Review
for period to 31 December 2009

Avon Pension Fund

JLT BENEFIT SOLUTIONS

Contents

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Section One - Executive Summary

- This report is produced by JLT Benefit Solutions to assess the performance and risks of the investment managers of the Avon Pension Fund (the “Fund”), and of the Fund as a whole.

Highlights

- The total Fund's assets rose in value by £69m over the last quarter, with a value of £2,302m at the end of December 2009.
- Over the last quarter the total Fund's assets produced an absolute investment return of 2.8%, outperforming the customised benchmark by 0.1%. Over the last year, the Fund underperformed the customised benchmark by 0.8%.
- The absolute performance over the quarter was driven by positive returns across all funds. This was not driven by any particular assets classes, with strong returns coming from individual managers within each asset class. Of particular note was the continued exceptional return from the Genesis Emerging Market Fund, returning 10% over the quarter, and 69% over the year.
- The slight relative outperformance over the quarter resulted from the outperformance of all of the managers, except both UK equity managers and Schroder property, who slightly underperformed.
- The Fund's asset allocation has remained reasonably unchanged, and at the end of December 2009 was 37% UK equities, 28% overseas equities, 20% bonds, 9% fund of hedge funds, 3% cash and 3% property. Please note that most of the cash currently held is in respect of assets “ring fenced” for investment in property.
- From December 2009 Barclays Global Investors have completed their merger with BlackRock and are now operating under the BlackRock name. The reference throughout this report have been updated accordingly.

Conclusion

- **Strategic allocation:** The Fund's strategic allocation appears well diversified in terms of asset class and regional exposure, and has not changed materially over recent quarters, besides the property investment. We have identified no causes for concern with this strategy outside of the areas that are currently being discussed by the Investment Panel. We note again this quarter the Commission of the European Communities’ draft proposal for a Directive on Alternative Investment Fund Managers ("AIFM") which could impact the Fund’s fund of hedge fund managers.
- **Tactical allocation:** The tactical position into corporate bonds and away from nominal gilts remained in place over the quarter. The yield on long dated gilts and long dated corporate bonds rose over the quarter. A proposal regarding conditions that would lead to a discussion to remove this tactical position was considered at the Investment Panel meeting and the Committee meeting during the quarter. Following the effective date of this report, this tactical position was reviewed in line with the agreed procedure and reversed, as at 27 January 2010, realising an estimated net benefit of approximately £4.2m for the Fund.
- **Manager Performance:** We have identified no areas of significant concern regarding the managers. However, we note the SRI constraints on Jupiter may be at the cost of continued underperformance relative to the benchmark and that this is currently being discussed by the Investment Panel. The continued underperformance of MAN, although slight last quarter, should be considered when the fund of hedge fund investments are revisited over the second half of 2010, as has been agreed. Besides these concerns, we see no reason not to invest with any of the active managers during any rebalancing process, although the ongoing review of SRI policy would imply that no new investment should be made with Jupiter until firmer conclusions have been drawn as to future policy.

Section Two – Market Background

- The tables below summarise the various market returns to 31 December 2009, which relate the analysis of the Fund's performance to the global economic and market background.

Market statistics

Market Returns Growth Assets	3 Mths %	1 Year %
UK Equities	5.5	30.1
Overseas Equities	3.4	20.6
Property	9.4	2.2
Hedge Funds	3.2	19.0
Commodities	13.4	50.3
High Yield	4.6	44.2
Cash	0.1	0.6

Change in Sterling	3 Mths %	1 Year %
Against US dollar	1.0	12.3
Against Euro	2.9	8.8
Against Yen	5.0	15.3

Yields as at 31 Dec 2009	% p.a.
UK Equities	3.20
UK Gilts (>15 yrs)	4.40
Real Yield (> 5 yrs ILG)	0.68
Corporate Bonds (>15 yrs AA)	5.66
Non-Gilts (>15 years)	5.70

Market Returns Bond Assets	3 Mths %	1 Year %
UK Gilts (>15 yrs)	-4.3	-4.8
Index Linked Gilts (>5 yrs)	1.5	5.6
Corporate Bonds (>15 yrs AA)	-1.0	12.9
Non-Gilts (>15 years)	-1.3	12.7

Absolute Change in Yields	3 Mths %	1 Year %
UK Gilts (>15 yrs)	0.4	0.6
Index Linked Gilts (>5 yrs)	0.0	-0.3
Corporate Bonds (>15 yrs AA)	0.2	-1.1
Non-Gilts (>15 years)	0.3	-0.5

Inflation Indices	3 Mths %	1 Year %
Price Inflation	1.3	2.4
Earnings Inflation *	0.7	1.9

* subject to 1 month lag

Statistical highlights

- Equity markets continued their positive momentum over the quarter; the FTSE All Share Index rose to a level last seen prior to the collapse of Lehman Brothers.
- All of the 'growth' assets produced positive returns over the quarter, most notably commodities and property.
- Gilt yields increased over the quarter as investors became increasingly concerned about the high level of government borrowing.
- Index-linked gilt yields fell as fears about the outlook for inflation kept demand at a high level relative to supply.

UK market events – Q4 2009

- **Quantitative Easing:** In February 2010 the governor of The Bank of England, Mervyn King, held out the possibility of further quantitative easing as the economy was still "bumping along the bottom". This followed the Monetary Policy Committee's decision to suspend its £200 billion injection into the economy, once completed. Some commentators hold that the real danger will come when the Bank of England decide to reverse their quantitative easing actions, and dispose of their vast bond holding on the open market. This could make it difficult for the Treasury to borrow, along with the reversal of their measures to address the credit crunch.

- **Government Debt:** At the end of November 2009 (latest available) the UK national debt had increased to £870 billion, or 62% of GDP – a rise from £824 billion, or 59% of GDP, at the end of September 2009. Excluding financial sector intervention public sector debt was £740 billion, or 52.5% of GDP.

- **Unemployment:** The unemployment rate remained at 7.8% from September to November 2009 (latest available) with 2.46 million unemployed. There was a slight fall in unemployment over the quarter of 7,000 - the first fall since May 2008. However, the number of unemployed for more than 12 months increased to 631,000 – the highest figure since November 2007. The rate of employment is the lowest since winter 1996/1997.

- **Manufacturing sector:** The Purchasing Managers' Index ("PMI") manufacturing survey showed 54.6 in December 2009 and 56.7 in January 2010 (50-level separating growth from contraction). The January figure is the highest level since Labour came to power.

- **Inflation:** CPI annual inflation rose from 1.1% at the start of the quarter, to 2.9% at the end of December. The 1.0% rise over December alone, was the largest monthly increase on record. RPI annual inflation rose from -1.4% at the start of the quarter, to 2.4% at the end (3.8% excluding mortgage interest payments - i.e. RPIX inflation). The 2.1% increase over December alone was the largest monthly increase since 1979. The equivalent annualised EU CPI figure was 1.4%. Mervyn King insisted that the inflation spike was temporary due to rising oil prices and exchange rate effects.

- **Gross Domestic Product:** Following six quarters of contraction, the UK economy expanded by 0.1% in Q4 2009. The rise was due to growth in services and productions, while construction had zero growth, and agriculture, forestry and fishing output decreased.

- **Interest Rate:** The Bank of England has continued to maintain the key interest rate at 0.5%, a historic low set since March 2009. This follows a weak return to growth in the UK economy in Q4 2009 and the Monetary Policy Committee's belief that the prospect is for a gradual recovery.

Europe market events – Q4 2009

- **Greece:** Following the socialist PASOK party winning elections in October 2009, the new government disclosed that the budget deficit for 2009 would be double that previously stated, at 12.7% and public debt at 113% of GDP. The government promised to cut the deficit to 9.1% of GDP in 2010 with debt rising to 121% of GDP, although the EU forecasts a 12.2% deficit in 2010 with debt rising to 125% of GDP. In December both S&P and Fitch cut their credit rating for Greece to BBB+, although Moody's downgrade remained two notches above this. Greece announced an aggressive 3 year stability programme to cut its budget deficit to 2.8% of GDP by 2012, and the EU Commission announced its backing. Greece must finance €54 billion in debt in 2010 with €20 billion due in Q2. A 5 year bond was issued in January and 5 times over subscribed, but at a high premium. In February 2010 the EU finally indicated it may support some form of bailout for Greece, and is coordinating loan guarantees. However, serious concern remains over other States such as Portugal and Spain, and even the UK.

- **Unemployment:** Unemployment in the Eurozone rose from 9.7% at the start of the quarter, to 10.0% at the end of December – the highest rate since August 2008. For the EU as a whole unemployment rose from 9.2% to 9.6% over the quarter – another record since the series' inception in January 2000. It is estimated that there are 16 million unemployed in the Eurozone, and 23 million unemployed in the EU. The lowest unemployment levels were in the Netherlands (4.0%) and Austria (5.4%), and the highest in Latvia (22.8%) and Spain (19.5%). All member states recorded an increase in unemployment over the last year.

- **Services and Manufacturing sectors:** The Eurozone's services sector PMI expanded over the 3 months in the fourth quarter, reaching a 25 month high of 53.6 in December 2009 (50-level separating growth from contraction), although slipped back to 52.3 in January 2010. The manufacturing sector expanded for the first time in 17 months in October 2009, with the manufacturing sector PMI rising to 51.6 in December 2009, and continuing to rise to 52.0 in January 2010.

- **Inflation:** Annual inflation in the Eurozone rose to 0.9% in December 2009 (0.3% in the month of December itself), largely attributed to rising oil prices. Over the year, inflation averaged just 0.3% which is well below the European Central Bank's objective of "below but close to 2% p.a.". There is some concern over the potential for persistently lower inflation rates in Europe for some time, although this is likely to prolong the extremely low key interest rates set by the European Central Bank. In the EU annual inflation increased to 1.4% in December 2009.
- **Gross Domestic Product:** GDP increased by 0.1% in the Eurozone and in the EU as a whole, in the fourth quarter. Over the year, GDP fell by 4% in the Eurozone and by 2.3% in the EU. Europe's recovery hit a bump as Germany's economic growth was unexpectedly flat in the fourth quarter. France's GDP grew by 0.6% over the quarter, while Spain remained in recession with GDP contracting by 0.1%.
- **Interest Rate:** The European Central bank has kept the base rate at a record low of 1% since May 2009, with the view that the Eurozone recovery will be modest and uneven this year.

US market events – Q4 2009

- **Federal Intervention:** The Federal Reserve has now completed its purchase of US$300 billion US Treasuries. The fund for buying agency debt for the first quarter of 2010 has been reduced from US$200 billion to US$175 billion as hints of withdrawal of extraordinary measures continue. However, the Fed will proceed with its programme to purchase US$1.25 trillion of agency mortgage backed securities.
- **Unemployment:** The rate of unemployment in the US rose from 9.8% to 10.0% over the quarter, due to greater than expected job losses in October. This rate has dropped back to 9.7% in January 2010, a five month low.
- **Manufacturing and Industrial production:** Industrial production rose in December 2009 from energy consumption due to the cold weather. However, manufacturing production dropped 0.1% in December, against expectations of an increase.
- **Inflation:** The Consumer Price Index annual change rose to 2.7% p.a. in December 2009 (rising 0.1% over December itself). This compares to inflation of 0.1% for 2008. Stripping out volatile energy and food prices, the core measure of consumer inflation was flat in November and rose by 0.1% in December 2009.
- **Gross Domestic Product:** US GDP increased by an impressive 1.4% over the fourth quarter, ahead of the 1.2% market expectation, and the growth of 0.5% in the third quarter. Although a strong end to 2009, the annual contraction of 2.4% meant the first annual contraction since 1991. The US budget deficit hit a record US$1.4 trillion in 2009, the highest since the end of World War II, and is expected to beat a similar level in 2010.
- **Interest Rate:** The Federal Reserve continues to hold interest rates at 0-0.25%, repeating its vow to keep interest rates exceptionally low for an extended period.

Emerging Markets market events – Q4 2009

- Emerging markets continued to post strong returns over the fourth quarter of 2009, and finished the year as the best performing region globally. Latin America rose strongly over the quarter with Chile, Brazil and Mexico benefiting from rising global demand for commodities. Inflation in these countries also declined over the quarter. Global industrial production and manufacturing activity continued to increase in China and other emerging markets.

Market events – Global – 1 year

- The global economy continued to show signs of a steady recovery over the year, and most of the major global economies have emerged from recession. Some developing countries, most notably China, are growing strongly, and in Australia, the strength of the recovery has led to a rise in interest rates.
- In contrast, the UK economy contracted by 0.2% during the third quarter and only grew by 0.1% in the fourth quarter. The recession was the longest and deepest since the Second World War. The UK economy's reliance on the service sector, in particular financial services, has been cited as one of the reasons why it remained in recession for so long. The CBI predicts that the UK economic recovery will

- Over the course of the year, central banks around the world continued to cut interest rates with the aim of offsetting the effects of the credit crunch by stimulating economic growth and encouraging bank lending.
- The Bank of England has to date spent £200 billion on quantitative easing, which involves the Bank purchasing financial securities, such as Government and corporate bonds. The policy is intended to improve liquidity in the markets and to stimulate the economy, although many argue that quantitative easing will be inflationary in the medium to long term.
- The introduction of scrapping incentives in the car industry has had a beneficial effect in Europe, including the UK, and in the US. Such measures have helped to curtail the inventory liquidation that had had a detrimental effect on economic output in the early part of 2009.
- UK government debt has risen to more than 60% of GDP, and the need to demonstrate the political will to tackle the high level of UK public spending has been demonstrated by events in Greece, where excessive government spending has resulted in a rise in the yield on government bonds and a downgrade of the country's debt rating.
- The global consensus from the central banks appears to be that the support measures in place are showing some signs of paying off but will need to remain in force until clear evidence of a sustainable recovery is seen.

Equities

- Since the low point at the beginning of March, most equity markets have made a strong recovery over the year.
- The FTSE All-Share Index, for example, has risen to a level last seen prior to the collapse of Lehman Brothers. Overseas equities also produced strong returns over the year as a whole and sterling investors benefited from the pound's depreciation against most overseas currencies. The most disappointing market was in Japan, where there was increased concern regarding the government's ability to deal with the problems of deflation and the continuing strength of the yen.
- Companies in the developing markets had been less subject to the major write down of asset values that were incurred in the developed economies but suffered because of their dependence on exports and scarcity of credit finance.
- China was growing relatively strongly and was still a major export market for many countries in the region. As a consequence, by the end of Q1 2009, many countries in the region were beginning to come out of recession and amid a growing realisation that the worst of the credit crisis might be over, the equity markets in this region began to rally strongly.
- Eventually, as the global economic recovery began to gain momentum, the equity markets in other regions also rallied, albeit to a lesser extent, with equity markets in the developing countries outperforming those in developed markets during Q2 2009 and Q3 2009 by 25%.

Bonds & credit

- Notwithstanding spiralling government deficits, in the first quarter of 2009 government bond yields fell to the lowest level for decades as investors sought a 'safe haven' for their funds. Quantitative easing put downward pressure on yields. In contrast, corporate bonds produced a dreadful performance as concerns about potential defaults intensified.
- In the second quarter of 2009, it became apparent that the worst fears of investors regarding the length and depth of the recession were not being realised and corporate defaults were at a much lower level than had been anticipated. Although the Chinese economy had slowed, it was still growing at a rate of between 6% to 8% per annum, a rate that would have been regarded as excessive in the developed economies. During the summer, many countries in the Far East that traded extensively with China came out of recession as a result. In addition, countries such as Germany and France that have a relatively low dependence on the financial sector and a low level of consumer indebtedness also came out of recession. Against this background, corporate bond markets recovered most of their earlier losses.

- Gilt yields have since risen as investors have become increasingly concerned about the high level of government borrowing. The pre-budget report in December was generally perceived to be a holding statement and came under a great deal of criticism for providing little detail as to how the budget deficit would be reduced.
- In contrast, index-linked gilt yields fell as fears about the outlook for inflation kept demand at a high level relative to supply.

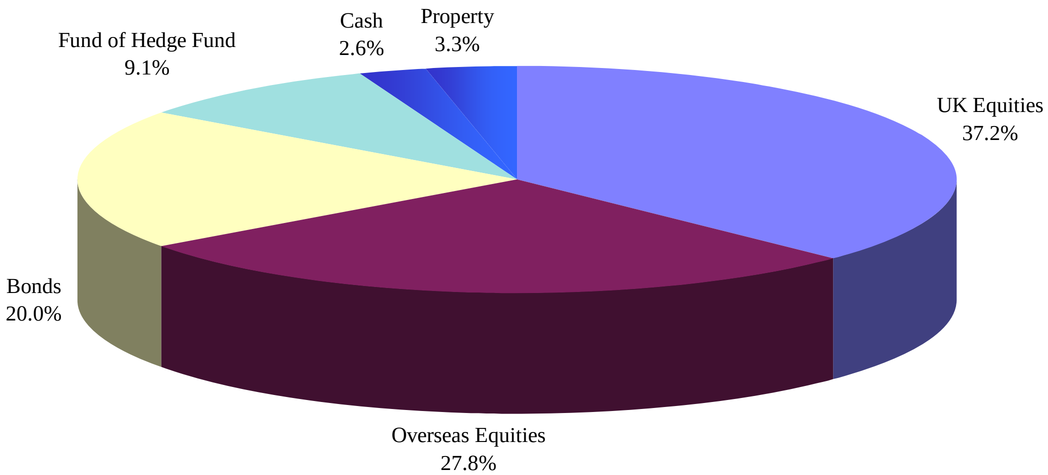
Alternative asset classes

- All of the alternative asset classes produced positive returns over the year and they provided some protection from the falls in global equity prices.
- Property disappointed during the majority of the 12 months covered in this update. However, whilst there is still weakness in the occupier market, investors have taken heart from the recovery in the global economy and evidence that the UK economy had passed its nadir. The UK IPD Property Index produced a positive monthly return in August for the first time since June 2007, and continued to do so through to the end of the year.
- In the latter part of 2009, inflows into the property market began to rise with the amount being invested in November being the highest since mid 2007. Although the level of transactions is well below that prior to the credit crisis, it is now at a level close to the long run average.
- Yields on prime property fell as a result of demand for well located assets with long-term leases that generate strong rental income. However, other sectors of the property market performed less well as rental growth was negative, and there was an increase in void rates.
- Hedge funds had some extremely bad publicity with the Madoff scandal, bans on short selling, redemptions and talk of greater regulation. However, over the 1 year and 3 year periods, they have produced a positive return, and certain strategies, such as equity hedge and event driven, have done very well.
- With the global economy recovering, commodities produced positive returns over the 12 months to 31 December 2009. The price of gold rose to a record level of $1,200 an ounce as investors continued to consider gold to be a good hedge against inflation.
- As sentiment improved, investors bought into the high yield bonds and the asset class performed strongly, and spreads relative to government bonds narrowed further. However, spreads remain higher than they were prior to the collapse of Lehman Brothers, although there is now some speculation that redemptions from these types of investment funds are increasing, which would be expected to put pressure on prices.

Section Three – Fund Valuations

- The chart and table below show the asset allocation of the Fund as at 31 December 2009, with the BlackRock Multi-Asset portfolio and the BlackRock property portfolio (assets “ring fenced” for investment in property) split between the relevant asset classes.

Asset class allocation as at 31 December 2009



Asset Class	31 December 2009 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	857,630	37.3	36.0
Overseas Equities	639,804	27.8	24.0
Bonds	460,177	20.0	20.0
Fund of Hedge Funds	210,094	9.1	10.0
Cash	60,663	2.6	-
Property	77,075	3.3	10.0
Reconciling differences and rounding	-3,638	-0.1	-
TOTAL FUND VALUE	**2,301,805**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets rose by £69m over the fourth quarter to £2,302m, mainly as a result of strong positive absolute investment performance from UK and overseas equities.
- The asset allocation has not changed significantly over the quarter, with the main movement being a decrease in cash and increase in property, which is consistent with the Fund’s objective.
- The valuation of the investment with each manager is provided on the following page.

Manager	Asset Class	30 September 2009 Value £'000	30 September 2009 Proportion of Total %	Net New Money £'000	31 December 2009 Value £'000	31 December 2009 Proportion of Total %
Jupiter	UK Equities	87,800	3.9	-	89,482	3.9
TT International	UK Equities	111,479	5.0	-	115,536	5.0
Invesco	Global ex-UK Equities	137,530	6.2	-	143,341	6.2
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	78,174	3.5	-	78,498	3.4
Genesis	Emerging Market Equities	82,374	3.7	-	90,582	3.9
Lyster Watson	Fund of Hedge Funds	9,634	0.4	-	9,773	0.4
MAN	Fund of Hedge Funds	93,904	4.2	-	94,745	4.1
Signet	Fund of Hedge Funds	42,445	1.9	-	43,649	1.9
Stenham	Fund of Hedge Funds	11,411	0.5	-	11,535	0.5
Gottex	Fund of Hedge Funds	48,823	2.2	-	50,413	2.2
BlackRock	Passive Multi-asset	1,109,260	49.7	15,000	1,159,943	50.4
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	186,653	8.4	-38,050	148,628	6.5
RLAM	Bonds	160,339	7.2	-	162,885	7.1
Schroder	UK Property	30,803	1.4	26,050	59,512	2.6
Partners	Property	8,657	0.4	13,200	20,604	0.9
Internal Cash	Cash	33,296	1.5	-16,200	22,680	1.0
Rounding		-	-0.1	-	-1	-
TOTAL		**2,232,582**	**100.0**	**-**	**2,301,805**	**100.0**

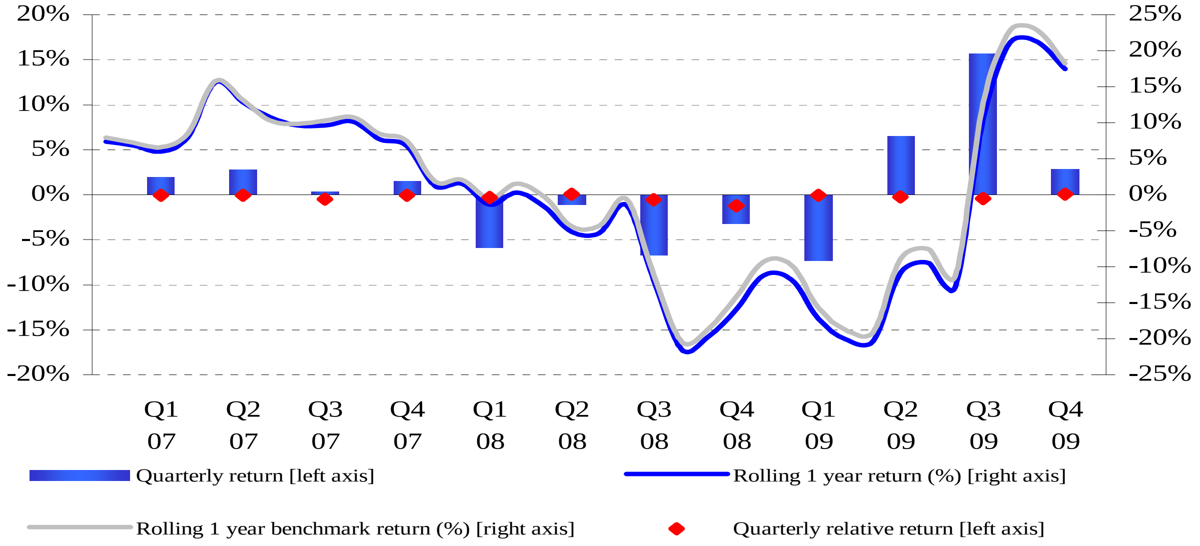
Source: Data provided by WM Performance Services

Section Four – Performance Summary

Total Fund performance

- The chart below shows the absolute performance of the total Fund's assets over the last 12 quarters.

Total Fund absolute and relative performance



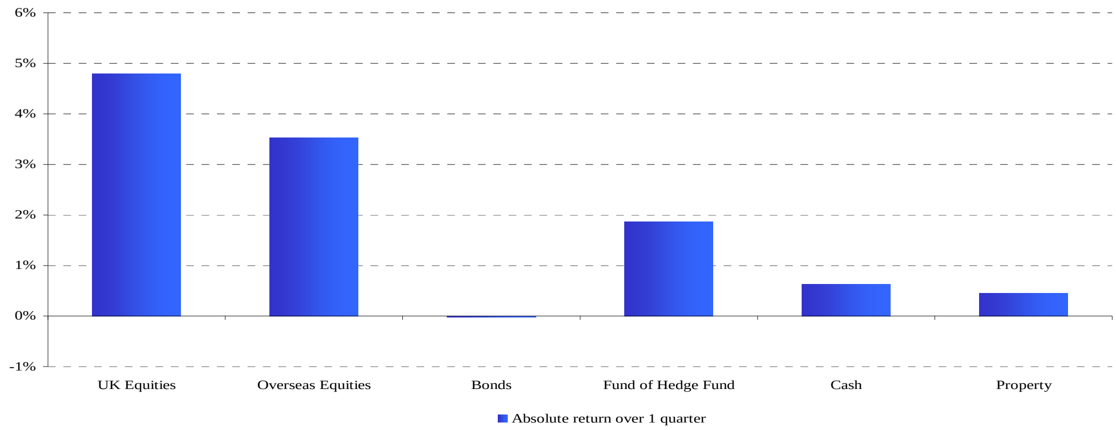
Source: Data provided by WM Performance Services

- Over the last quarter (blue bars) the total Fund's assets produced a positive return of 2.8%, outperforming the customised benchmark by 0.1%.
- Over the last year (blue versus grey line) the total Fund's assets produced a positive return of 17.5%, underperforming the customised benchmark by 0.8%.
- The driver of positive absolute performance over the last quarter was from a mix of performance from managers across the asset classes (see page 13).
- The slight outperformance over the quarter arose from the outperformance of all of the managers, except both UK equity managers and Schroder property, who slightly underperformed.

Asset classes performance

- The chart and table below show the absolute performance of the Fund's assets by asset class over the quarter to 31 December 2009. Note that the returns from the BGI Multi-Asset portfolio and the second BGI portfolio (now under the name of BlackRock), which hold a combination of asset classes, are aggregated within the relevant asset class returns.

Asset class absolute performance to 31 December 2009



Source: Data provided by WM Performance Services

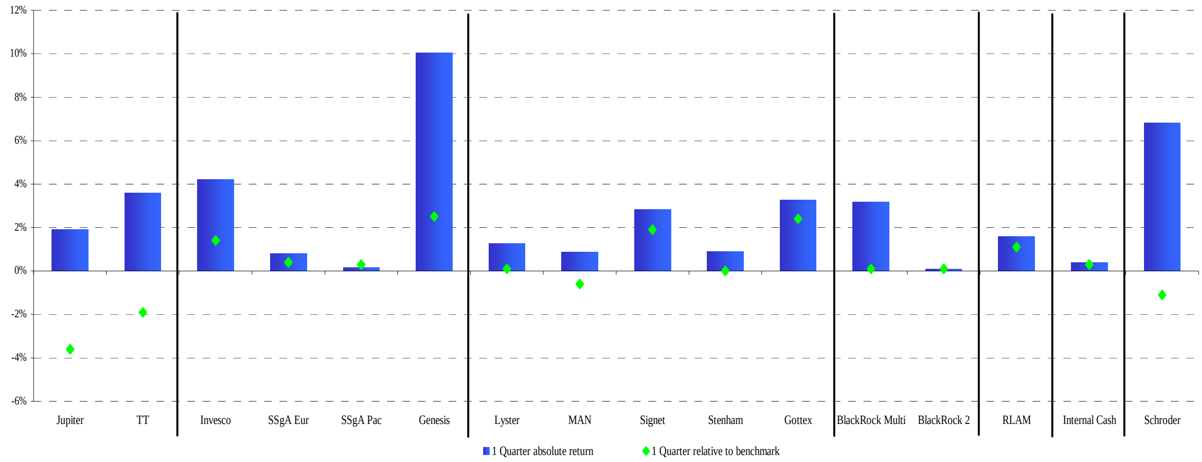
- All asset classes have produced positive returns over the fourth quarter of 2009, except bonds which produced a zero return, although outperforming the benchmark return of -1.2%.
- The key drivers of absolute performance are:
  - UK and overseas equity markets continued to rally, producing a reasonably strong quarterly return of 5.5% and 3.4% respectively.
  - Sterling appreciated strongly against the euro, US$ and yen over the quarter, meaning a lower return on the overseas equities in sterling terms. All major markets produced reasonably strong returns for the quarter in local currency terms, emerging markets again leading the rally, with the exception of a weak, but positive return from Japan.
  - The Fund was overweight UK equities (36.9% v 36.0% at the start of the quarter) and overseas equities (27.6% v 24.0% at the start of the quarter), which contributed to performance, as equities produced good returns over the quarter.
  - There is also currently a cash balance held for investment in property, which is not represented in the Fund's benchmark and which detracted from performance as all other asset classes rose by substantially more than cash.
- The table below shows the returns from major asset class indices over the quarter and year to 31 December 2009:

Asset Class	Weight in Strategic Benchmark	Q4 2009 (index returns)	1 year (index returns)
UK Equities	36%	5.5%	30.1%
Overseas Equities	24%	3.4%	20.6%
Index Linked Bonds	6%	1.6%	6.4%
Gov Bonds – Fixed	14%	-2.0%	-1.2%
Corporate Bonds		1.0%	15.1%
Hedge Funds	10%	3.2%	19.0%
Property	10%	9.4%	2.2%
Total Fund	**100%**		

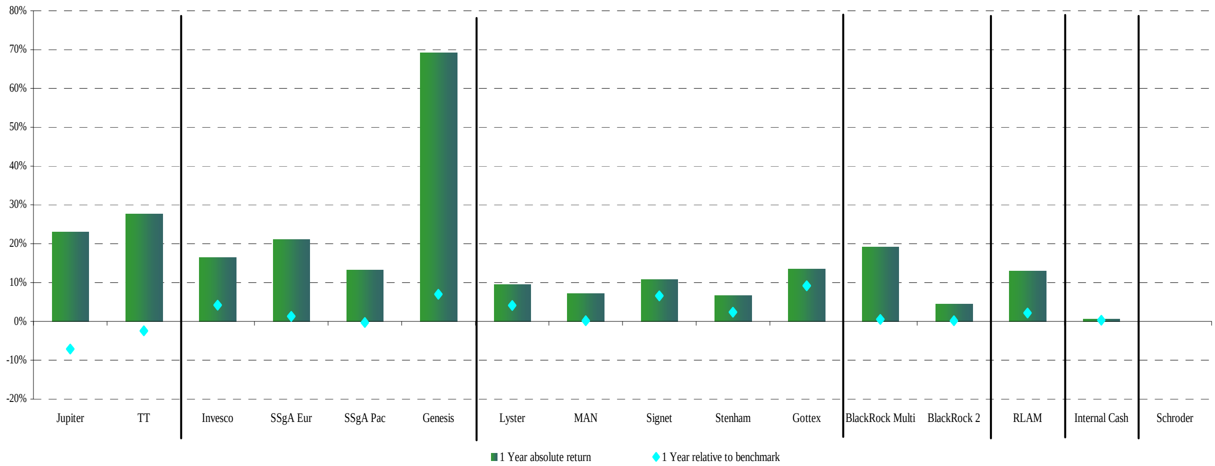
Manager performance

- The charts below show the absolute return for each manager over the quarter and the year to the end of December 2009. The relative quarter and one year returns are marked with green and blue dots respectively.

Absolute and relative performance - quarter to 31 December 2009



Absolute and relative performance - year to 31 December 2009



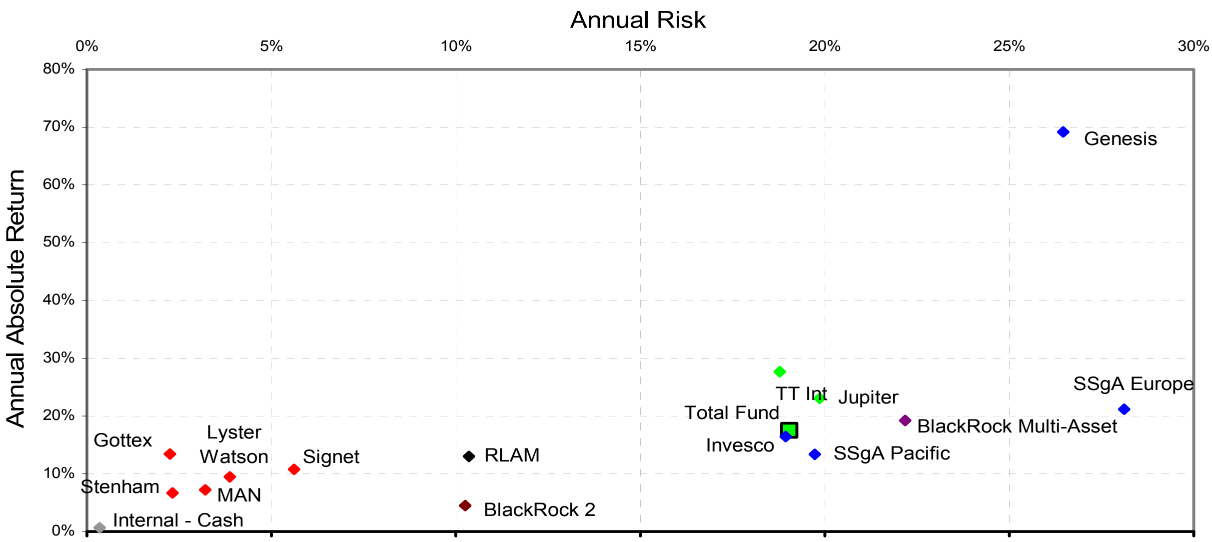
Source: Data provided by WM Performance Services

- The Fund began investing with Partners just before the fourth quarter of 2009. The performance has not been shown in the charts above given their 1 quarter reporting time lag.
- All managers produced positive absolute returns over the quarter.
- Over the year all managers have produced positive absolute returns, as the poor fourth quarter of 2008 rolls out of the calculation.
- Genesis produced the strongest positive absolute return over the quarter and year. Over the year the absolute return was a significant 69.2%, which itself was 7.0% above the benchmark.
- The next best performing asset class over the year was UK equities, although both managers underperformed the benchmark.
- Of note is the positive absolute return achieved by all of the fund of hedge fund managers over the year, following the bad press hedge funds received in early 2009, in particular.
- From December 2009 Barclays Global Investors completed their merger with BlackRock and are now operating under the BlackRock name. The charts above have been updated to reflect this name change.

Manager and total Fund risk v return

- The chart below shows the 1 year absolute return ("Annual Absolute Return") against the 1 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of December 2009 of each of the funds, along with the total Fund.

1 Year Risk v 1 Year Return to 31 December 2009



Source: Data provided by WM Performance Services

- The managers are colour coded by asset class, as follows:
  - Green: UK equities
  - Blue: overseas equities
  - Red: fund of hedge funds
  - Black: bonds
  - Maroon: multi-asset
  - Brown: BlackRock No. 2 portfolio
  - Grey: internally managed cash
  - Green Square: total Fund
  - Note: the property funds have invested for less than 1 year so are not shown in the chart above.
- The volatility of returns over the year has, for all funds and the total Fund, fallen compared to last quarter. This is unsurprising given that the extremely volatile quarter of Q4 2008 has rolled out of the calculation.
- Similarly there has been a shift upwards in the annual returns compared to last quarter, particularly the equity and fund of hedge funds. Of particular note is the magnitude of return achieved by Genesis.
- The returns from the fund of hedge funds are at a slightly lower level (lower down on chart) than most of the other managers, but at significantly lower volatility (to the extreme left).
- The volatility of Genesis is high, but the absolute return is exceptionally high, which gives it a very good risk adjusted return.
- SSgA Europe has a slightly higher volatility than, but a comparable return with, the other equity managers.
- The volatility of all of the various funds is in line with expectation. The total Fund has benefited from diversification by asset classes, as Fund volatility is lower than most of the equity managers and the BlackRock multi-asset portfolio, despite these making up 73% of the total Fund's assets.

Section Five - Manager Performance

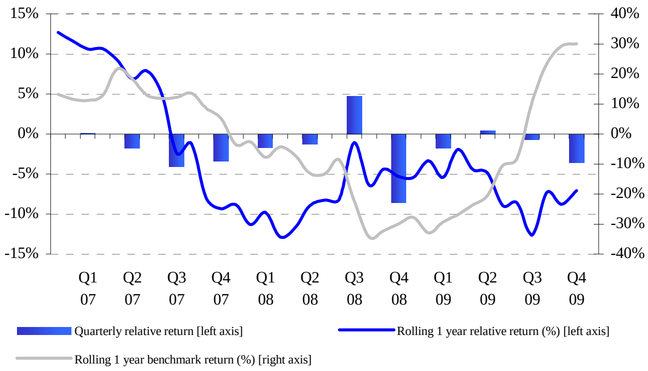
This section provides a one page summary of the key risk and return characteristics for each investment manager. An explanatory summary of each of the charts is included in the Glossary in Appendix A, with a reference for each chart in the chart title (e.g. #1). A summary of mandates is included in Appendix B, which shows the benchmark and outperformance target for each fund.

Summary of conclusions

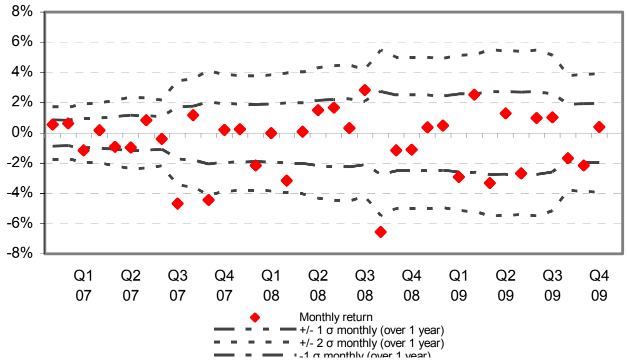
- We have not identified any issues with the performance of the active investment managers and have no concerns with investment into any of the active managers for rebalancing purposes, although we note that the ongoing review of SRI by the Investment Panel would imply that any new investment with Jupiter should be withheld until firm conclusions as to the practical implications of this review are reached.
- UK Equity Funds:
  - Jupiter underperformed considerably over the quarter, with their SRI remit currently continuing to hold back their long term relative returns. They have outperformed the benchmark in only 2 of the last 12 quarters. Therefore it should be considered that the cost of running the SRI mandate may include continued underperformance relative to the broad index.
  - TT International also underperformed the benchmark over the quarter, with stock selection the main contributor.
- Non-UK Enhanced Indexation Funds: Both SSgA Enhanced Indexation funds produced modest outperformance relative to the benchmark over the quarter. Invesco's relative performance was strong for the quarter, although this, together with the outperformance over the year is affected by the 'timing' of the fund compared to the benchmark index, particularly in more volatile market conditions.
- Emerging Market: Genesis produced a very strong absolute and strong relative return for the quarter, arising from strong emerging market equity returns, currency movements and stock selection.
- Fund of Hedge Funds:
  - MAN was the only manager to underperform the benchmark over the quarter, although not significantly. Both Signet and Gottex produced reasonably strong absolute and relative returns.
  - Over the last year all five managers have outperformed the benchmark, and produced reasonable absolute returns which are broadly in line with their objectives, with the exception of Gottex and Signet, who are ahead of objective on a rolling 12 month basis.
  - The continued marginal underperformance of MAN should be considered in conjuction with the further review of the fund of hedge fund investments agreed for the second half of 2010. Note that in mid February 2010 shares in MAN surged on speculation that BlackRock is to launch a bid for the firm.
- BlackRock passive Funds: there is nothing unusual arising in risk and performance for the two BlackRock passive funds.
- Fixed Interest: RLAM have again outperformed the benchmark, for the third consecutive quarter, leaving the sustained period of previous underperformance behind. There are no notable changes in the risk profile of their fund.
- Property: Due to the short period since investment in the property funds, the performance of Schroder and Partners has not been considered in this section. These will be included in the future, once sufficient performance history is available.

Jupiter Asset Management – UK Equities (Socially Responsible Investing)

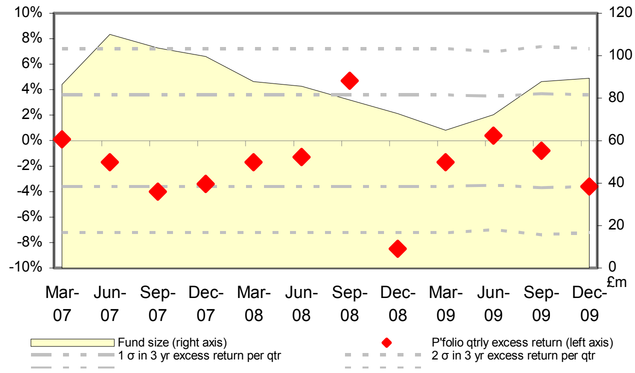
Relative returns [#1]



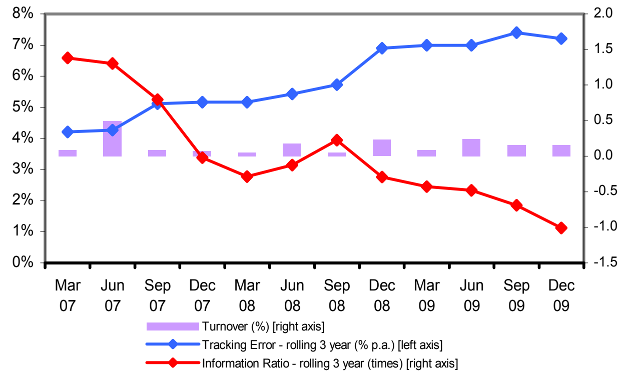
Monthly relative returns [#2]



Performance v fund size [#3]



Tracking error, Information ratio, Turnover [#4]



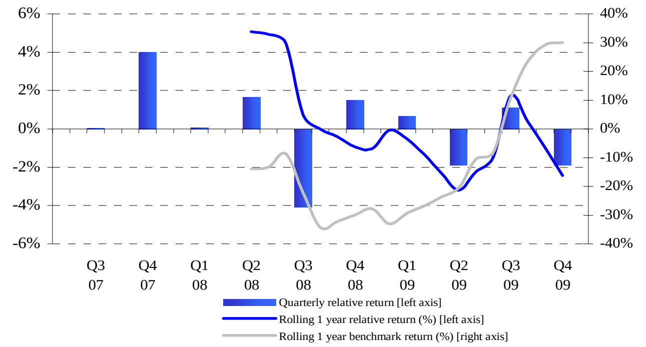
Source: Data provided by WM Performance Services, and Jupiter

Comments:

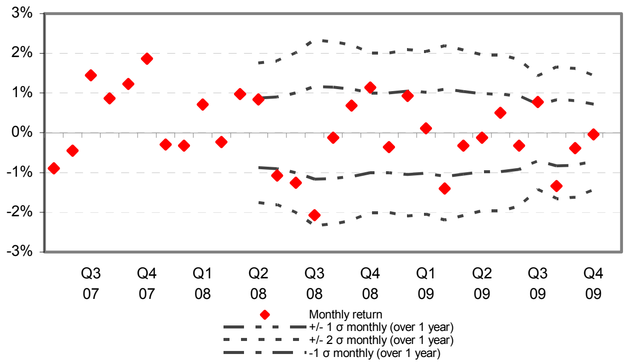
- Over the last quarter the Fund underperformed the benchmark by 3.6%, producing an absolute return of 1.9%.
- Over the last year the Fund underperformed the benchmark by 7.1%, producing an absolute return of 23.0%.
- In contrast to last quarter, small cap stocks and mid cap stocks underperformed large cap stocks (-3.3%: 2.3%: 6.2% respectively). This would be expected to have provided an unfavourable investment background all else remaining equal (however, please also see our final comment).
- The Fund has a small exposure to cash which detracted from absolute performance.
- The industry allocation is considerably different from the benchmark allocation (as expected from Socially Responsible Investing), so the variability of relative returns (volatility) is expected to be high. It remains considerably over or underweight in 9 out of 10 of the standard ICB industry classifications.

TT International – UK Equities (Unconstrained)

Relative returns [#1]

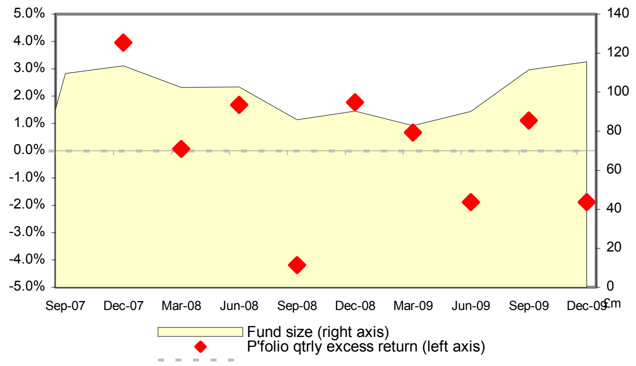


Monthly relative returns [#2]

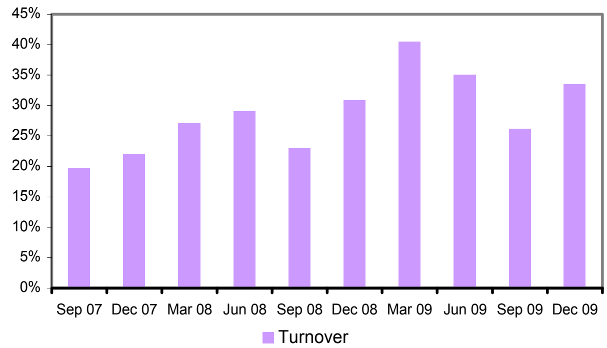


note: Q3 2007 is only a partial period of investment

Performance v fund size [#3]



Tracking error, Information ratio, Turnover [#4]



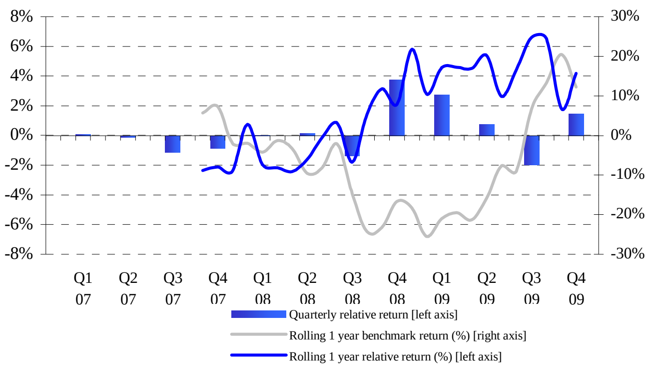
Source: Data provided by WM Performance Services, and TT International

Comments:

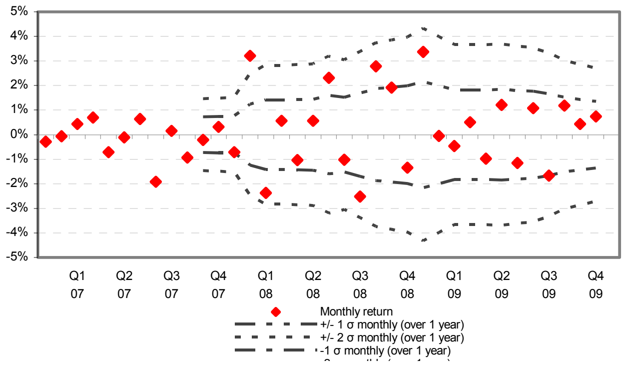
- Over the last quarter the Fund underperformed the benchmark by 1.9%, producing an absolute return of 3.6%.
- Over the last year the Fund underperformed the benchmark by 2.4%, producing an absolute return of 27.7%.
- The Fund is reasonably overweight in Basic Materials, Industrials and Consumer Services (c.4% each). The main underweights (2%-3% each) are Consumer Goods, Health Care Telecommunications and Financials.
- The volatility of monthly relative returns has fallen gradually over the last year. The number of stocks in the Fund remains at a similarly high level to last quarter, while turnover is reasonably consistent with previous quarters.
- Apart from the particularly poor quarter in Q3 2008, the volatility of this Fund relative to the benchmark is lower than that of Jupiter. This more pragmatic investment mandate may be more suited for investment when rebalancing to active UK equities as it is more about sector than style, not least given the ongoing review of SRI and Corporate Governance policy which may have implications for the Jupiter mandate.

Invesco – Global ex-UK Equities Enhanced (Enhanced Indexation)

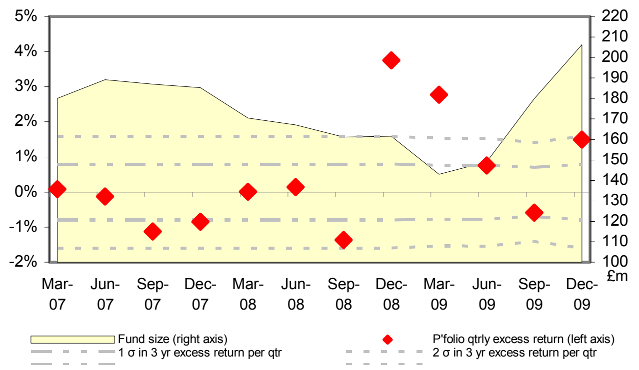
Relative returns #1



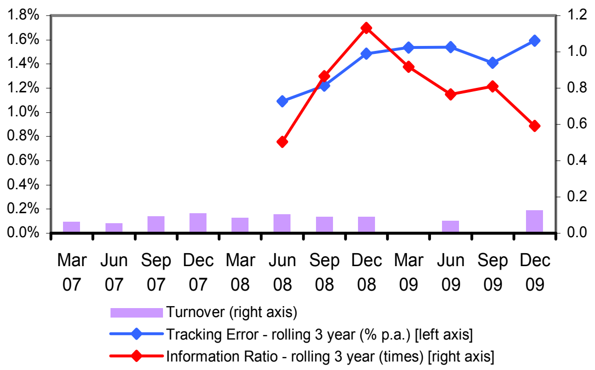
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



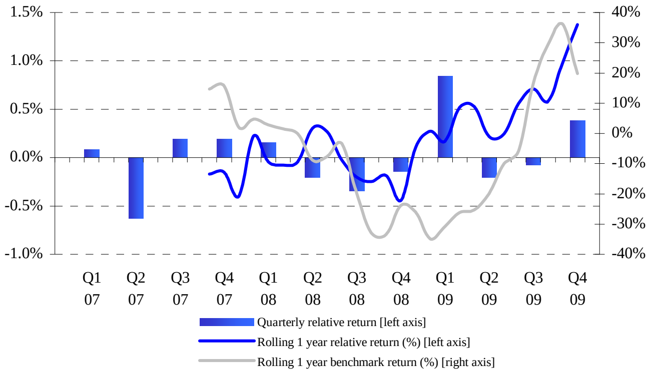
Source: Data provided by WM Performance Services, and Invesco

Comments:

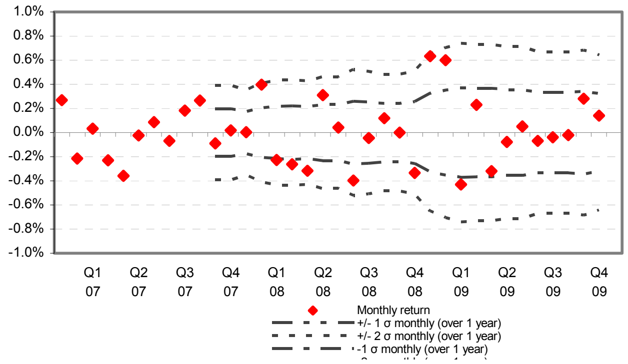
- Over the last quarter the Fund outperformed the benchmark by 1.5%, producing an absolute return of 4.2%.
- Over the last year the Fund outperformed the benchmark by 4.2%, producing an absolute return of +16.5%.
- Stock selection has been the primary driver of relative underperformance over the latest quarter, however the timing of the pricing of the Fund versus the benchmark remains a significant factor in more volatile equity markets.
- The volatility of monthly relative returns has reduced gradually over the last year, as the volatile Q4 2008 rolls out of the calculations. As an enhanced indexation fund the magnitude of the volatility is quite low. The larger deviations from the benchmark tend to be upwards, which is favourable
- Turnover remains low, while the number of stocks in the fund remains at approximately 500, which reduces stock specific risk through diversification.
- The industry allocation is relatively close, with all standard ICB industry sectors within 1.5% of the benchmark allocation.

SSgA - Europe ex-UK Equities (Enhanced Indexation)

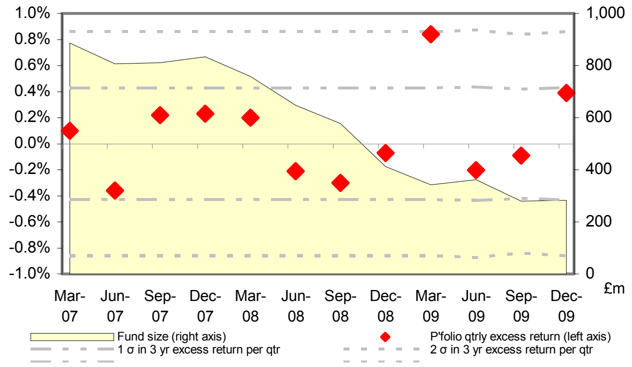
Relative returns #1



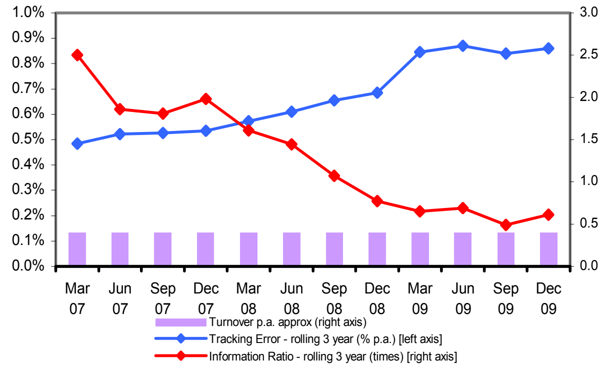
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4

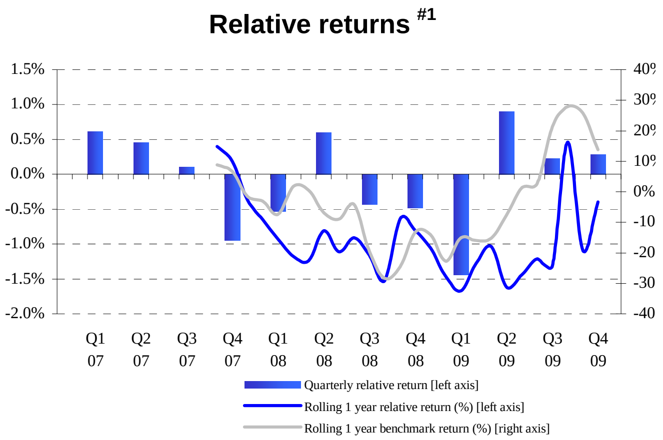


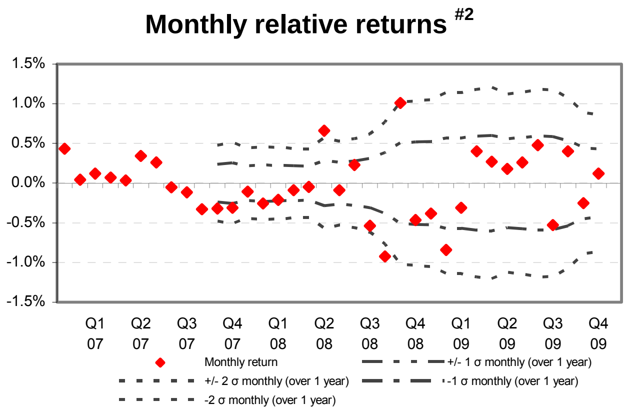
Source: Data provided by WM Performance Services, and SSgA

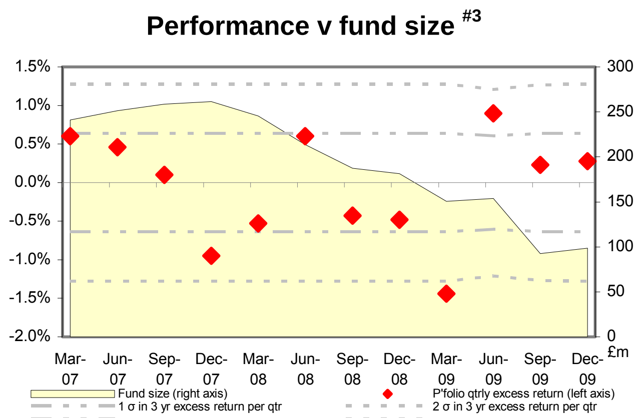
Comments:

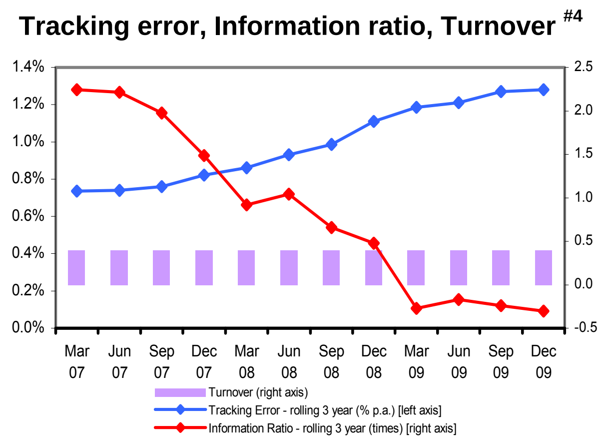
- Over the last quarter the Fund outperformed the benchmark by 0.4%, producing an absolute return of 0.8%.
- Over the last year the Fund outperformed the benchmark by 1.4%, producing an absolute return of 21.1%.
- As an enhanced indexation fund, it has followed the index fairly closely in most of the last 12 quarters. After two quarters of underperformance, the Fund modestly outperformed the benchmark, giving a reasonable 1 year outperformance. Stock selection has been the primary driver of relative performance, continuing to account for approximately 90% of relative performance.
- The volatility of monthly relative returns remained fairly constant over the last year. As an enhanced indexation fund the magnitude of the volatility is very low.
- Turnover remains consistent, while the number of stocks in the Fund remains at approximately 250, which reduces stock specific risk through diversification.
- Given its reasonable return and low risk this Fund would appear to be suitable for new contributions or suitable for investment if rebalancing is required into active overseas equities subject to the strategic benchmark constraints.

SSgA - Pacific incl. Japan Equities (Enhanced Indexation)









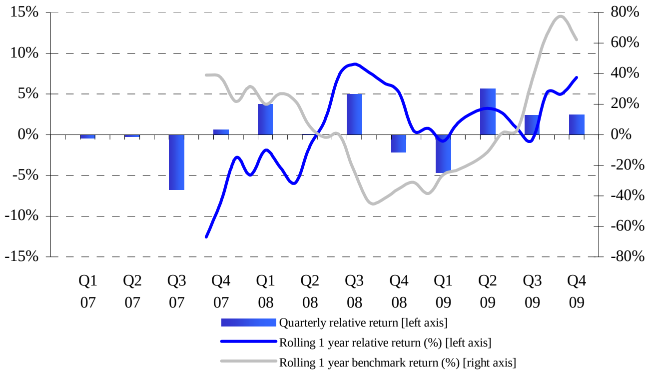
Source: Data provided by WM Performance Services, and SSgA

Comments:

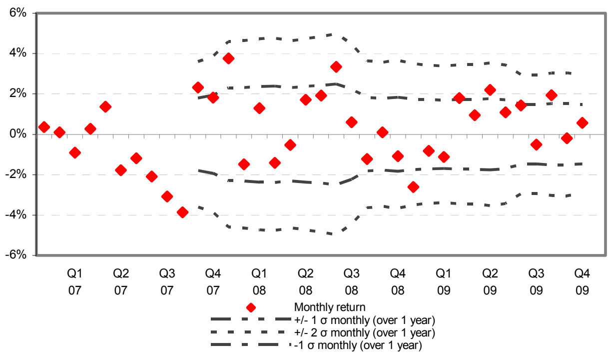
- Over the last quarter the Fund outperformed the benchmark by 0.3%, producing an absolute return of 0.2%.
- Over the last year the Fund underperformed the benchmark by 0.4%, producing an absolute return of 13.4%.
- Similar to the other SSgA portfolio, stock selection has been the primary driver of relative performance over the year, accounting for approximately 90% of relative performance.
- Turnover remains consistent, while the number of stocks in the Fund has remained at a higher than historical 450, which reduces stock specific risk through diversification, although could dampen alpha generation.
- The industry allocation is very close to the benchmark allocation, as would be expected of an enhanced indexation fund, with all standard ICB industry sectors within 0.2% of the benchmark allocation.
- Given its reasonable return and low risk this Fund would also appear to be suitable for new contributions or suitable for investment if rebalancing is required.

Genesis Asset Managers – Emerging Market Equities

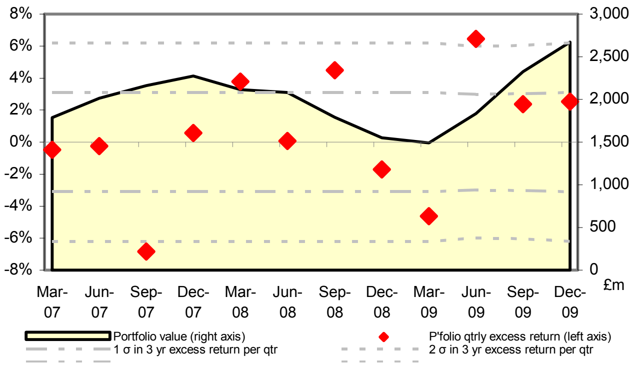
Relative returns #1



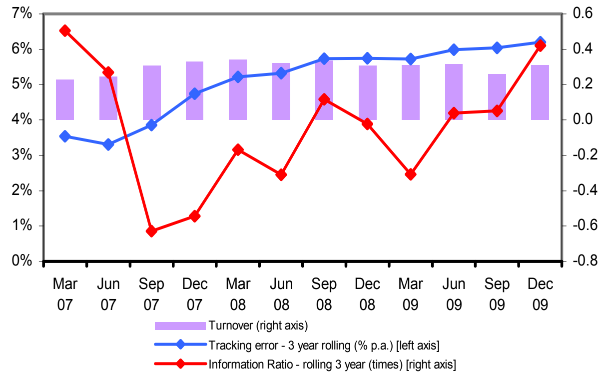
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



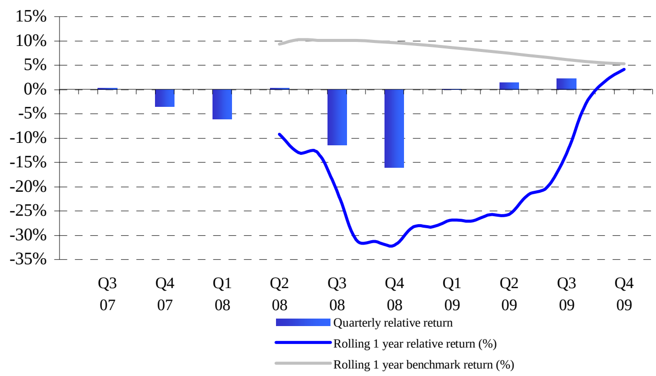
Source: Data provided by WM Performance Services, and Genesis

Comments:

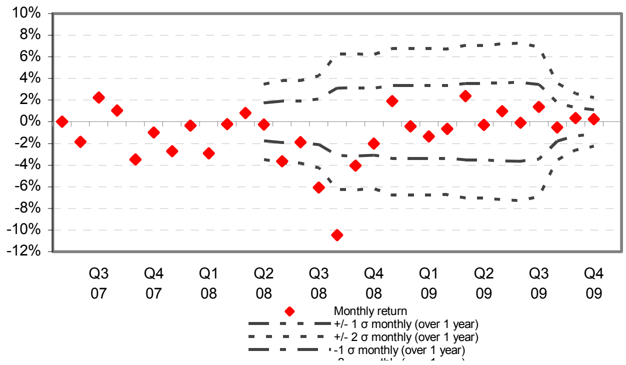
- Over the last quarter the Fund outperformed the benchmark by 2.5%, producing an absolute return of 10.0%.
- Over the last year the Fund outperformed the benchmark by 7.0%, producing an absolute return of 69.2%.
- The Fund continues to be overweight South Africa and Russia, and underweight China, South Korea and Brazil. Please note that the over and underweights are a result of Genesis' stock picking approach, rather than taking a view on countries.
- Note that the China underweight is partly due to the restrictions on non-local investors.
- The 3 year tracking error (proxy for risk) rose slightly over the quarter. Similarly the 3 year information ratio (risk adjusted return) rose significantly.
- On an industry basis, the Fund remains considerably overweight in Consumer Staples (+8.1%) and underweight Information Technology (-4.7%) and Energy (-3.1%).

Lyster Watson Management Inc – Fund of Hedge Funds

Relative returns #1

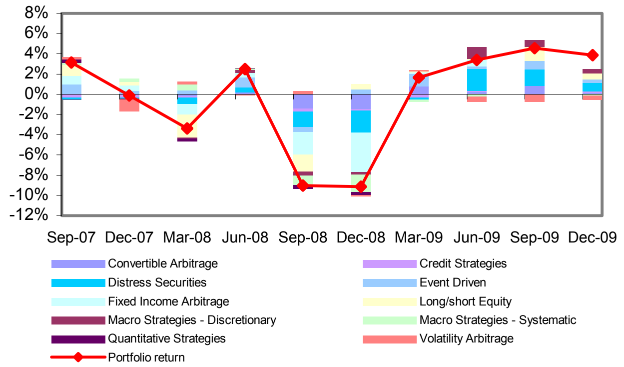


Monthly relative returns #2

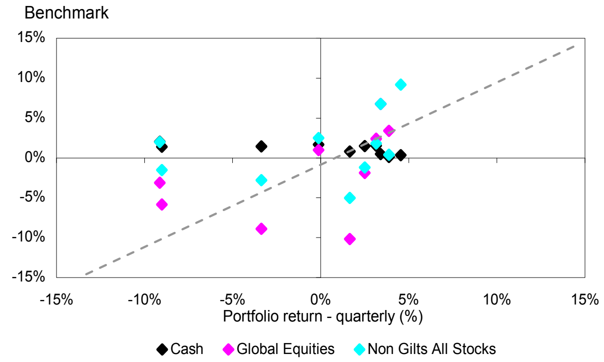


note: Q3 2007 is only a partial period of investment

Hedge fund strategies and source of return #6



Correlation with indices #7



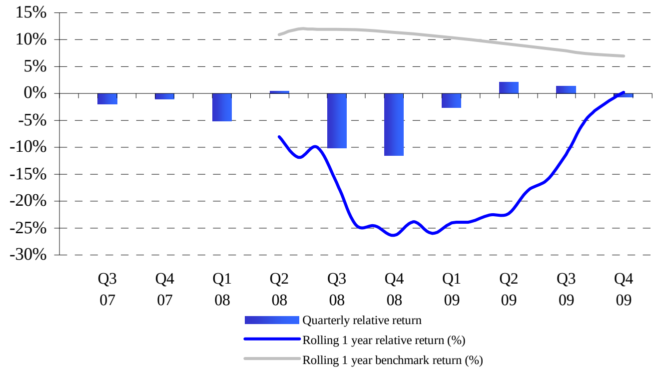
Source: Data provided by WM Performance Services, and Lyster Watson

Comments:

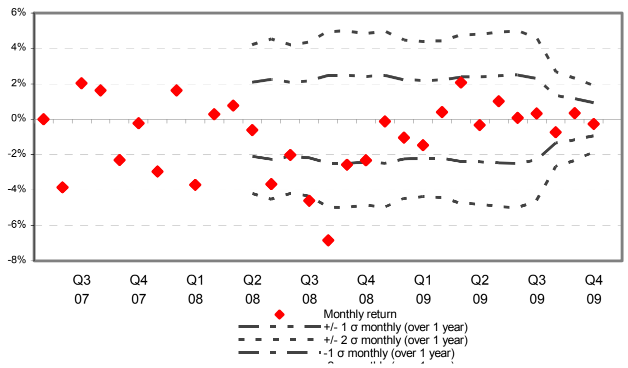
- Over the last quarter the Fund outperformed the benchmark by 0.1%, producing an absolute return of 1.3%.
- Over the last year the Fund outperformed the benchmark by 4.2%, producing an absolute return of 9.4%.
- The key driver of the Fund's positive absolute return over the quarter has been the allocation to Distressed Securities and Long/Short Equity strategies. The key detractor from performance was the allocation to Volatility Arbitrage.
- The Fund has a diverse exposure to hedge fund strategies, although 48% is made up of Distressed Securities and Long/Short Equity strategies.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

MAN – Fund of Hedge Funds

Relative returns #1

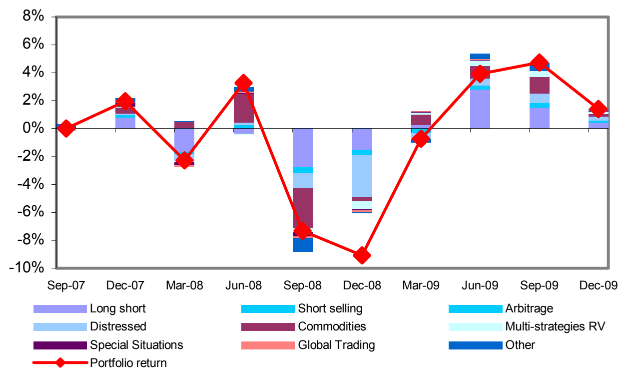


Monthly relative returns #2

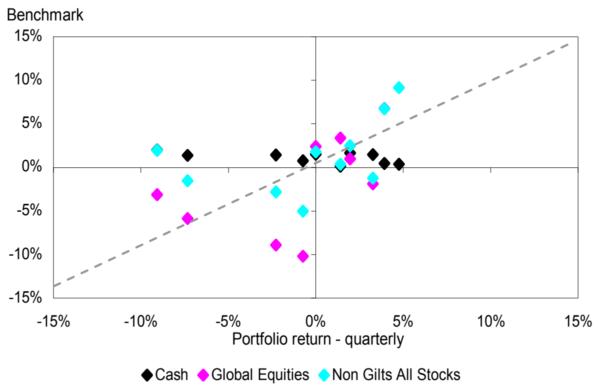


note: Q3 2007 is only a partial period of investment

Hedge fund strategies and source of return #6



Correlation with indices #7



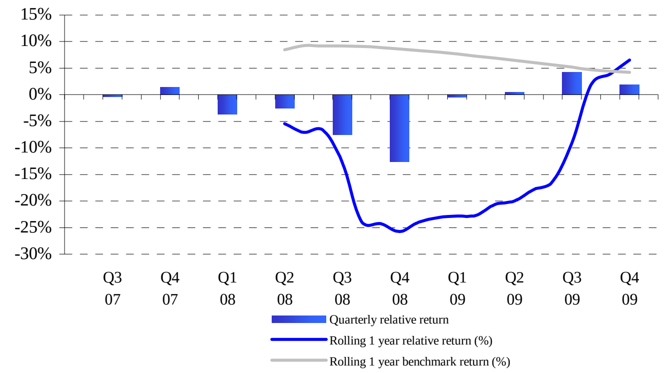
Source: Data provided by WM Performance Services, and MAN

Comments:

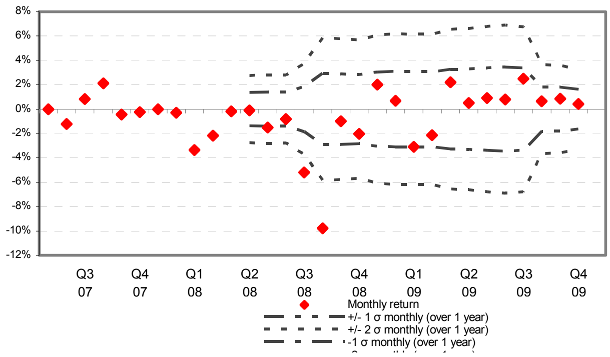
- Over the last quarter the Fund underperformed the benchmark by 0.6%, producing an absolute return of 0.9%.
- Over the last year the Fund outperformed the benchmark by 0.3%, producing an absolute return of 7.2%.
- The key driver of performance was the high allocation to Long/Short Emerging Markets, Distressed Securities and Commodities which again performed well over the quarter.
- The Fund has a diverse exposure to hedge fund strategies, although 65% is made up of Long/Short and Commodities strategies.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

Signet – Fund of Hedge Funds

Relative returns #1

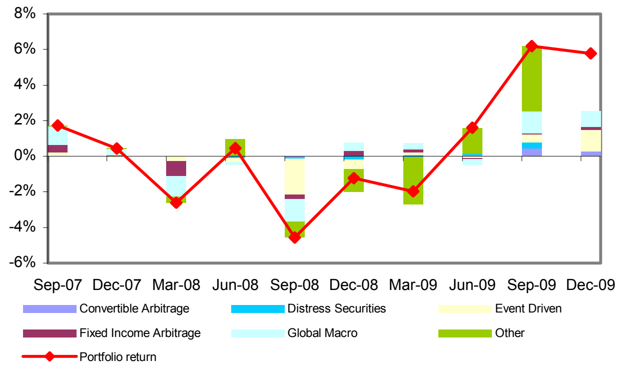


Monthly relative returns #2

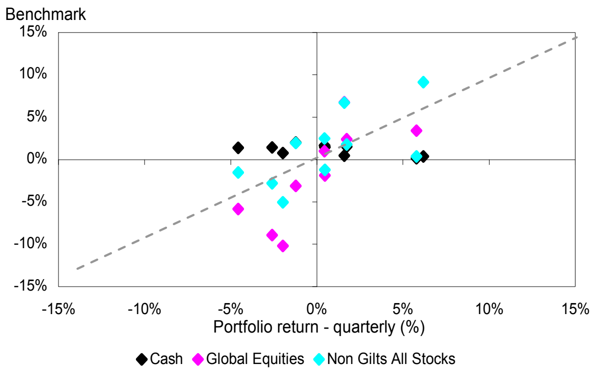


note: Q3 2007 is only a partial period of investment

Hedge fund strategies and source of return #6



Correlation with indices #7



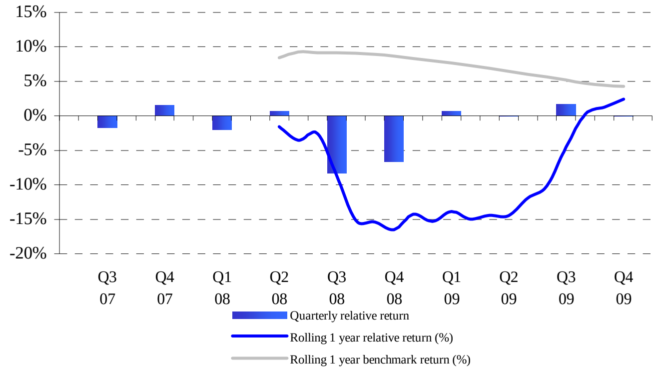
Source: Data provided by WM Performance Services, and Signet

Comments:

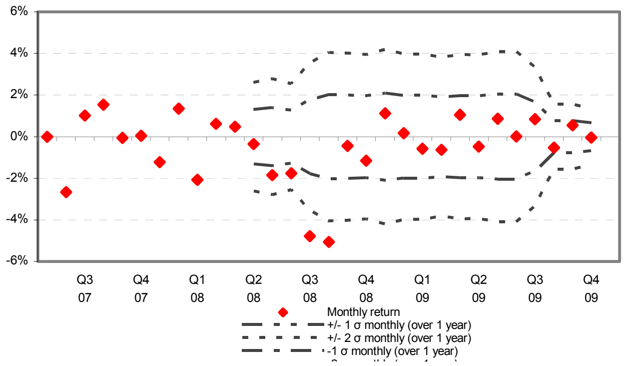
- Over the last quarter the Fund outperformed the benchmark by 2.0%, producing an absolute return of 2.8%.
- Over the last year the Fund outperformed the benchmark by 6.6%, producing an absolute return of 10.8%.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifiers to the Avon Pension Fund's other asset classes.

Stenham – Fund of Hedge Funds

Relative returns #1

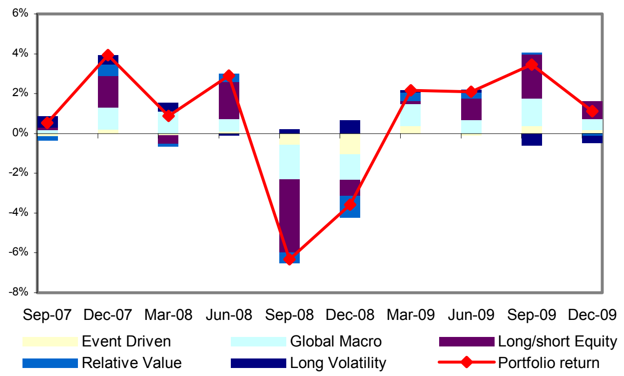


Monthly relative returns #2

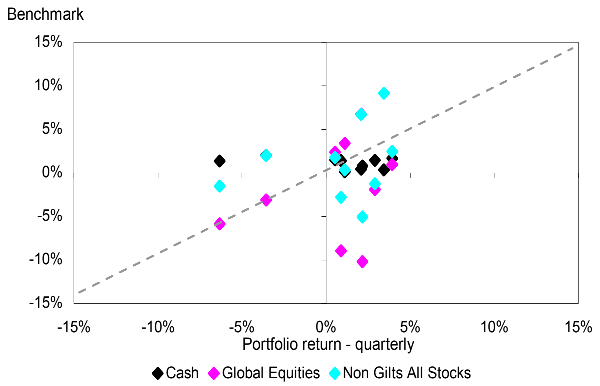


note: Q3 2007 is only a partial period of investment

Hedge fund strategies and source of return #6



Correlation with indices #7



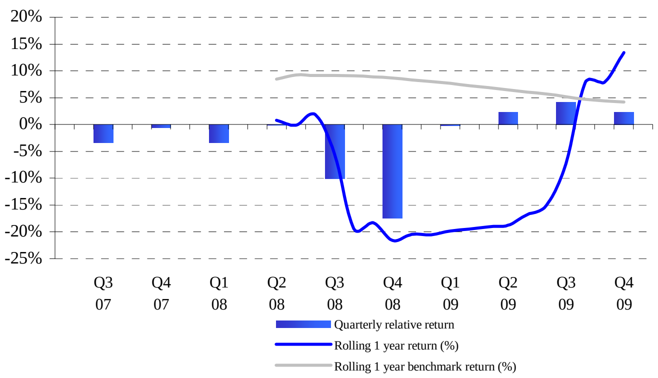
Source: Data provided by WM Performance Services, and Stenham

Comments:

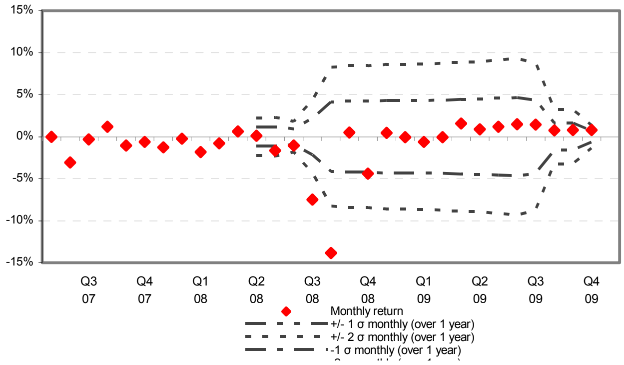
- Over the last quarter the Fund performed in line with the benchmark, producing an absolute return of 0.9%.
- Over the last year the Fund outperformed the benchmark by 2.4%, producing an absolute return of 6.7%.
- The key driver of performance was the high allocation to Global Macro and Long/Short Equity strategies which performed very strongly over the quarter. However, their Relative Value and Long Volatility strategy produced a negative return for the quarter.
- The allocation to the Global Macro and Long/Short Equity strategies made up 68% of the total Fund allocation. There was also a 10% cash holding, moderating performance.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

Gottex – Fund of Hedge Funds

Relative returns #1

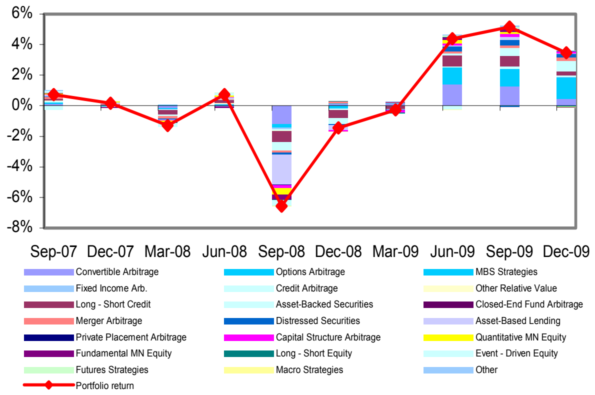


Monthly relative returns #2

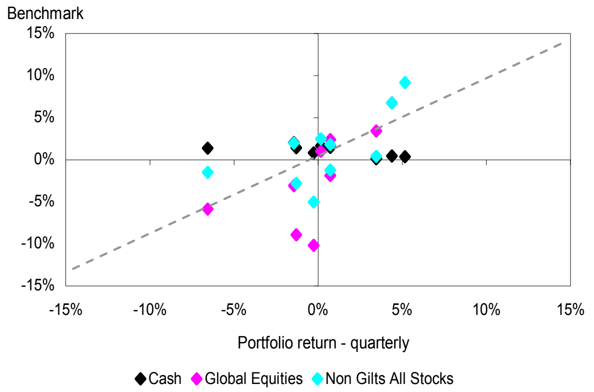


note: Q3 2007 is only a partial period of investment

Hedge fund strategies and source of return #6



Correlation with indices #7

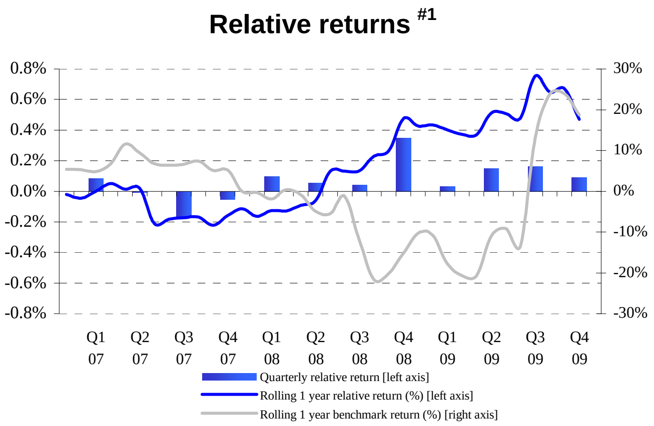


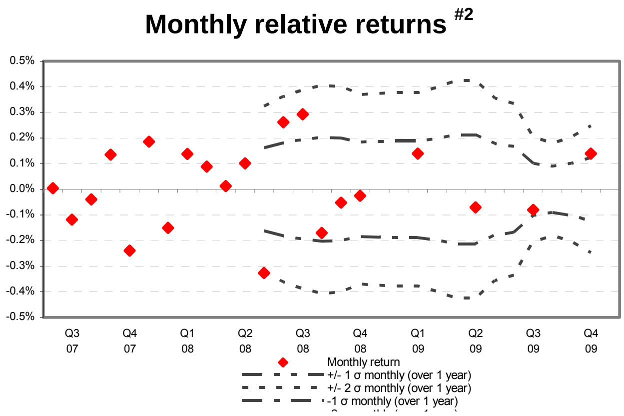
Source: Data provided by WM Performance Services, and Gottex

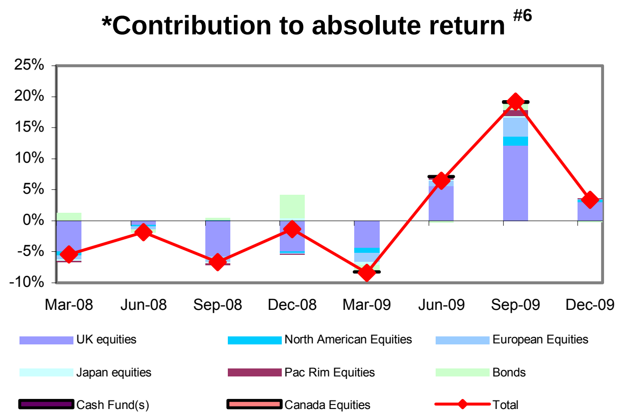
Comments:

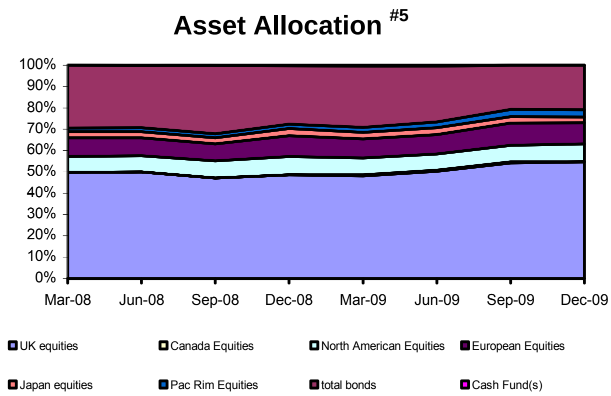
- Over the last quarter the Fund outperformed the benchmark by 2.4%, producing an absolute return of 3.3%.
- Over the last year the Fund outperformed the benchmark by 9.2%, producing an absolute return of 13.4%.
- The key drivers of performance were Convertible Arbitrage, Asset Backed Securities and Mortgage Backed Securities.
- The Fund has a diverse range of strategy exposures, with the major exposures being Convertible Arbitrage, Long-Short Credit and MBS Strategies. It also has a relatively large, but reducing, allocation to cash at 7.5%.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

BlackRock - Passive Multi-Asset







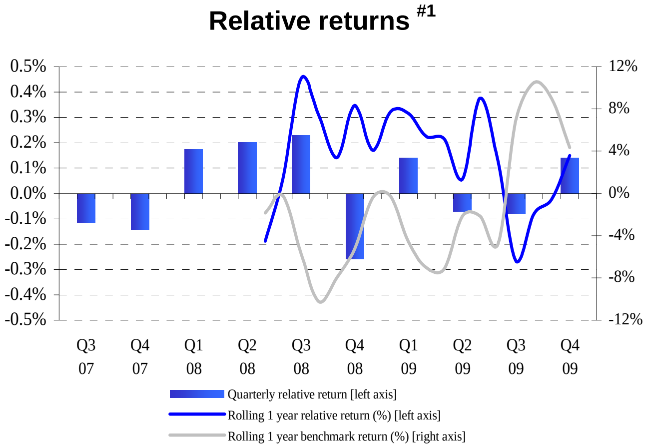


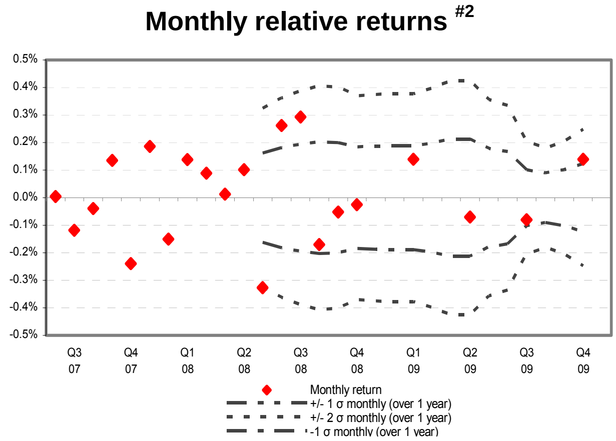
Source: Data provided by WM Performance Services, and BlackRock

Comments:

- Over the last quarter the Fund outperformed the benchmark by 0.1%, producing an absolute return of 3.2%.
- Over the last year the Fund outperformed the benchmark by 0.5%, producing an absolute return of 19.2%.
- Being a passive mandate, with a customised benchmark based on the monthly mean fund weights, there is nothing unusual arising in risk and performance.
- The portfolio has outperformed its benchmark for the last 9 consecutive quarters, though being passively managed the outperformance has been marginal. This is positive as it indicates minimal relative risk in the portfolio.
- The magnitude of the relative volatility in the portfolio is very small.
- There was no significant change in allocation over the year.

BlackRock No.2 – Property account ("ring fenced" assets)





note: Q3 2007 is only a partial period of investment

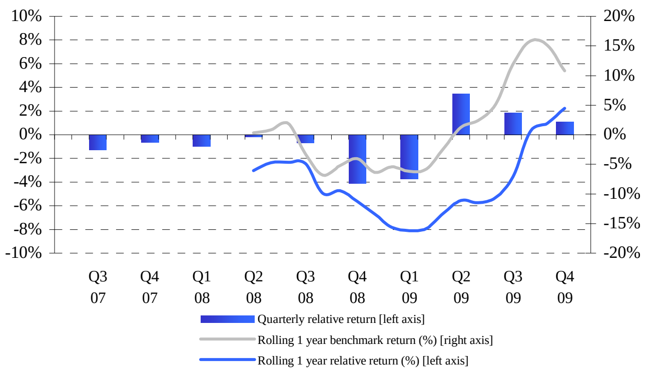
Source: Data provided by WM Performance Services, and BlackRock

Comments:

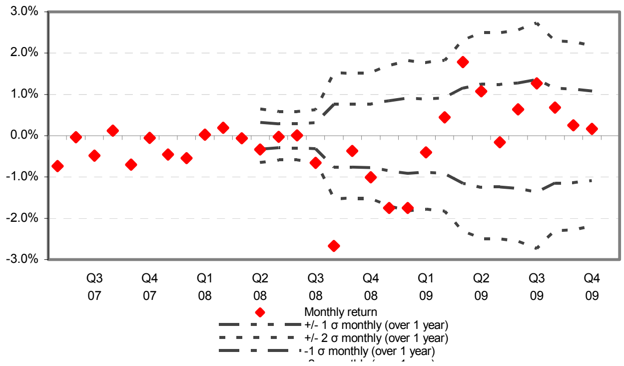
- Over the last quarter the Fund outperformed the benchmark by 0.1%, producing an absolute return of 0.1%.
- Over the last year the Fund outperformed the benchmark by 0.2%, producing an absolute return of 4.5
- Given its high cash element, the Fund has produced a relatively low absolute return. Over the last year it has produced a return very close to the benchmark.
- The portfolio has outperformed its benchmark for the last 9 consecutive quarters, though being passively managed the outperformance has been marginal. This is positive as it indicates minimal relative risk in the portfolio.
- The magnitude of the relative volatility in the portfolio is very small.
- There was no significant change in allocation over the year.

Royal London Asset Management – Fixed Interest

Relative returns [#1]

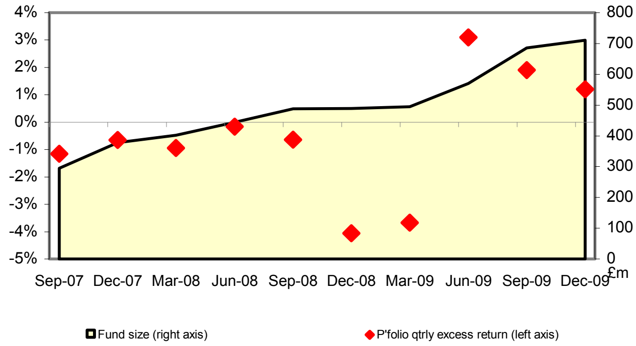


Monthly relative returns [#2]

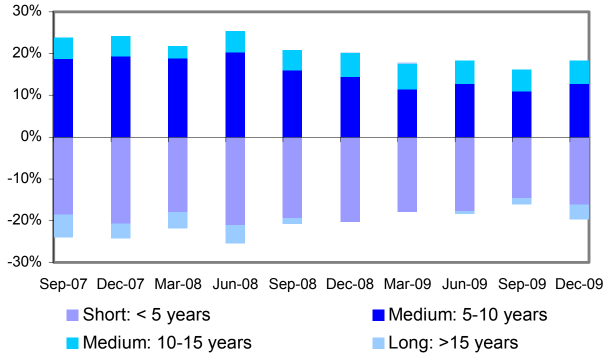


note: Q3 2007 is only a partial period of investment

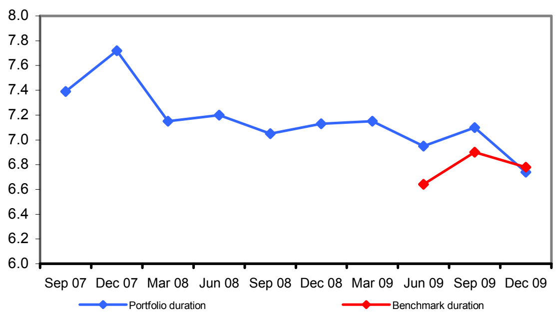
Performance v fund size [#3]



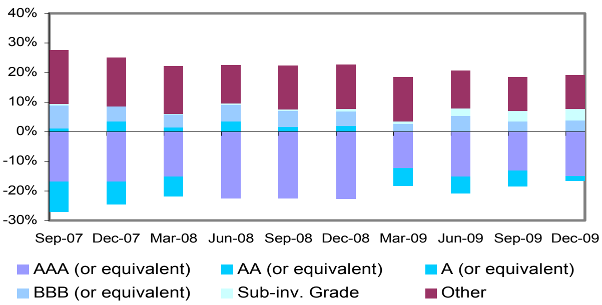
Relative Maturity exposure [#8]



Duration [#10]



Relative Ratings exposure [#9]



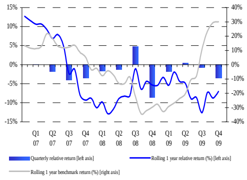
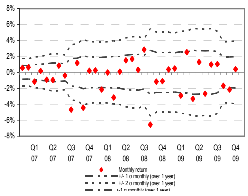
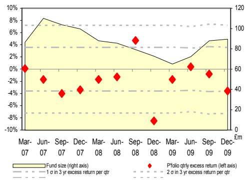
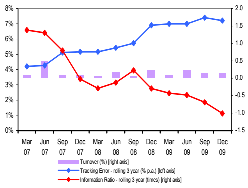
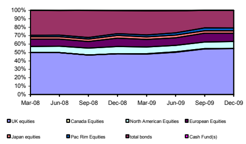
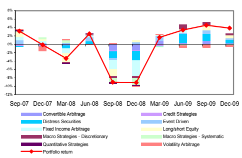
Source: Data provided by WM Performance Services, and RLAM

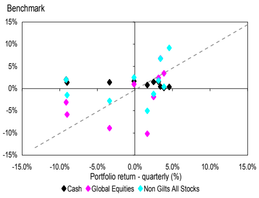
Comments:

- Over the last quarter the Fund outperformed the benchmark by 1.1%, producing an absolute return of 1.6%.
- Over the last year the Fund outperformed the benchmark by 2.2%, producing an absolute return of 13.0%.
- The Fund achieved a positive relative return over the last quarter. The driver of performance – a high allocation (22%) to BBB, sub-investment and unrated bonds.
- The Fund is considerably overweight in medium term maturity bonds, and underweight short maturity bonds.

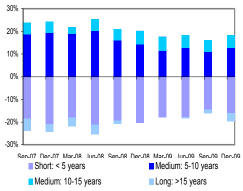
Appendix A - Glossary of Charts

The following provides a description of the charts used in Section 5 and a brief description of their interpretation.

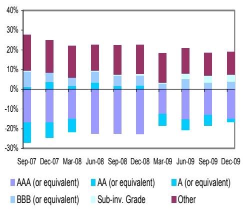
Reference		***Description***
#1		This chart shows the quarterly relative return (blue bars) and rolling 1 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 1 year benchmark absolute return (grey line) is overlayed to provide a context for relative performance, e.g. consistent underperformance in a falling market.
#2		This chart shows the relative monthly returns for 3 years/since inception. It shows the level of fluctuation about the zero axis, i.e. the level of volatility of monthly returns and any tendency for positive or negative returns. The dotted lines show the standard deviation of returns over 1 year periods - this is a standard measure of risk which shows the magnitude of fluctuations of monthly returns. Under common **assumptions**, being within the inside dotted lines (i.e. 1 standard deviation) is roughly likely to occur 2/3rds of the time, while being within the outside lines is roughly likely to occur 1 in 20 times (i.e. 2 standard deviation - which is considered unlikely).
#3		This chart shows the relative performance on a quarterly basis. The dotted lines show the standard deviation of returns for a quarter - based on the 31 March 2009 3 year standard deviation. (See #2 above for further detail on interpretation). The total size of the underlying fund is overlayed in yellow (portfolio value in blue) to identify any trend in diminished performance with increasing fund (portfolio) size, as sometimes observed.
#4		This chart shows the 3 year annualised tracking error (this is the standard deviation of returns which shows the magnitude of the fund returns compared to the benchmark) and the 3 year information ratio (this is the excess return divided by the tracking error). If tracking error increases, the risk taken away from the benchmark increases, and we would expect an increase in the excess return over time (albeit more variable). The turnover is provided to show if any increase in risk is reflected in an increase in the level of active management, i.e. purchases/sales in the portfolio.
#5		This chart shows the absolute asset allocation or hedge fund strategy allocation over time. This helps to identify any significant change or trends over time in allocation to particular asset allocations/hedge fund strategies.
#6		These charts show the breakdown of the return provided by each of the different hedge fund strategies or asset classes over time - this provides a profile of where the returns come from, and should be compared with the volatility chart above to see if risk taken is being rewarded accordingly. The total portfolio return is also shown.

#7 

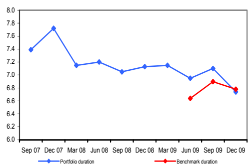
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance. This is to highlight any apparent correlation between the fund returns and any particular index. If a fund is used as a diversifier from, say equities, we would expect to see a lack of returns plotted close to the diagonal line.

#8 

This chart shows the holding in short, medium and long maturity bonds relative to the benchmark. Over/underweight positions expose the fund to changes in the yield curve at different terms.

#9 

This chart shows the holding in bonds with different credit ratings. AAA is the highest grading (usually for government or supranational organisation bonds) while below BBB is sub-investment grade and has a considerably higher risk of default. The lower the grade the higher the risk and therefore the higher the return expected on the bond.

#10 

This chart shows the duration of the fund against the benchmark duration. It shows whether the fixed interest fund manager is taking duration bets against the benchmark.

Appendix B - Summary of Mandates

Manager	Mandate	Benchmark	Outperformance target (p.a.)
Jupiter	UK Equities (Socially Responsible Investing)	FTSE All Share	+2%
TT International	UK Equities (Unconstrained)	FTSE All Share	+3-4%
Invesco	Global ex-UK Equities Enhanced (En. Indexation)	MSCI World ex UK NDR	+0.5%
SSgA	Europe ex-UK Equities (Enhanced Indexation)	FTSE AW Europe ex UK	+0.5%
SSgA	Pacific inc. Japan Equities (Enhanced Indexation)	FTSE AW Dev Asia Pacific	+0.5%
Genesis	Emerging Market Equities	MSCI EM IMI TR	-
Lyster Watson	Fund of Hedge Funds	3M LIBOR + 4%	+0-2%
MAN	Fund of Hedge Funds	3M LIBOR + 5.75%	+0-0.25%
Signet	Fund of Hedge Funds	3M LIBOR + 3%	+1-3%
Stenham	Fund of Hedge Funds	3M LIBOR + 3%	+1-3%
Gottex	Fund of Hedge Funds	3M LIBOR + 3%	+1-3%
BlackRock	Passive Multi-asset	In line with customised benchmarks using monthly mean fund weights	0%
BlackRock	Overseas Property	Customised benchmarks using monthly mean fund weights	0%
RLAM	UK Corporate Bond Fund	iBoxx £ non-Gilts all maturities	+0.8%
Schroder	UK Property	IPD UK pooled	+1.0%
Partners	Global Property	IPD Global pooled	+2.0%
Cash	Internally Managed	7 day LIBID	

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