	22.3	8.5	4.8
Relative	1.6	-9.6	-8.3	-0.8

* Inception date 29 Jun 2006.

3 Year Relative Return

Actual % p.a.	Target % p.a.
-8.3	5.0

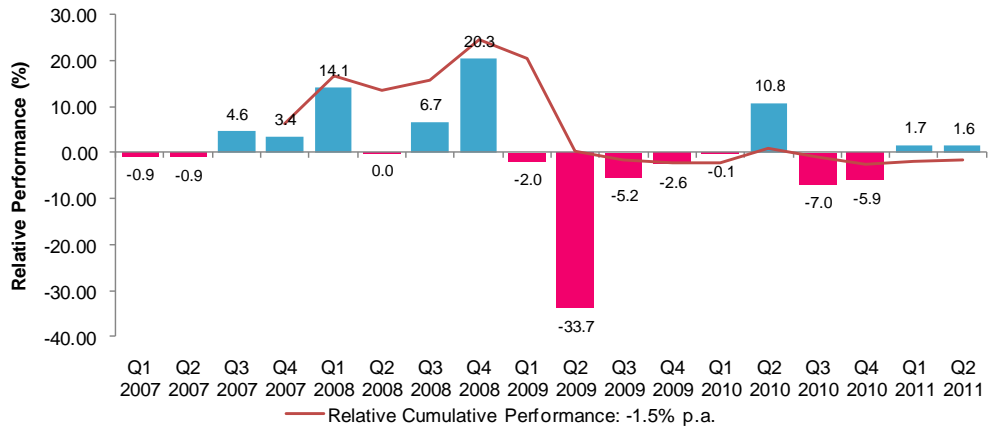
Performance Summary - Comment

The HarbourVest mandate returned 2.1% during the quarter, outperforming its benchmark return of 0.5%.

Given the volatility and pricing of this asset class, it can be misleading to place too much emphasis on short-term performance.

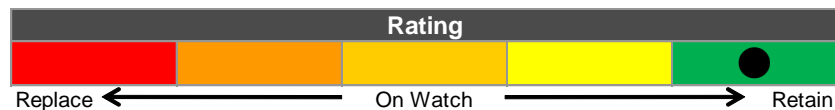
The returns shown are sourced from Northern Trust.

Relative Quarterly and Relative Cumulative Performance



M&G - UK Companies Financing Fund

HR View Comment & Rating



As noted in our previous quarterly report, the investment period for the fund has been extended to July 2012.

The manager continues to see a favourable lending environment for the fund.

Performance Summary to 30 June 2011

	3 Months (%)	Since Inception* (% p.a.)
Fund	0.8	2.2
Benchmark	0.2	0.6
Relative	0.7	1.6

* Inception date 01 May 2010.

3 Year Relative Return

Actual % p.a.	Target % p.a.
N/A	0.0

Performance Summary - Comment

The UK Companies Financing Fund returned 0.8%, ahead of its LIBOR benchmark return of 0.2% for the quarter.

During the quarter the fund made two additional drawdowns. At 30 June 2011, the fund had made seven loans amounting c.40% of committed capital. M&G are in continuing discussions with a number of companies regarding potential loans, with the size of potential deals being between £50m to £100m.

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:

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

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.

