Bath & North East Somerset Council

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Date: 14 November 2011
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To: All Members of the Avon Pension Fund Committee - Investment Panel

Councillor Charles Gerrish (Chair), Councillor Gabriel Batt, Councillor Nicholas Coombes, Councillor Mary Blatchford, Bill Marshall and Ann Berresford

Chief Executive and other appropriate officers
Press and Public

Dear Member

Avon Pension Fund Committee - Investment Panel: Tuesday, 22nd November, 2011

You are invited to attend a meeting of the **Avon Pension Fund Committee - Investment Panel**, to be held on **Tuesday, 22nd November, 2011** at **3.00 pm** in the **Council Chamber - Guildhall, Bath.**

A buffet lunch for Members will be served at 1pm. After lunch a "Meet the Manager Workshop" will be held. Details of this will be sent separately.

The agenda is set out overleaf.

Yours sincerely

Sean O'Neill
for Chief Executive

If you need to access this agenda or any of the supporting reports in an alternative accessible format please contact Democratic Services or the relevant report author whose details are listed at the end of each report.

This Agenda and all accompanying reports are printed on recycled paper

NOTES:

1. **Inspection of Papers:** Any person wishing to inspect minutes, reports, or a list of the background papers relating to any item on this Agenda should contact Sean O'Neill who is available by telephoning Bath or by calling at the Riverside Offices Keynsham (during normal office hours).

2. **Public Speaking at Meetings:** The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group. Advance notice is required not less than two full working days before the meeting (this means that for meetings held on Wednesdays notice must be received in Democratic Services by 4.30pm the previous Friday)

   The public may also ask a question to which a written answer will be given. Questions must be submitted in writing to Democratic Services at least two full working days in advance of the meeting (this means that for meetings held on Wednesdays, notice must be received in Democratic Services by 4.30pm the previous Friday). If an answer cannot be prepared in time for the meeting it will be sent out within five days afterwards. Further details of the scheme can be obtained by contacting Sean O'Neill as above.

3. **Details of Decisions taken at this meeting** can be found in the minutes which will be published as soon as possible after the meeting, and also circulated with the agenda for the next meeting. In the meantime details can be obtained by contacting Sean O'Neill as above.

   Appendices to reports are available for inspection as follows:-

   Public Access points - Riverside - Keynsham, Guildhall - Bath, Hollies - Midsomer Norton, and Bath Central, Keynsham and Midsomer Norton public libraries.

   For Councillors and Officers papers may be inspected via Political Group Research Assistants and Group Rooms/Members' Rooms.

4. **Attendance Register:** Members should sign the Register which will be circulated at the meeting.

5. THE APPENDED SUPPORTING DOCUMENTS ARE IDENTIFIED BY AGENDA ITEM NUMBER.

6. **Emergency Evacuation Procedure**

   When the continuous alarm sounds, you must evacuate the building by one of the designated exits and proceed to the named assembly point. The designated exits are sign-posted.

   Arrangements are in place for the safe evacuation of disabled people.

Avon Pension Fund Committee - Investment Panel - Tuesday, 22nd November, 2011

at 3.00 pm in the Council Chamber - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

   The Chair will draw attention to the emergency evacuation procedure as set out under Note 9.

2. DECLARATIONS OF INTEREST

   Members who have an interest to declare are asked to state:

   (a) the Item No in which they have an interest;
   (b) the nature of the interest; and
   (c) whether the interest is personal or personal and prejudicial.

   Any Member who is unsure about the above should seek the advice of the Monitoring Officer prior to the meeting in order to expedite matters at the meeting itself.

3. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

   To receive any declarations from Members of the Committee and Officers of personal/prejudicial interests in respect of matters for consideration at this meeting, together with their statements on the nature of any such interest declared.

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

5. ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

6. ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

   To deal with any petitions or questions from Councillors and, where appropriate, co-opted and added members.

7. MINUTES: 7 SEPTEMBER 2011 (Pages 5 - 8)

8. REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 SEPT 2011 (Pages 9 - 86)

   Members are invited to consider the reasons for and against disclosure as set out in the public interest test document attached to the report, and then to pass the following resolution before discussing Appendices 3 and 5:

   "Having been satisfied that the public interest would be better served by not disclosing relevant information, the Committee resolves that, in accordance with the provisions of

Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting for these items because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended."

9. SSGA POOLED FUNDS (Pages 87 - 96)

Members are invited to consider the reasons for and against disclosure as set out in the public interest test document, and then to pass the following resolution before discussing this item:

"Having been satisfied that the public interest would be better served by not disclosing relevant information, the Committee resolves that, in accordance with the provisions of Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting for this item of business because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended."

10. PANEL WORKPLAN (Pages 97 - 100)

The Committee Administrator for this meeting is Sean O'Neill who can be contacted on
.

Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE - INVESTMENT PANEL

Minutes of the Meeting held

Wednesday, 7th September, 2011, 9.30 am

Members: Councillor Charles Gerrish (Chair), Councillor Mary Blatchford, Andy Riggs (Reserve) (In place of Bill Marshall) and Ann Berresford
Advisors: Tony Earnshaw (Independent Advisor) and John Finch (JLT Investment Consultancy)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Feinstein (Investments Manager) and Matthew Betts (Assistant Investments Manager)

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

2 DECLARATIONS OF INTEREST

There were none.

3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Gabriel Batt, Councillor Nicholas Coombes and Bill Marshall, for whom Andy Riggs substituted.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

5 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

There were none.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

7 MINUTES: 12 JANUARY 2011

These were approved as a correct record and signed by the Chair.

8 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 JUNE 2011

The Assistant Investments Manager said that although investment report was presented quarterly, it was the yearly and three-yearly performance that was significant for the Fund. Over the year the Fund had earned a return of 16.5%, with positive returns across all asset classes, especially equities. In aggregate the managers had marginally underperformed their benchmarks over the year with underperformance from Jupiter, TT, Stenham and Lyster Watson offsetting positive performance elsewhere in the portfolio. Over the quarter there had been a return of 1.5%, which was in line with the benchmark.

There were three strategic issues to be noted:

1. The implementation of the currency hedging programme had commenced in July with the appointment of Record as the active currency hedging manager.

2. The changes to the hedge fund allocations approved by the Committee had been implemented.

3. Exposure of the Fund to Euro and European financials. This was summarised in Appendix 3 of the report, an updated version of which was tabled.

The Actuary's quarterly estimate of the funding level of the Fund was 82% as at 30 June 2011.

The Assistant Investments Manager clarified that "ESG" in paragraph 8.2 stood for "environmental, social and governance".

The Investments Manager said that as the actuary's estimate of funding level was only received at the end of each quarter, the impact of the latest market turbulence, with yields on gilts at their lowest for a century, was not yet known.

Mr Finch presented the JLT investment review. He said that the report was already outdated to a greater extent than usual, because of market turbulence since 30 June. For example, the report refers to yields on long-term gilts of over 4%, whereas the previous day they had been down to 3.5-3.6%. Current yields on gilts were unprecedented. Markets were concerned that interest rates were likely to remain low for some time. Some time ago fears had been expressed that the UK's credit rating might be downgraded, but since then debt crises had emerged in Spain, Greece and Portugal, while the UK had persuaded markets that it was addressing its own debt problems, though the rhetoric about this might be tougher than the reality. The Avon Pension Fund was slightly underweighted in equities, so was maybe slightly better placed than other local authority pension funds. Corporate bonds yields had fallen, but not as much as government bonds, and the differential between corporate and government bond yields had increased.

Page 14 of the JLT report gave a snapshot of allocations and values at 30 June 2011. Since then there had been total disinvestment from Lyster Watson and the allocation to Man had been reduced.

The Chair asked about the statement that because of data timing issues returns for the Partners' portfolio are lagged by a quarter in the performance reports. He was uncomfortable with this, and felt that if the Panel and the Committee were to monitor this portfolio effectively they needed more up-to-date information. He wondered whether Partners could be persuaded to release information earlier, or whether there were alternative sources of information. The Investments Manager explained that information from Partners is not received in time for WM to calculate the performance statistics in time for the Panel meetings, which occurred earlier in the quarter than meetings of the full Committee. Members agreed that a verbal report on Partners performance will be required at meetings of the Panel and Committee.

Mr Finch highlighted the following issues with the investment managers. Jupiter had underperformed over 12 months, but this was because of the nature of the mandate. JLT had concerns about TT's overall strategy, which the Panel might want to put to them when they attended the workshop later today. The Panel might also wish to consider the recent large drop in the size of SSgA-Europe ex-UK pooled fund. There was no reason to think this would necessarily result in a fall in performance, and the fund was performing well at the moment. With the growth of global mandates, regional funds not as popular with institutional investors. He would have no concerns about the APF being the only investor in the fund, provided that SSgA-Europe was committed to maintain its current mode of operation. It would unwise to change the mandate while performance was good, but the situation should be monitored. A dip in performance might indicate that it was time to review APF's allocation in this fund.

Mr Finch drew attention to the graph of TT's relative returns on page 25 of the JLT report, which showed a rolling three-year deterioration. He suggested that the workshop should focus on this, what they were doing to address it, and whether they were making appropriate adjustments in response to current economic conditions.

A Member asked about the reliance of investment managers on computer models. Mr Finch replied that TT was an active manager, using fundamental analysis rather than quantitative modelling and had used a valuation matrix for many years. It was vital for investment managers to consider which companies were likely to do well in the current economic climate. It was unlikely that there would be a strong recovery, but some companies would do well, and when some of the present uncertainties had abated it was quite likely that there would be a spate of mergers and acquisitions. SSgA uses quantitative models with limited managers' judgement.

RESOLVED

1. To note the Fund's return on investments and details of managers' performance as set out in the report.

2. To bring to the attention of the Avon Pension Fund Committee (as recorded in the Performance Report in a later agenda item):

    a. The Panel's request that Officers verbally update the Panel and Committee on the latest performance of Partners where necessary.

    b. The Panel's intention to invite SSgA to the next Investment Panel meeting to allow the Panel to fully assess the current situation with regard to the overall size of the SSgA pooled funds in which the Fund is invested.

The meeting ended at 10.30 am

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

Bath & North East Somerset Council		
MEETING:	**Avon Pension Fund Investment Panel**	
MEETING DATE:	**22 NOVEMBER 2011**	**AGENDA ITEM NUMBER**
TITLE:	**Review Of Investment Performance For Periods Ending 30 Sept 2011**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Appendix 1 – Fund Valuation

Appendix 2 – JLT performance monitoring report

Exempt Appendix 3 – TT Peer Group Analysis

Appendix 4 – BlackRock letter on Corporate Governance activity

Exempt Appendix 5 – Summaries of Investment Panel meetings with Investment Managers

Appendix 6 - Euro and European Financials exposure

1 THE ISSUE

1.1 This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic areas concerning the Fund's investments.

1.2 This report contains performance statistics for periods ending 30 Sept 2011.

1.3 The main body of the report comprises the following sections:

Section 4. Investment Performance: A - Fund, B - Investment Managers.

Section 5. Investment Strategy

Section 6. Funding Level Update

Section 7. Portfolio Rebalancing and Cash Management

Section 8. Corporate Governance and Socially Responsible Investment (SRI) Update

2 RECOMMENDATION

That the Avon Pension Fund Committee:

2.1 Notes the information as set out in the report.

3 FINANCIAL IMPLICATIONS

3.1 The returns achieved by the Fund for the three years commencing 1 April 2010 will impact the next triennial valuation which will be calculated as at 31 March 2013. Section 6 of this report discusses the trends in the Fund's liabilities and the funding level.

4 INVESTMENT PERFORMANCE

4.1 JLT's report in Appendix 2 provides a full commentary on the performance of the fund (pages 10 to 15), the investment managers (pages 16 to 36) and a commentary on investment markets (pages 5 to 7). In the section on the Fund (page 10), three year rolling returns are included to provide a longer term perspective.

A – Fund Performance

4.2 The Fund's assets decreased in value by £4m (-0.2%) over the previous 12 months and by £213m (-7.9%) in the quarter, giving a value for the investment Fund of £2,488m at 30 Sept 2011. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.

4.3 The Fund's investment return and performance relative to benchmarks is summarised in Table 1.

Table 1: **Fund Investment Performance, periods to 30 Sept 2011**

	3 months	12 months	3 years (p.a.)
Avon Pension Fund	-7.9%	-0.8%	6.7%
Strategic benchmark *(Fund relative to benchmark)*	-8.5% *(+0.6%)*	-1.3% ***(+0.5%)***	5.6% *(+1.1%)*
Customised benchmark *(Fund relative to benchmark)*	-8.0% *(+0.1%)*	-0.8% ***(=)***	7.2% *(-0.5%)*
Local Authority Average Fund *(Fund relative to benchmark)*	-9.3% *(+1.4%)*	-1.2% ***(+0.4%)***	5.9% *(+0.8%)*

4.4 **Avon Pension Fund**: Quarterly return driven by negative returns from all equity markets, which offset positive returns from bonds and property with hedge funds producing a zero absolute return. Annual return driven by same factors, with the only exception being small positive returns in Japanese and North American equity markets over the year.

4.5 **Versus Strategic Benchmark (which reflects an allocation of 60% equities, 20% bonds, 10% property, 10% hedge funds):** Quarterly relative outperformance driven by Fund benefitting from being overweight bonds (versus the benchmark) and the overseas equity and hedge fund managers outperforming their industry benchmarks. Annual outperformance resulted from being overweight bonds and from the Fund's overseas equity managers outperforming industry benchmark returns over the year.

4.6 **Versus Customised Benchmark (which reflects the individual benchmarks of each manager and as such, measures the relative performance of the managers as a whole):** Underperformed the benchmark over the year, with underperformance of TT, Schroder Equity and 3 hedge fund managers more than offsetting outperformance by Jupiter, Invesco, Genesis and Partners. The other managers performed broadly in line with their benchmarks.

4.7 **Versus Local Authority Average Fund**: Annual relative outperformance driven by Fund's lower than average allocation to equities which performed negatively over the year, and higher than average allocation to hedge funds and property which provided protection from equity losses. A small overweight position in bonds which performed well also added to the outperformance.

4.8 Since the end of September global equity markets have been volatile but have recovered slightly with the FTSE All Share index rising by c. 6% (to 10 November). In contrast, the total return for the Over 15-year Gilt index was c. 7% during the same period. The Fund value is estimated to be c. £2.49bn, marginally higher than at 30 Sept 2011. These market moves impact the funding position and this is discussed in Section 6 below.

B – Investment Manager Performance

4.9 A detailed report on the performance of each investment manager has been produced by JLT – see pages 16 to 36 of Appendix 2. Their report does not identify any additional performance issues with the managers.

4.10 Further to the presentation by TT to the Panel on Sept 7 and a period of disappointing performance, Exempt Appendix 3 provides a peer group analysis of performance and risk. The analysis concludes that:

(1) TT's active decisions appear consistent with its peers;

(2) TT are managing the portfolio in a way that is consistent with the mandate; and

(3) There are areas for further analysis at the next presentation by TT in February 2012

4.11 In response to a request from members following BlackRock's presentation to the Investment Panel on 7 Sept, BlackRock have provided a letter (attached at Appendix 4) setting out the activity they undertake on the Fund's behalf on corporate governance issues with investee companies.

4.12 During the quarter Man have commenced a reduction in the number of underlying managers in their portfolio. This is in line with the recommendations following the review of hedge funds in March 2011.

4.13 As part of the on-going "Meet the Managers" programme, the Investment Panel received presentations from 3 managers in a workshop on October 20: RLAM, SSgA and Invesco. The summaries of these meetings are in Exempt Appendix 5.

4.14 Performance reporting for Partners is lagged by a quarter. However, the latest estimate for the quarter ending September 30 2011 is 0.6% which is 1.1% behind benchmark.

5 INVESTMENT STRATEGY

5.1 JLT's report notes the current market volatility driven by uncertainty over the Eurozone and suggests that it should be considered whether any changes to asset allocation are appropriate. A briefing note addressing this will be circulated ahead of the meeting. In addition, the analysis of the Fund's exposure to the Euro and to European financial institutions presented at the last Committee meeting has been updated and can be found at Appendix 6.

5.2 The implementation of the active currency hedging programme commenced in July and will be implemented fully within a 12 month timeframe. This quarter currency markets moved in the Fund's favour and the programme successfully passed through the large majority of these currency returns. The costs of the programme had the effect of marginally reducing overall fund return but as expected these costs were significantly less than a 50% passive hedging approach.

6 FUNDING LEVEL UPDATE

6.1 As at 30 Sept 2011 the Actuary has estimated that the funding level has deteriorated to 69%, at 31 March 2010 triennial valuation it was 82%.

6.2 Since the 2010 valuation, the value of the assets has increased by £72m (3%) to £2.5bn, and liabilities increased by £647m (20%) to £3.65bn. As a result the deficit has increased from £552m to £1,130m, with much of the deterioration happening in the last quarter. Note that the revised funding level takes into account benefit payments and contributions received during the period.

6.3 Table 2 shows the change in financial assumptions:

Table 2: **Change in Financial Assumptions**

	31 March 2010	30 June 2011	30 Sept 2011
UK Gilt yield	4.50%	4.30%	3.60%
Real yield	0.70%	0.60%	0.20%
Implied RPI inflation p.a.	3.80%	3.70%	3.40%
Inflation adjustment p.a.	0.80%	0.80%	0.80%
CPI Inflation p.a.	3.00%	2.90%	2.60%

6.4 The reduction in the gilt yield from 4.3% at 30 June to 3.6% at end of September is the reason why liabilities have increased so significantly since June (when liabilities were estimated to be £3.3bn). More positively, implied inflation has fallen by 0.3% in the quarter which has helped offset some of the impact from the reduction in gilt yields. ***It should however be noted that this is just a snapshot of the funding level at a particular point in time.***

6.5 The interim valuation at the Fund level as at 31 March 2011, rolled forward to 30 September will be discussed at the Committee workshop and meeting on 9 December 2011. The Actuary will also discuss the possible implications of the changes to the scheme as a result of the (expected) Hutton proposals and the changes put forward to achieve savings equivalent to 3.2% of contributions.

7 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

7.1 The rebalancing policy requires rebalancing of the Equity/Bond allocation to occur when the equity portion deviates from 75% by +/- 2%, and the valuation metric, in this case the equity gilt yield ratio, confirms that the relative valuation between equities and bonds is favourable. The implementation of this policy is delegated to officers.

7.2 There was no rebalancing undertaken this quarter. As at 31 October 2011 the Equity:Bond allocation was estimated at 72:28. Given the current market volatility and uncertainty over developments in the eurozone, officers have temporarily suspended the rebalancing policy.

Cash Management

7.3 Cash is not included in the strategic benchmark. However, cash is held by the managers at their discretion within their investment guidelines, and internally to meet working requirements. The segregated portfolios, TT, Jupiter, Schroder Equity and BlackRock utilise money market funds offered by the custodian, BNY Mellon. The cash within the pooled funds is managed internally by the manager. The cash managed by BlackRock in the property portfolio is invested in the BlackRock Sterling Liquidity Fund. The officers closely monitor the management of the Fund’s cash held by the managers and custodian with a particular emphasis on the security of the cash.

7.4 Management of the cash held internally by the Fund to meet working requirements is delegated to the Council's Treasury Management Team. The monies are invested separately from the Council's monies and are invested in line with the Fund's Treasury Management Policy which was approved on 18 December 2009. The Fund adopts the Council’s counterparty list and the latest list approved by the Council in February 2011.

8 CORPORATE GOVERNANCE UPDATE

8.1 During the quarter, the Fund’s external managers undertook the following voting activity on behalf of the Fund:

Companies Meetings Voted: 28
Resolutions voted: 495
Votes For: 475 (95.8%)
Votes Against: 20 (4.2%)

8.2 The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a collaborative body that exists to serve the investment interests of local authority pension funds. In particular, LAPFF seeks to maximise the influence the funds have as shareholders through co-ordinating shareholder activism amongst the pension funds. LAPFF’s current activity includes:

(1) **BP Investor update**
One year on from the Macondo oil spill BP updated investors on their risk management strategies, emphasising the changes made to BP's risk management of contractors – investors were reassured by plans for closer and longer term relationships with fewer contractors allowing for deeper due diligence. So far only 2 of the 26 recommendations of the Bly report have been implemented by BP.

(2) **Engagement activity:**

a) News Corp – LAPFF initiated a dialogue with News Corp in June 2010 to address the company's poor governance record. LAPFF has increased its engagement with the company in response to the phone hacking scandal and issued a public statement opposing the re-election of Rupert and James Murdoch. LAPFF will continue engagement and believes News Corp must reform its board.

b) Shell – LAPFF met the Company regarding complaints made by Amnesty International and Friends of the Earth about how Shell manages oil spill risks and engagement in local communities by its business in Nigeria.

c) Premier foods – A meeting was held to discuss improvements in approach to health, nutrition and supply chain matters. Improvements include increased disclosure, better labelling and strategies for reducing salt and fat from products, and the auditing of labour standards at suppliers.

9 RISK MANAGEMENT

9.1 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund and through the selection process followed before managers are appointed. This report monitors the return of the strategic benchmark and the performance of the investment managers. An Investment Panel has been established to consider in greater detail investment performance and related matters and report back to the committee on a regular basis.

10 EQUALITIES

10.1 This report is primarily for information only.

11 CONSULTATION

11.1 This report is primarily for information and therefore consultation is not necessary.

12 ISSUES TO CONSIDER IN REACHING THE DECISION

12.1 The issues to consider are contained in the report.

13 ADVICE SOUGHT

13.1 The Council's Monitoring Officer (Council Solicitor) and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Feinstein, Investments Manager (Tel: 01225 395306)
Background papers	LAPPF Member Bulletins, Data supplied by The WM Company
Please contact the report author if you need to access this report in an alternative format	

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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-11-017

Meeting / Decision: Avon Pension Fund Committee
Date: 22 November 2011

Author: Liz Feinstein
Report Title: Review Of Investment Performance For Periods Ending 30 Sept 2011 Exempt Appendix Title: Exempt Appendix 3 – TT Peer Group Analysis Exempt Appendix 5 – Summaries of Investment Panel meetings with Investment Managers

The Report contains exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption: 3. *Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the Report be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

If the Committee wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the Community Admission Bodies which is commercially sensitive to the Community Admission Bodies (CAB). The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

Weighed against this is the fact that exempt appendix 3 contains observations and opinions about the expected and actual performance of investment managers. Exempt appendix 5 also contains the opinions of Council officers and Panel members. Both appendices also contain details of the investment processes/strategies of the investment managers.

It would not be in the public interest if advisors and officers could not express in confidence opinions which are held in good faith and on the basis of the best information available. The information to be discussed is also commercially sensitive and if disclosed could prejudice the commercial interest's of the investment managers.

It is also important that the Committee should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the performance of the fund and investment managers has been made available on these issues – by way of the main report and additional appendices.

APPENDIX 1

AVON PENSION FUND VALUATION – 30 SEPTEMBER 2011

	Passive Multi-Asset		Active Equities				Enhanced Indexation		Active Bonds	Funds of Hedge Funds	Property	In House Cash/	TOTAL	Avon Asset Mix %
All figures in £m	Black-Rock	Black-Rock 2*	TT Int'l	Jupiter (SRI)	Genesis	Schroder Global	Invesco	State Street	Royal London		Schroder & Partners	Currency Hedging		
EQUITIES														
UK	234.5	13.7	109.9	93.3		13.8							465.2	18.7%
North America	111.7	7.7				47.8							167.2	6.7%
Europe	101.9	4.5				15.1		25.7					147.2	5.9%
Japan	34.3					7.5		27.2					69.0	2.8%
Pacific Rim	40.4					16.0		24.9					81.3	3.3%
Emerging Markets					121.2	20.5							141.7	5.7%
Global ex-UK							149.2						149.2	6.0%
Global inc-UK	205.8												205.8	8.2%
Total Overseas	***494.1***	***12.2***			***121.2***	***106.9***	***149.2***	***77.8***					***961.4***	**38.6%**
Total Equities	**728.6**	**25.9**	**109.9**	**93.3**	**121.2**	**120.7**	**149.2**	**77.8**					**1426.6**	**57.3%**
BONDS														
Index Linked Gilts	177.6												177.6	7.1%
Conventional Gilts	182.6	31.1											213.7	8.6%
Sterling Corporate	6.5								135.2				141.7	5.7%
Overseas Bonds	81.0												81.0	3.3%
Total Bonds	**447.7**	**31.1**							**135.2**				**614.0**	**24.7%**
Hedge Funds										212.9			212.9	8.6%
Property											189.5		189.5	7.6%
Cash	3.2	16.8	3.5	6.5		1.0					0.5	13.4	44.9	1.8%
TOTAL	**1179.5**	**73.8**	**113.4**	**99.8**	**121.2**	**121.7**	**149.2**	**77.8**	**135.2**	**213.7**	**190.0**	**13.4**	**2487.9**	**100.0%**

N.B. (i) Valued at BID (where appropriate)
(ii) In-house cash = short term deposits at NatWest managed on our behalf by B&NES plus general cash held at Custodian
(iii) BlackRock 2 * = represents the assets to be invested in property, temporarily managed by BlackRock

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Review for period to 30 September 2011

Avon Pension Fund

JLT INVESTMENT CONSULTING

Contents

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November 2011

Avon Pension Fund

Section One – Executive Summary

- This report is produced by JLT Investment Consulting ("JLT") to assess the performance and risks of the investment managers of the Avon Pension Fund (the "Fund"), and of the Fund as a whole.

Fund

- The total Fund's assets fell in value by £213m over the third quarter of 2011, to £2,488m as at the end of September 2011, marginally outperforming the benchmark, returning -7.9% versus the customised benchmark return of -8%.
- An overweight position to equities at the beginning of the quarter detracted from performance but was partially offset by an overweight position to bond assets.
- The Fund was and remains underweight to property and fund of hedge funds. Funds allocated to global real estate are still in the process of being invested by Partners.

Strategy

- The Fund's strategic benchmark return of -8.5% was driven by negative equity markets over the quarter.
- The strategic weighting to alternatives (property and fund of hedge funds) was a positive contributor relative to equities.
- Gilts produced the strongest return (14.4%) but the Fund's other fixed income assets also produced positive returns and the allocation to overseas bonds was positive relative to UK corporate bonds, returning 6.0% over the quarter compared to corporate bonds of 1.6%.
- Currency movements favoured the fund during the quarter and therefore the active currency hedge marginally reduced overall return by 0.1%. This compares well with a passive 50% currency hedge which would have detracted 0.4%.

Managers

- Despite the positive contribution of hedge funds to absolute return at the fund level, the Fund's fund of hedge fund managers underperformed their cash plus benchmarks over the quarter.
- TT International underperformed their benchmark over the quarter and more than offset Jupiter's positive relative performance over the quarter. All three of the Fund's enhanced indexation portfolios outperformed over the quarter. The new global equity portfolio, managed by Schroder, underperformed, whilst Genesis produced a strong outperformance in their emerging market mandate.
- RLAM underperformed their UK corporate bond benchmark over the quarter whilst the BlackRock passive assets successfully tracked their respective benchmarks.

Key points for consideration

- There are no fundamental concerns with either the strategy or the Fund's managers.
- Performance of the SSgA Europe ex UK Enhanced Indexation Fund should be monitored closely following a significant drop in the size of the pooled funds.
- TT should be continued to be monitored closely in light of underperformance, although such periods are not unexpected from a high conviction active manager. It is too early to draw conclusions from the relative performance of new Schroder Global Equity portfolio.
- Given the current market volatility and the drivers of that volatility - the uncertainty over the Eurozone - it should be considered if any immediate changes are required to the Fund's asset allocation, either to take advantage of opportunities for return or to manage risk.

Section Two – Market Background

- The table below summarises the various market returns to 30 September 2011, 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	-13.5	-4.4
Overseas Equities	-15.1	-4.9
USA	-11.3	2.1
Europe	-24.4	-13.6
Japan	-3.1	1.9
Asia Pacific (ex Japan)	-17.9	-11.7
Emerging Markets	-19.2	-15.3
Property	1.9	8.7
Hedge Funds	-4.7	1.8
Commodities	-9.0	4.1
High Yield	-5.4	0.6
Cash	0.1	0.5

Change in Sterling	3 Mths %	1 Year %
Against US Dollar	-3.0	-1.1
Against Euro	4.9	0.6
Against Yen	-7.4	-8.8
Yields as at 30 Sept 2011	**% p.a.**	
UK Equities	3.66	
UK Gilts (>15 yrs)	3.45	
Real Yield (>5 yrs ILG)	0.16	
Corporate Bonds (>15 yrs AA)	5.12	
Non-Gilts (>15 yrs)	5.03	

Market Returns Bond Assets	3 Mths %	1 Year %
UK Gilts (>15 yrs)	14.4	11.2
Index-Linked Gilts (>5 yrs)	7.8	13.6
Corporate Bonds (>15 yrs AA)	6.0	3.3
Non-Gilts (>15 yrs)	6.4	3.8

Absolute Change in Yields	3 Mths %	1 Year %
UK Gilts (>15 yrs)	-0.8	-0.4
Index-Linked Gilts (>5 yrs)	-0.3	-0.3
Corporate Bonds (>15 yrs AA)	-0.4	0.2
Non-Gilts (>15 yrs)	-0.5	0.1

Inflation Indices	3 Mths %	1 Year %
Price Inflation - RPI	1.1	5.6
Price Inflation - CPI	1.3	5.2
Earnings Inflation *	-0.1	1.6

* is subject to 1 month lag

Economic statistics

	Quarter to 30 September 2011			Year to 30 September 2011		
	UK	Europe[1]	US	UK	Europe[1]	US
Real GDP growth	0.5%	-0.1%[2]	0.6%	0.5%	2.8%[2]	1.6%
Unemployment rate	8.1%[3]	9.7%	9.1%	8.1%[3]	9.7%	9.1%
Previous	*7.9%*	*9.5%*	*9.2%*	*7.7%*	*9.6%*	*9.7%*
Inflation change[4]	1.3%	0.3%	0.5%	5.2%	3.0%	3.8%
Manufacturing Purchasing Managers' Index	50.8	48.5	50.8	51.1	48.5	50.8
Previous	*51.3*	*52.0*	*50.9*	*51.3*	*52.0*	*56.9*
Quantitative Easing [5]	£200bn	€0	$2,654bn	£200bn	€0	$2,654bn
Previous	*£200bn*	*€0*	*$2,654bn*	*£200bn*	*€0*	*$2,054bn*

Source: Thomson Reuters, market, Institute for Supply Management. All figures to 30 September 2011 unless otherwise stated. "Previous" relates to data as at the previous quarter or year end.

(1) 15 Country Euro area; (2) Figures as at 30 June 2011; (3) Figures as at August 2011; (4) CPI inflation measure; (5) Refers to amounts announced and therefore ignores changes due to debt maturing.

Statistical highlights

- The rate of CPI inflation rose from 4.2% in June to 5.2% in September. The Bank of England's Monetary Policy Committee kept interest rates on hold at 0.5% over the quarter, and restarted its programme of quantitative easing and unveiled plans to increase the size from £200 billion to £275 billion.
- UK retail sales saw their worst performance for 16 months in September, according to the Confederation of British Industry ("CBI"), resulting from rising unemployment, low wage growth and the high rate of RPI inflation.
- The Office for National Statistics ("ONS") reported that the number of people unemployed rose by 114,000 in the 3 months to August to reach 2.57 million, the largest increase for nearly two years. Youth unemployment hit a record high of 991,000. The jobless rate now stands at 8.1%.
- The European Central Bank ("ECB") kept interest rates on hold at 1.5% and whilst the US Federal Reserve decided against increasing the existing $2.3 trillion quantitative easing programme, it introduced a programme to swap short-term for long-term government debt in a policy called "operation twist" that is it expects to produce a similar benefit.
- The pound depreciated against the US Dollar and Yen over the quarter but appreciated against the Euro. Sentiment for the Euro still remains negative as many analysts fear a Greek default.
- Major uncertainty about the global economic outlook and the implications of the sovereign debt crisis in the Eurozone had a significant negative impact on the third quarter equity returns in all the major regions. In the developed economies, economic growth slowed partially in response to uncertainty regarding the extent of cuts in government spending and inflationary pressures in emerging markets. The financial markets experienced high levels of volatility and we have seen an increasing correlation both within and across major asset classes.

- The FTSE-All Share Index produced a return over the quarter of -13.5% and European equities performed particularly poorly, with a return of -24.4%, on fears about the stability of the banking system. This was driven by the political uncertainty in the US and the sovereign debt crisis facing the Eurozone. Despite the US Federal Reserve implementing another version of quantitative easing, the political impasse regarding the measures needed to make a meaningful reduction in the government deficit led to the US equity market producing a return of -11.3%. The equity markets in the Asia Pacific ex Japan and Emerging Markets regions produced returns of -17.9% and -19.2% respectively.
- Against the turmoil in the equity markets and the government bond markets in the Eurozone, the UK gilt market was perceived to be a safe haven and produced a return of 14.4% over the quarter. Corporate bonds produced a return of 6.0%, driven by corporate restructuring that has resulted in strong balance sheets, strong cash flow and healthy margins.

Section Three – Fund Valuations

- The table below shows the asset allocation of the Fund as at 30 September 2011, 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	30 September 2011 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	444,003	17.8	18.0
Overseas Equities	984,380	39.6	42.0
Bonds	614,086	24.7	20.0
Fund of Hedge Funds	194,537	7.8	10.0
Cash (including currency instruments)	50,490	2.0	-
Property	186,847	7.5	10.0
Reconciling differences and rounding	13,618	0.6	-
TOTAL FUND VALUE	**2,487,961**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets fell by £213m over the third quarter of 2011 to £2,488m, resulting from negative absolute investment performance from most funds. Equities were the largest negative performer in absolute returns, with UK and overseas equities producing returns of -13.9% and -15.8% respectively. Equities comprise approximately 57% of the Fund's investments.
- In terms of asset allocation, there have been a number of changes over the quarter:
  - There were changes made to the Fund within the allocation to fund of hedge fund managers. The allocation to Lyster Watson was removed over the quarter. The allocation to Stenham and Signet was increased and the allocation to Man reduced. The changes implemented were previously agreed as part of the review of fund of hedge fund managers.
  - The appointment of the Fund's active currency hedging manager completed early in the quarter.
  - There was some further funding of property investments over the quarter.
- The valuation of the investment with each manager is provided on the following page.

Manager	Asset Class	30 June 2011		Net new money £'000	30 September 2011	
		Value £'000	Value £'000		Value £'000	Proportion of Total %
Jupiter	UK Equities	113,139	4.2	-	99,784	4.0
TT International	UK Equities	134,814	5.0	-	113,368	4.6
Invesco	Global ex-UK Equities	170,252	6.3	-	149,203	6.0
Schroder	Global Equities	150,254	5.6	-	122,025	4.9
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	92,493	3.4	-	77,595	3.1
Genesis	Emerging Market Equities	147,493	5.5	-	121,308	4.9
Lyster Watson	Fund of Hedge Funds	9,257	0.3	-8,449	819	0.0
MAN	Fund of Hedge Funds	97,554	3.6	-32,454	64,657	2.6
Signet	Fund of Hedge Funds	47,157	1.7	19,000	63,366	2.5
Stenham	Fund of Hedge Funds	11,436	0.4	22,000	33,283	1.3
Gottex	Fund of Hedge Funds	53,578	2.0	7	51,603	2.1
BlackRock	Passive Multi-asset	1,267,555	46.9	-736	1,180,349	47.4
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	77,531	2.9	-4,001	73,847	3.0
RLAM	Bonds	134,650	5.0	-	135,155	5.4
Schroder	UK Property	126,415	4.6	-	128,641	5.2
Partners	Property	54,692	2.0	4,844	63,606	2.6
Record Currency Mgmt		-	-	-	-4,754	-0.2
Internal Cash	Cash	12,597	0.5	1,489	14,105	0.6
Rounding		-1	0.0	-	1	0.0
TOTAL		**2,700,868**	**100.0**	**1,677**	**2,487,961**	**100.0**

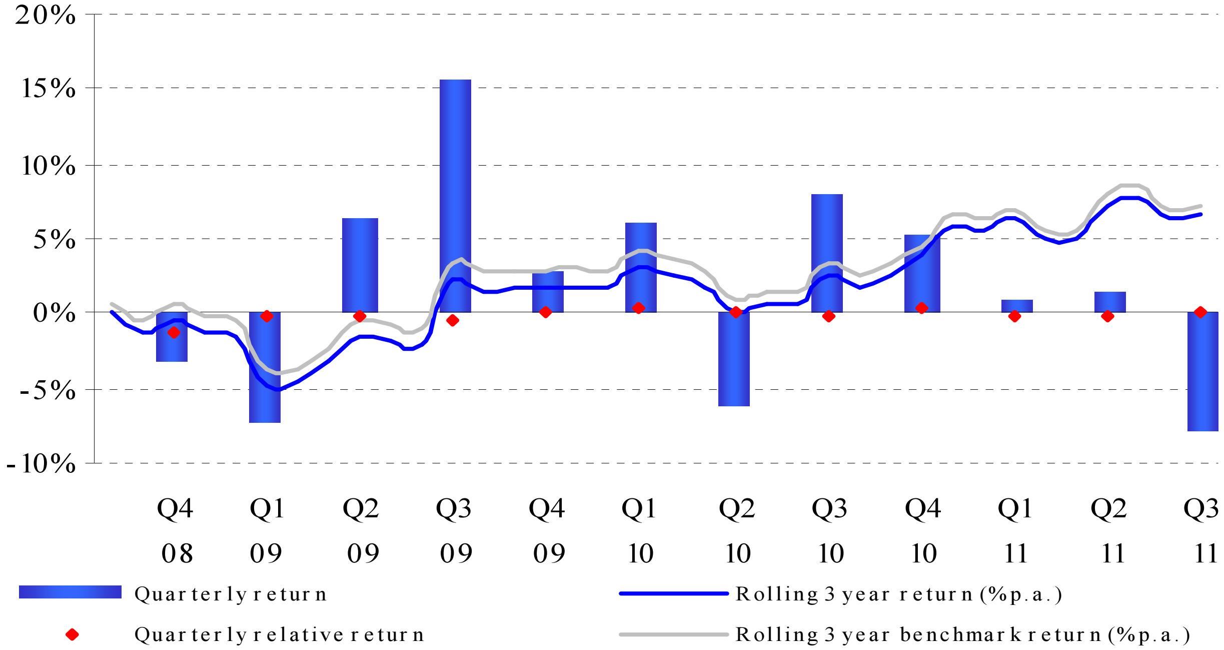
Source: Avon Pension Fund, Data provided by WM Performance Services. From Q2 2011, Partners valuation will be lagged by one quarter.

Section Four – Performance Summary

Total Fund performance

- The chart below shows the absolute performance of the total Fund's assets over the last 3 years.

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 return of -7.9%, outperforming its customised benchmark by 0.1%.
- Over the last year (not shown above) the total Fund's assets produced a negative return of 0.8%, matching the customised benchmark.

Strategy performance

- The table on the next page shows the strategic allocation to each of the major asset classes and the benchmark returns over the quarter and year to 30 September 2011.

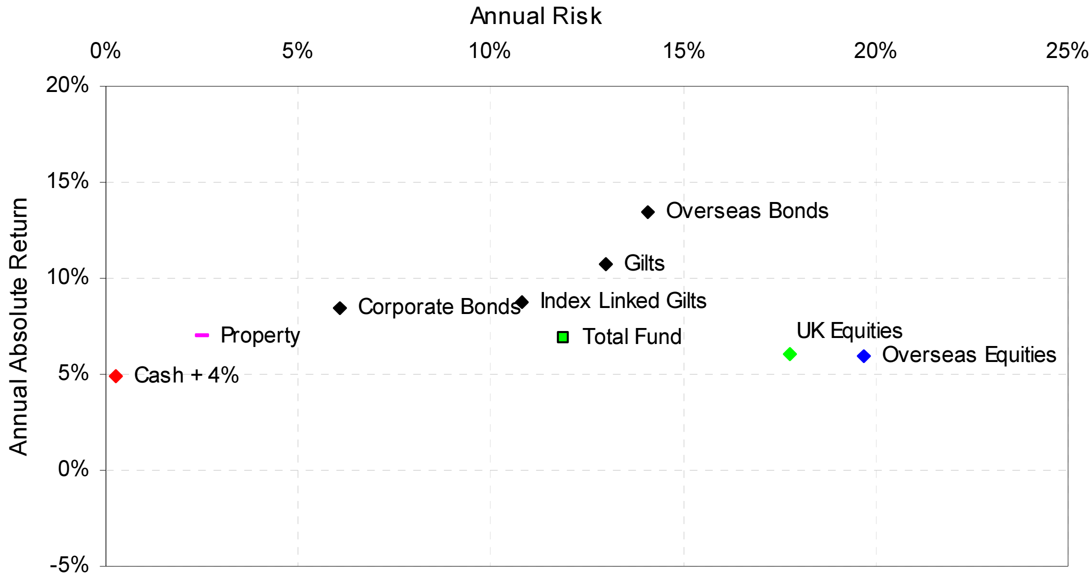
Asset Class	Weight in Strategic Benchmark	Q3 2011 (index returns)	1 year (index returns)
UK Equities	18%	-13.5%	-4.4%
Overseas Equities	42%	-17.4%	-7.6%
Index Linked Gilts	6%	7.8%	13.6%
Fixed Coupon Gilts	6%	14.4%	7.8%
UK Corporate Bonds*	5%	1.6%	-0.4%
Overseas Fixed Interest	3%	6.0%	6.2%
Fund of Hedge Funds**	10%	1.2%	4.8%
Property	10%	1.9%	8.7%
Total Fund	**100%**		

Source: Avon Pension Fund, Data provided by WM Performance Services. *Please note that this is an 'all maturities' index return and so differ from the 'long maturities' index returns shown on the Market Background page in Section Two. **The returns are based on the managers' targets rather a hedge fund or fund of fund index. The property and overseas equity indices also differ slightly from those in Section Two.

- **Market impact:** concerns in the Eurozone dominated the return of the Fund's strategy as equity markets fell and bonds rallied, particularly government bonds.
- UK and overseas equity markets produced returns of -13.5% and -15.1% respectively.
- Sterling depreciated against the US Dollar and the Yen over the quarter, meaning a higher return on the US Dollar and Yen denominated overseas equities in sterling terms. Sterling appreciated against the Euro, meaning a lower return on the Euro denominated overseas equities in sterling terms. All the major equity markets produced negative returns for the quarter in local currency terms. The lowest return came from the Europe (ex UK) region whose return in local currency was -20.7%.
- Bonds produced a positive absolute benchmark return of 8.3% over the quarter. UK, UK Index-Linked and Overseas bonds returned 9.1%, 7.8% and 6.0% respectively.
- The allocations to fund of hedge funds and property contributed to the overall benchmark return relative to an equity benchmark, although hedge funds in general were negative over the quarter (as shown in Section Two), unlike the cash based target shown in the table above.
- **Benchmark performance** of the strategy was driven by the two largest components, UK (18%) and overseas (42%) equities, contributing approximately -2.4% and -6.3% respectively to the strategic benchmark return.
- UK Gilts (6% benchmark weight) and UK Index-Linked Gilts (6%) contributed 0.9% and 0.4% respectively.
- **Asset allocation**, relative to the strategic benchmark, was marginally overweight to both UK and overseas equities, which would have had a slight negative impact relative to the strategic benchmark.
- A slight overweight position to bonds and the cash allocation were marginally positive contributors to performance relative to the strategic benchmark return.
- **Overall** these effects did not have a significant impact on performance relative to the strategic benchmark but, when taken along with the manager impact described later, have resulted in an outperformance versus the strategic benchmark over the quarter by 0.5%.

- The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of September 2011 of each of the underlying asset benchmarks, along with the total Fund strategic benchmark.
- This chart can be compared to the 3 year risk vs return managers' chart on page 15, showing that actual total Fund performance was more volatile than the benchmark total Fund Performance, due to greater volatility from some of the equity portfolios, the fund of hedge fund portfolios and RLAM compared to their respective benchmarks.

3 Year Risk v 3 Year Return to 30 September 2011

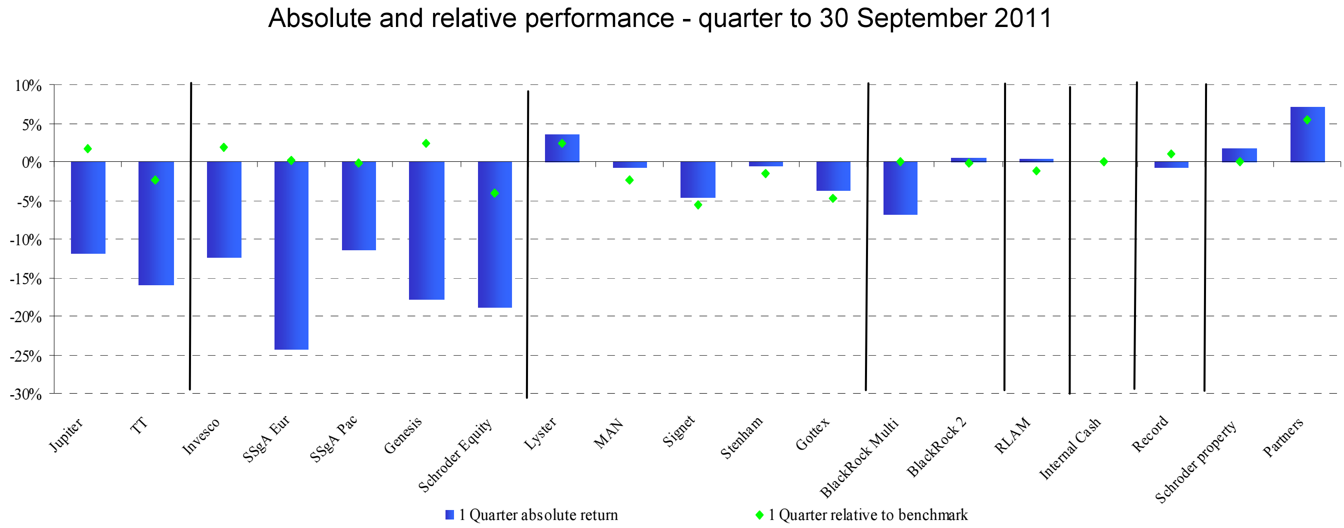


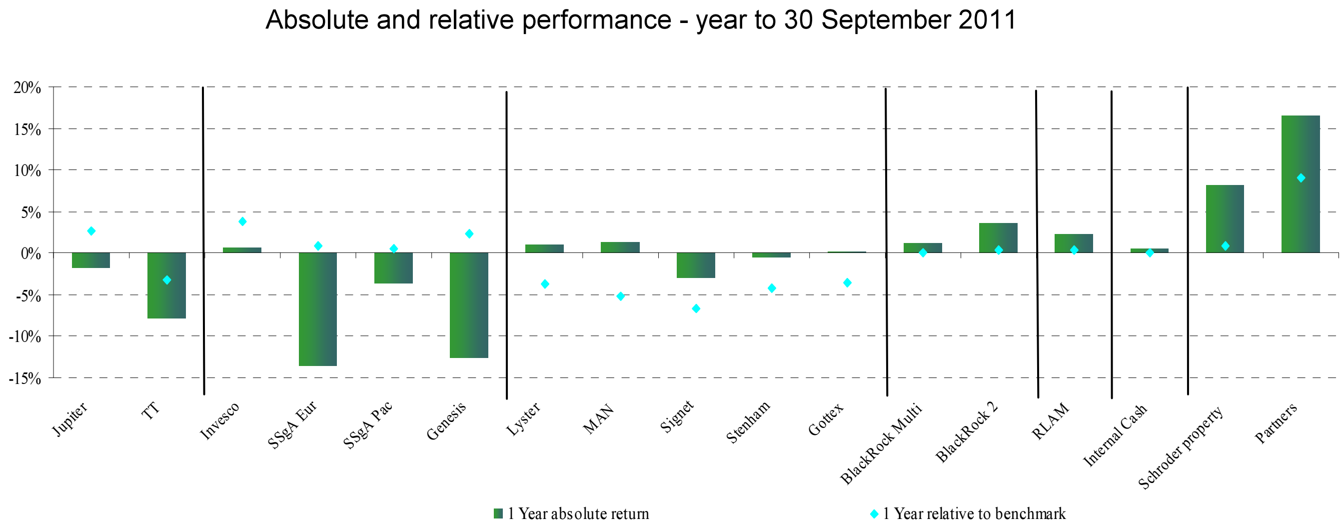
Source: Data provided by WM Performance Services

- All of the underlying benchmarks have produced a positive return over the period.
- Bond assets have outperformed the other asset classes. The greater volatility of gilts and index linked gilts compared to corporate bonds reflects the uncertainty surrounding the global economy.
- The "Cash +4%" category represents the objective of the fund of hedge fund portfolio but actual volatility of this portfolio is expected to be much more volatile than that shown above, which is the volatility of cash returns.

Aggregate manager performance

- The charts below show the absolute return for each manager over the quarter and the year to the end of September 2011. The relative quarter and one year returns are marked with green and blue dots respectively.
- Please note that due to data timing issues, Partner's returns and values are lagged by a quarter.





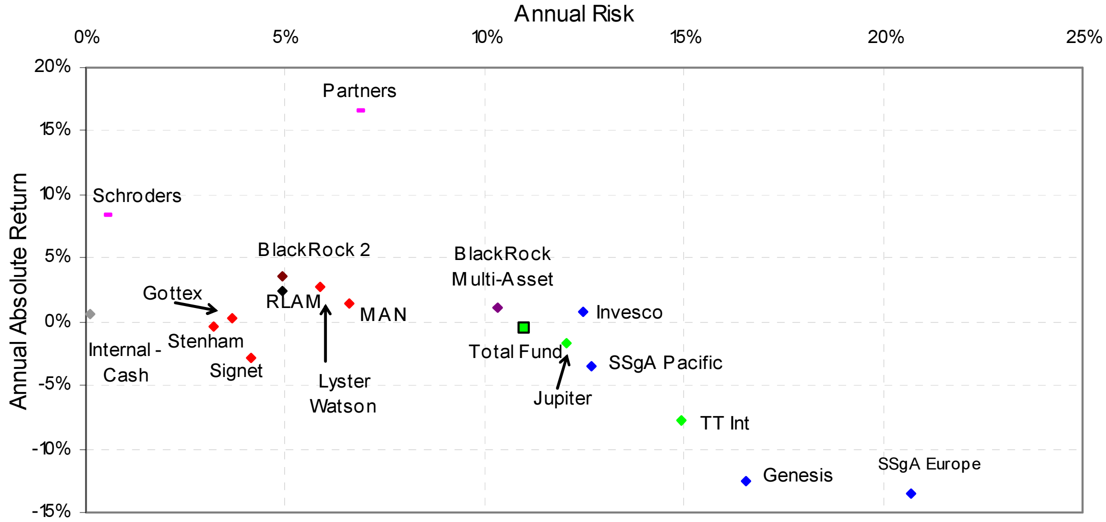
Source: Data provided by WM Performance Services

- Whilst Jupiter outperformed its benchmark over the quarter, TT underperformed resulting in the overall UK equity portfolio underperforming its benchmark and thus contributing negatively relative to the overall benchmark.
- Within overseas equities, outperformance from Invesco and Genesis over the quarter more than offset underperformance from Schroder thus meaning the overseas equity part of the portfolio contributed to performance relative to the benchmark.
- With the exception of Lyster Watson, the Fund's fund of hedge fund managers produced negative returns over the quarter and therefore underperformed their benchmarks and therefore contributed negatively to overall performance versus the benchmark.

- RLAM detracted slightly from relative performance over the quarter by underperforming their benchmark.
- The property portfolio outperformed over the quarter, due to strong outperformance from Partners, and contributed to performance relative to the benchmark return.
- Over the quarter the combined effect of the managers' performance was expected to have detracted 0.3% from the overall return once the impact of currency hedging was removed.
- The impact over the year of the managers' performance also detracted slightly. Similarly to over the quarter:
  - within UK equities Jupiter outperformed whilst TT underperformed;
  - Invesco and Genesis both outperformed within overseas equities;
  - the Fund of Hedge Fund portfolio underperformed due to underperformance from all managers; and,
  - Partners provided strong outperformance.

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 September 2011 of each of the funds, along with the total Fund.



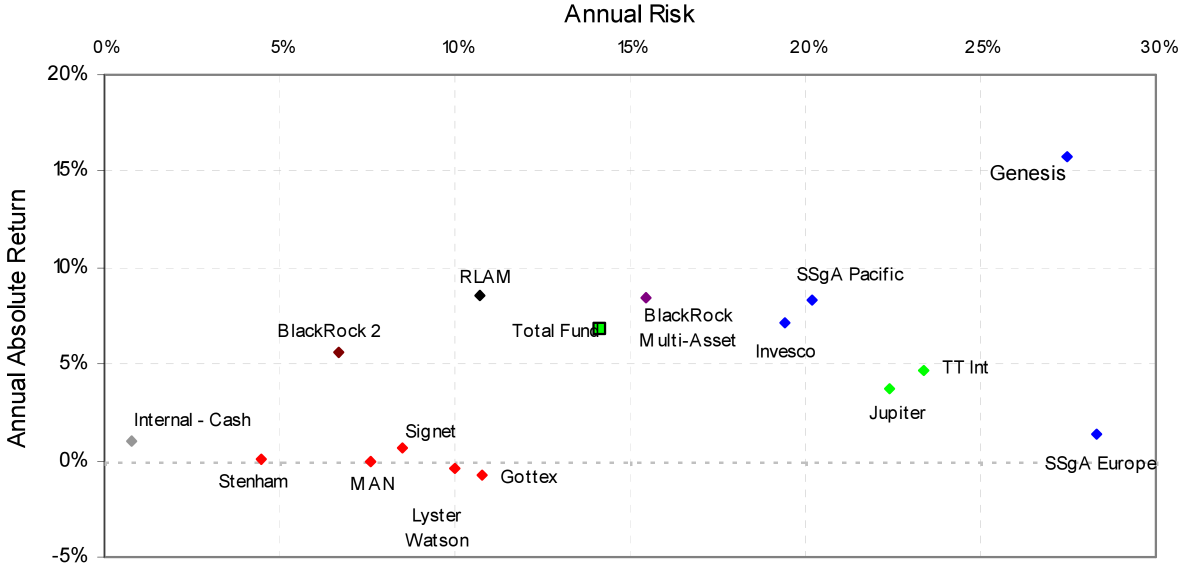
Source: Data provided by WM Performance Services

- 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	- Pink: Property
- Green Square: total Fund	

- The volatility of returns over the year has broadly increased from the previous quarter. This is not surprising given the increase in volatility over the most recent quarter. The fund whose volatility increased the most was SSgA Europe, again as expected given the volatility within this market.
- The returns have also fallen significantly from the previous quarter (Partners being the exception due to lagged data) as a positive Q3 2010 falls out of the analysis and is replaced by a negative Q3 2011. Positive returns from gilts will have reduced this impact somewhat for the BlackRock Multi-Asset portfolio.

3 Year Risk v 3 Year Return to 30 September 2011



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

- Both the returns and the volatility are similar to last quarter as the new quarter, Q3 2011, was similar in profile to Q3 2008, the period falling out of the analysis.
- SSgA Europe is one exception to this, as this region has fared worse than other regions and therefore the return has fallen and volatility has increased.
- Fund of hedge funds are the other exception, with an improvement in return and reduction in volatility compared to last quarter as, whilst negative, fund of hedge funds have performed in line with expectations than in Q3 2008 when they were badly affected by the liquidity crisis and investors rushing for the exit.
- Compared to the one year chart, many of the returns are still positive, albeit exhibiting higher volatility.

Section Five – Individual 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.

Key points for consideration

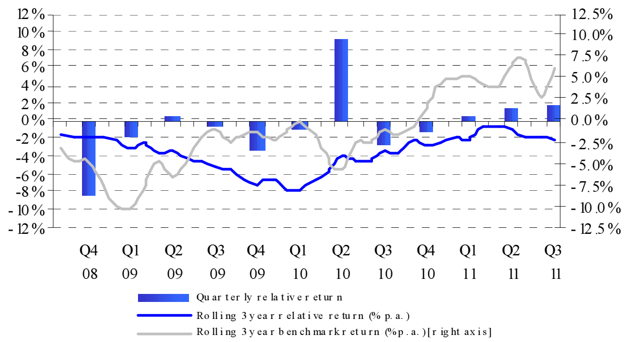
- We have not identified any significant issues with the performance of the active investment managers and have no concerns with investment into any of the active managers for rebalancing purposes. The changes to the fund of hedge fund allocation is now complete following the review which took place. Following the implementation of the global unconstrained equity manager, Schroder in Q2 2011, we have included a qualitative assessment until reasonable data has built up to produce a quantitative assessment. The implementation of the active currency hedging manager was also completed in Q3 2011. New investment with Jupiter should continue to be subject to discussion whilst the review of the Fund's policy to SRI and ESG issues is under review.
- UK and global equity funds:
  - Jupiter outperformed their benchmark over the quarter by 1.7%. The Fund produced strong risk-adjusted returns for the year ended 30 September 2011.
  - TT International underperformed its benchmark over the quarter and over the one year to 30 September 2011. The Fund continues to be overweight in Consumer services and Basic Materials, with underweight positions to Financials and Utilities.
  - The newly appointed unconstrained global equity manager, Schroder, produced a negative absolute and relative return during quarter.
- Non-UK Enhanced Indexation Funds: The SSgA Europe ex UK Fund marginally outperformed its benchmark and the SSgA Pacific incl. Japan equity fund performed in line with its benchmark over the quarter. Performance over the one year was also positive in relative terms for both of the SSgA Enhanced Indexation funds.
- Enhanced Indexation: Invesco outperformed its benchmark over the quarter by 1.8%. Over the one year performance was ahead of the benchmark by 3.8%. We note however that Invesco's relative performance can be affected by 'timing' differences in the pricing of their Fund compared to their benchmark.
- Emerging Markets: Genesis outperformed their benchmark over the quarter. Performance over the longer 1 and 3 years also remains positive in relative terms.
- Fund of Hedge Funds:
  - The allocation to Lyster Watson was removed over the quarter. From 30 June 2011 to the point of disinvestment, the Fund outperformed its benchmark by 2.3% and produced a positive absolute return.
  - Man produced a negative relative return of -0.7%, producing an absolute return of -2.3%. The allocation to Man was reduced over the quarter in line with the decision made following the review of the fund of hedge fund managers.
  - Signet produced a negative relative return over the quarter, underperforming their benchmark by 5.6%. In absolute terms, Signet produced a return of -4.6%.

- Stenham Asset Management produced a negative relative return for the quarter, 1.5% behind their benchmark, with an absolute return of -0.5%. As part of the review of fund of hedge fund managers, its was agreed that the allocation to Stenham would be increased. This was completed over the quarter.
- Gottex underperformed their benchmark over the quarter by 4.7%, producing an absolute return of -3.7%.
- Hedge funds outperformed equities over the third quarter of 2011, breaking the run of underperformance versus equities, which had occurred for the previous four-calendar quarters.
- Of the five fund of hedge fund managers, none were ahead of their cash plus benchmarks over the year to 30 September 2011.

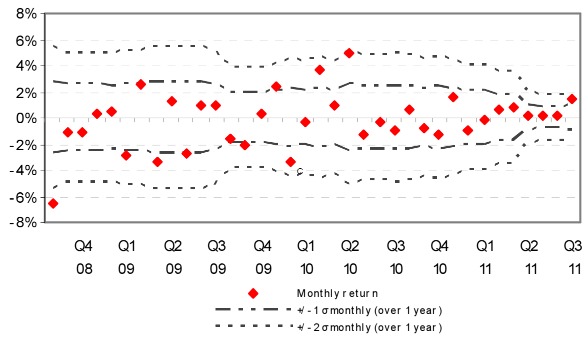
- BlackRock passive Funds: there is nothing unusual arising in risk and performance for the two BlackRock passive portfolios.
- Fixed Interest: RLAM underperformed the benchmark in the last quarter by 1.2%. In absolute terms, RLAM produced a return of 0.4%. There are no notable changes in the risk profile of this fund.
- Record, the Fund's newly appointed active currency hedging manager produced a return of -0.7% which was ahead of the return of a 50% passive hedge benchmark of -1.7%.
- Property: Performance of the Schroder property fund over the quarter was positive in absolute terms and was in line with its benchmark return. This quarter, we have introduced a quantitative assessment of Schroder for the first time, as there is now sufficient data available to draw a reasonable conclusion. Last quarter saw a change in the performance reporting of Partners, which is now lagged by 1 quarter. As such, over the second quarter of 2011, Partners outperformed their benchmark by 5.4%, producing an absolute return of 7.2%. Once a 3 year track record is available for a meaningful proportion of the Fund's commitment with Partners, a fuller quantitative assessment will be available. For the time being, a qualitative assessment is included for this manager, as such details are not provided in the charts following.

Jupiter Asset Management – UK Equities (Socially Responsible Investing)

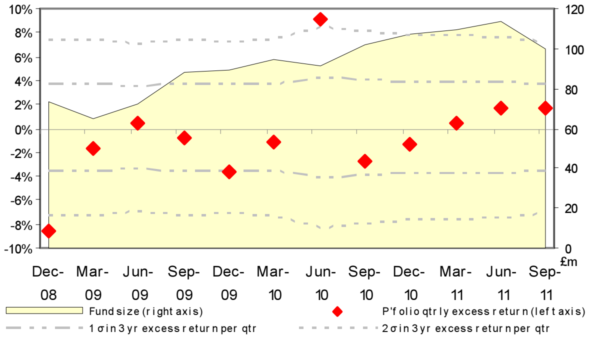
Relative returns #1



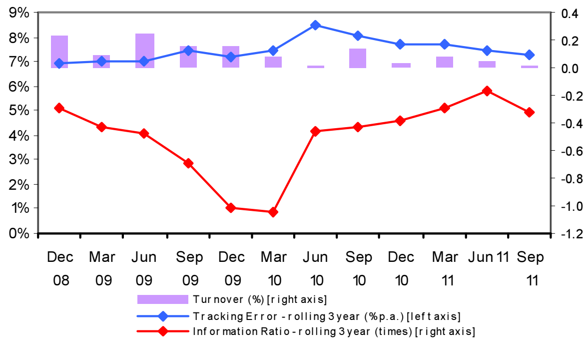
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



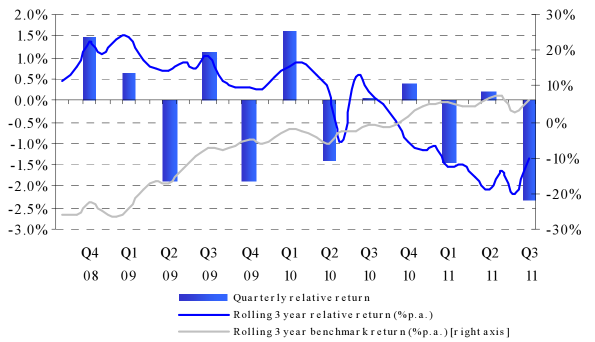
Source: Data provided by WM Performance Services, and Jupiter

Comments:

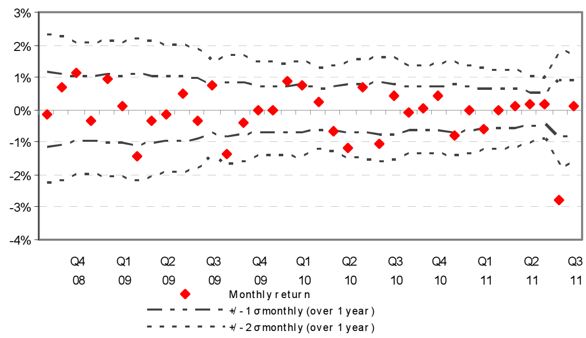
- Over the last quarter, the Fund outperformed the benchmark by 1.7%, producing an absolute return of -11.8%.
- Over the last year, the Fund outperformed the benchmark by 2.7%, producing an absolute return of -1.7%. Over the last 3 years, the Fund underperformed the benchmark by 2.3% p.a., producing an absolute return of 3.7% p.a.
- The Fund's allocation to Cash (6.5%) increased compared to the preceding quarter (5.2%).
- The industry allocation has remained considerably different from the benchmark allocation (as expected from Socially Responsible Investing), so the variability of relative returns (volatility) is expected to be high. Over Q3 2011, Jupiter was significantly underweight Oil and Gas, Basic Materials, Financials and Consumer Services, with significantly overweight positions in Industrials, Utilities and Consumer Goods.
- These positions have led to the recent outperformance as Financials and Mining stocks in particular underperformed the index.

TT International – UK Equities (Unconstrained)

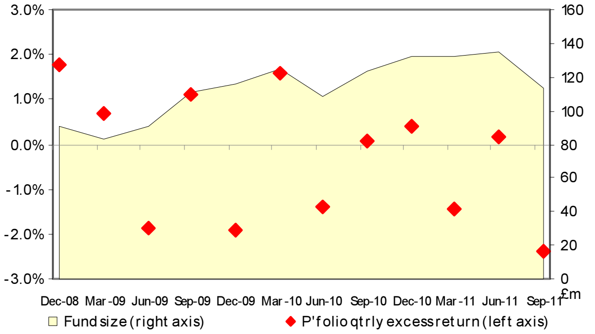
Relative returns #1



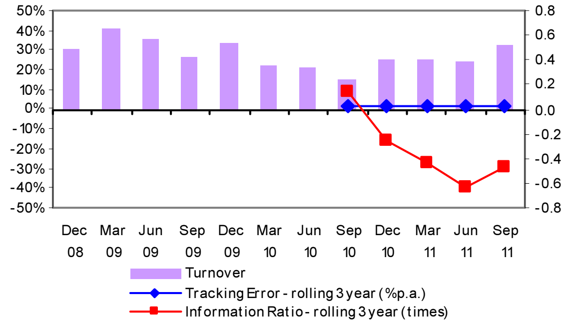
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



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

Comments:

- Over the last quarter the Fund underperformed the benchmark by 2.4%, producing an absolute return of -15.9%.
- Over the last year, the Fund underperformed the benchmark by 3.4%, producing an absolute return of -7.8%. Over the last three years, the Fund underperformed the benchmark by 1.3% p.a., producing an absolute return of 4.7% p.a.
- The Fund continues to maintain its overweight position in Basic Materials and Consumer Services by 3.4% and 2.8% respectively, and is underweight to Financials and Utilities by 8.5% and 4.4% respectively.
- The volatility of monthly relative returns has not changed significantly over the most recent quarter. Turnover of 32.9% has increased significantly compared to the previous quarter turnover of 24.2%.
- The 3 year tracking error (proxy for risk) has remained broadly consistent over the quarter. The 3 year information ratio (risk adjusted return), improved very slightly from -0.6% to -0.5%.
- Performance relative to the benchmark has been less volatile than Jupiter despite TT taking a more unconstrained approach. This is due to TT's sector positions being more reflective of the benchmark whilst Jupiter is constrained from investing in certain sectors due to the socially responsible criteria.
- TT's negative relative performance has been driven both by its sector positioning relative to the index and, to a greater extent, its stock selection within those sectors.
- Recently TT have been reducing their allocation to less cyclical stocks in light of uncertain economic conditions.
- Given TT's outperformance target and high conviction investment style, periods of underperformance are expected, although they should be monitored closely during these periods to ensure underperformance is not due to any unexpected reason (a change in investment style, for example).

Schroder – Global Equity Portfolio (Unconstrained)

- The mandate awarded to Schroder by the Fund commenced in April 2011.
- The Fund appointed Schroder to manage Global Equities on a segregated basis. The Manager's portfolio objective is to outperform the benchmark, the MSCI All Countries World Index, by 4% per annum over a rolling three year period.
- In order to achieve the objective, the investment approach is designed to add value relative to the benchmark through stock selection and sector allocation decisions.
- We provide here a qualitative update and assessment of the manager.

Portfolio update and performance over Q3 2011

The portfolio fell in value over the quarter by £28m, or 18.8%, underperforming the benchmark return of -14.8% by 4.0%.

The third quarter of 2011 saw one of the worst quarters for equity returns for nearly 3 years as concern over the health of the global economy intensified. Extreme risk aversion and a crisis of confidence gathered pace through August due to a political gridlock in the US over the discussions to raise the debt ceiling and failure of the Eurozone leaders to agree a viable solution to some countries ongoing problems.

Disappointingly, the portfolio returned -18.8%, versus a benchmark return of -14.8%. The negative return was driven by the sharp increase in risk aversion in September, as equity markets moved rapidly towards a "risk off" stand and "growth investing" was heavily penalized in the short term. The worst performing sector in the benchmark was materials, which declined over 23%, and the best was consumer staples which declined by less than 5%. Investors' focus remained very much on the attention of short-term defensiveness.

It was the defensive sectors which helped performance of the portfolio most, good performances from names such as Beijing Enterprises and Rolls Royce. However, the portfolio did underperform the benchmark. Cyclical sectors such as financials (Ping An Insurance, AXA SA) and energy (QEP Resources) detracted the most from performance. Macro factors also hurt the performance of the stocks in these sectors, in particular, financials were hurt as concern over the effect of a possible Greek default continued.

From a regional perspective, the UK and Africa / Middle East helped performance the most. Performance in the UK was boosted by an overweight position relative to the benchmark in defensive sectors. United Utilities and health care holding GlaxoSmithKline helped performance. In Africa / Middle East, Check Point Software performed well. The Israeli internet security company is benefitting from higher corporate spending, due to IT threats and data breaches significantly increasing.

Elsewhere in the portfolio, North America and emerging markets detracted the most. The performance in North America was hurt by the combination of Schroder's underweight and performance in a sharply rising dollar environment. An underweight position relative to the benchmark to the US staples sector detracted from performance. Emerging markets suffered disproportionately from the reduction in expectations for global demand, as well as currency weakness.

The most underweight country weightings in the portfolio are North America (-8.3%) and Continental Europe (-3.8%). The portfolio is overweight to the Pacific ex Japan region (+6.0%) and the United Kingdom (+3.0%).

In terms of sector weightings, the most underweight positions are to Telecoms (-3.0%), Utilities (-2.1%) and financials (-1.9%). Overweight positions are in Health Care (+3.7%), Information Technology (+2.8%) and Consumer Staples (+1.8%).

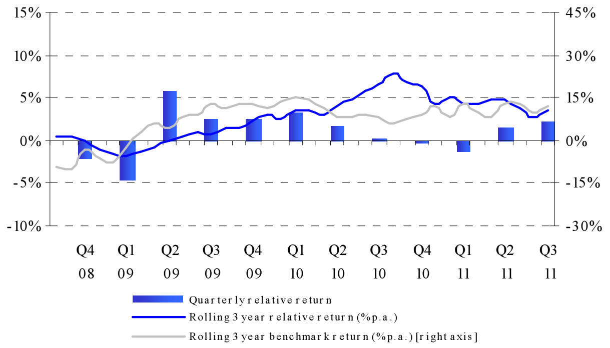
Conclusion

The Schroder global equity portfolio has been implemented for a very short space of time over an extremely turbulent period. It is therefore too early to draw any firm conclusions regarding Schroder's performance. The portfolio is diversified by both country and sector and we remain confident that Schroder has a robust investment philosophy which is being adhered to.

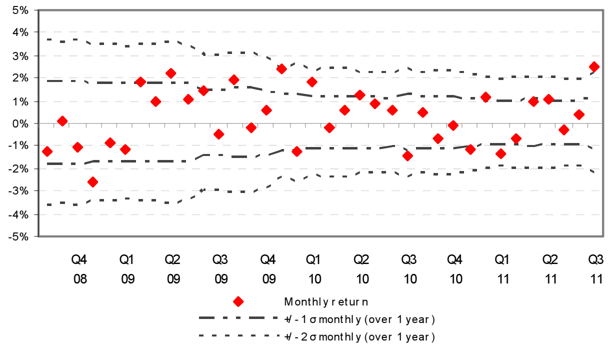
We have no concerns with Schroder.

Genesis Asset Managers – Emerging Market Equities

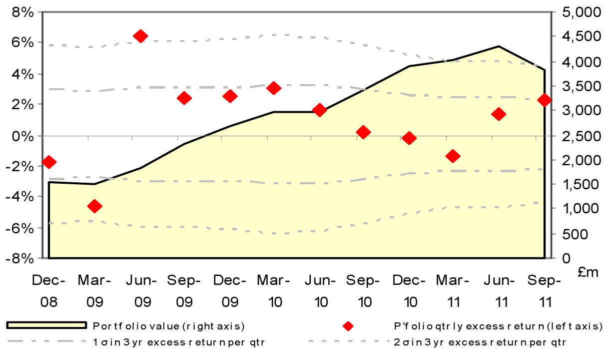
Relative returns #1



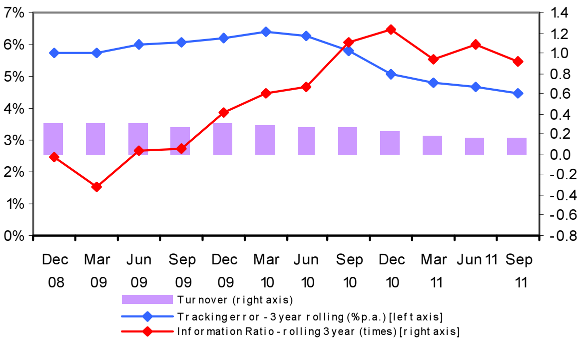
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



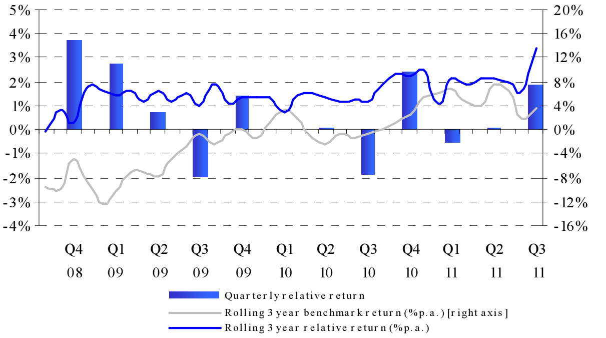
Source: Data provided by WM Performance Services, and Genesis

Comments:

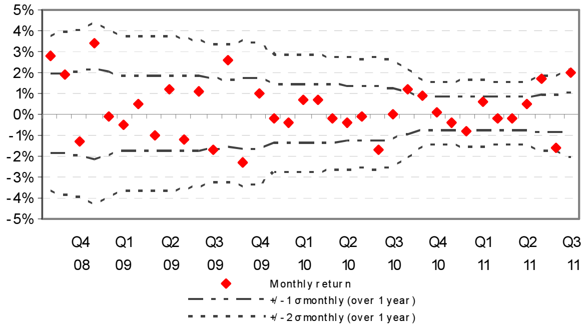
- Over the last quarter the Fund outperformed the benchmark by 2.3%, producing an absolute return of -17.8%.
- Over the last year, the Fund outperformed its benchmark by 2.3%, producing an absolute return of -12.6%. Over the last 3 years, the Fund outperformed the benchmark by 4.2% p.a., producing an absolute return of 15.7% p.a.
- The Fund remains overweight to India and South Africa, and underweight Brazil, South Korea and China. The underweight position in China is maintained, although this is partly due to the restrictions on non-local investors. Please note that the over and underweight's are a result of Genesis' stock picking approach, rather than taking a view on countries.
- The 3 year tracking error (proxy for risk) remained broadly consistent over the latest quarter. The 3 year information ratio (risk adjusted return), decreased slightly from 1.1 to 0.9.
- The allocation to Cash (0.9%) has been the lowest in the last six quarters for this manager.
- On an industry basis, the Fund is now overweight Consumer Staples (+6.9%), Healthcare (2.6%) and Information Technology (+2.4%). The Fund is underweight to Consumer Discretionary (-5.2%), Energy (-4.3%) and Telecom Services (-2.3%).
- Genesis have consistently added value relative to the benchmark, including over the most recent period which was difficult for equities and particularly so for emerging markets.
- Despite the fall in the information ratio, Genesis' performance remains pleasing.

Invesco – Global ex-UK Equities (Enhanced Indexation)

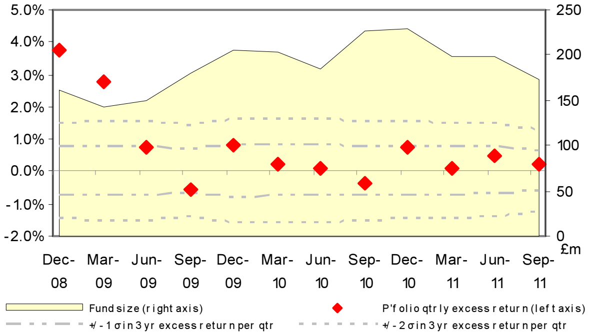
Relative returns #1



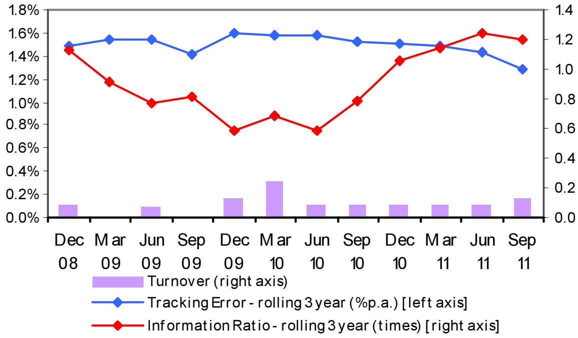
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



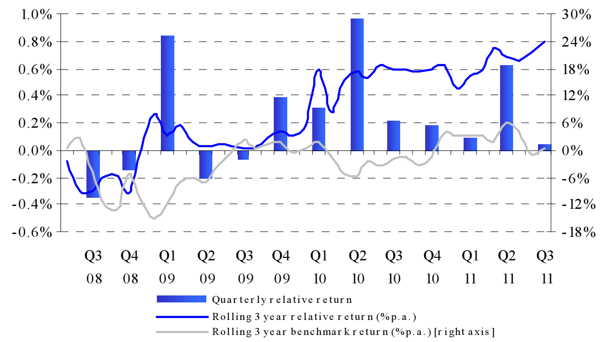
Source: Data provided by WM Performance Services, and Invesco

Comments:

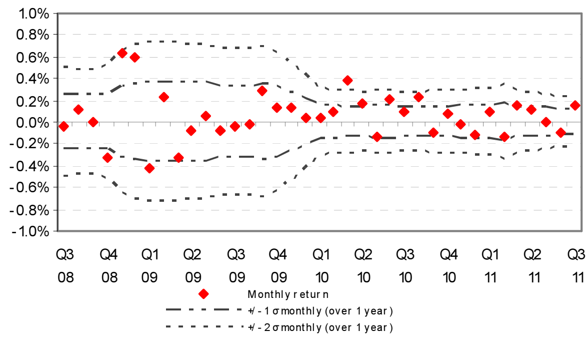
- Over the last quarter the Fund outperformed its benchmark by 1.8%, producing an absolute return of -12.4%.
- Over the last year, the Fund outperformed its benchmark by 3.8%, producing an absolute return of 0.7%. Over three years, the Fund outperformed, by 2.7% p.a., producing an absolute return of 7.1% p.a.
- Over the last quarter, all strategies were positive contributors except for Sector selection. The timing of the pricing of the Fund versus the benchmark also remains a factor in respect of short term relative performance.
- The absolute volatility has increased for the first time since the third quarter of 2010 which is to be expected.
- The turnover for this quarter of 12.3% increased from 9.0% in the previous quarter. The number of stocks continued to reduce over the quarter from 412 to 399.
- The industry allocation is relatively in line with the benchmark industry allocations. All industry allocations were broadly within +/- 1.0% of benchmark weightings as expected from this mandate.
- The number of stocks held in this portfolio is significantly more than is typical for a global equity portfolio but remains appropriate for the enhanced indexation approach.
- Whilst part of the recent positive relative performance is due to the difference in timing of the pricing of the Fund versus the benchmark, Invesco's performance continues meet objective.

SSgA – Europe ex-UK Equities (Enhanced Indexation)

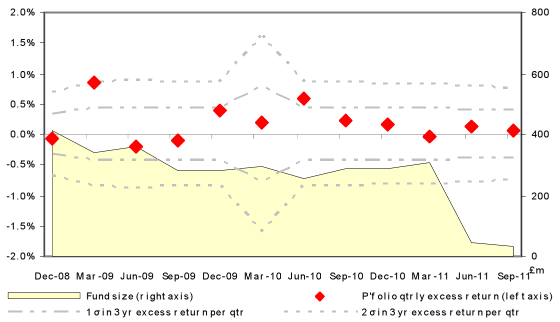
Relative returns #1



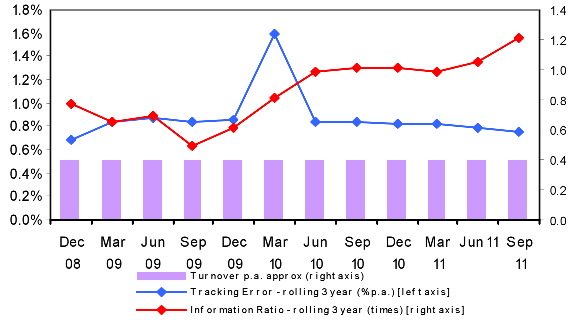
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



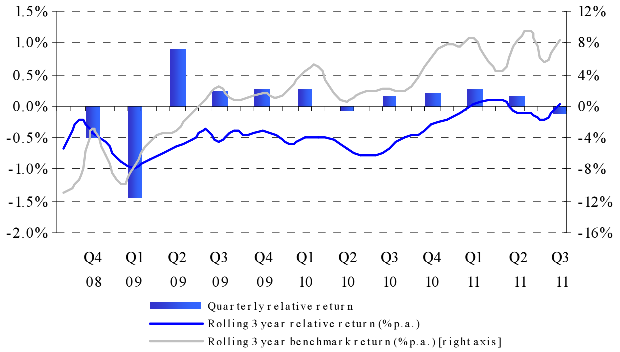
Source: Data provided by WM Performance Services, and SSgA

Comments:

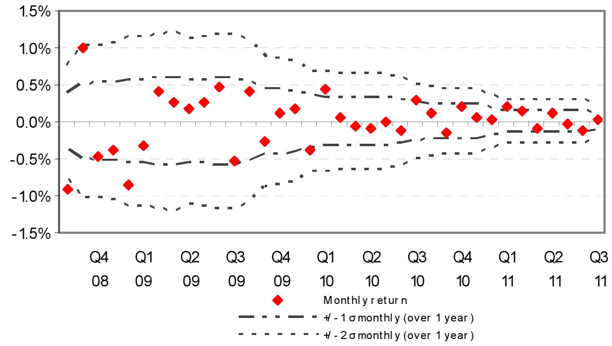
- Over the last quarter the Fund outperformed the benchmark by 0.1%, producing an absolute return of -24.2%.
- Over the last year, the Fund outperformed the benchmark by 1.0%, producing an absolute return of -13.5%. Over the last 3 years, the Fund outperformed the benchmark by 1.5% p.a., producing an absolute return of 1.4% p.a.
- The pooled fund fell in size from £306.12million as at 31 March 2011, to £46.85million as at 30 June 2011. There has been a further fall this quarter of £16.51million which has brought the size of the pooled fund to £30.34million. This was due to one of SSgA's largest investors in this fund withdrawing their assets as part of a strategic review.
- The volatility of monthly relative returns has remained in the narrower band experienced since Q1 2010. As an enhanced indexation fund the magnitude of the volatility is expected to be very low.
- Turnover has continued to remain consistent over the last 3 years while the number of stocks marginally increased over the quarter. The tracking error has slightly decreased over the last quarter.
- This has typically been seen as a suitable fund for contributions or investment if rebalancing is required into active overseas equities. However, performance should be monitored closely in light of the recent large drop in the size of the pooled fund. There is no reason to suggest this in itself will lead to a deterioration in performance, and Avon's share of the pooled fund is now similar to that for the Pacific enhanced indexation fund.

SSgA – Pacific incl. Japan Equities (Enhanced Indexation)

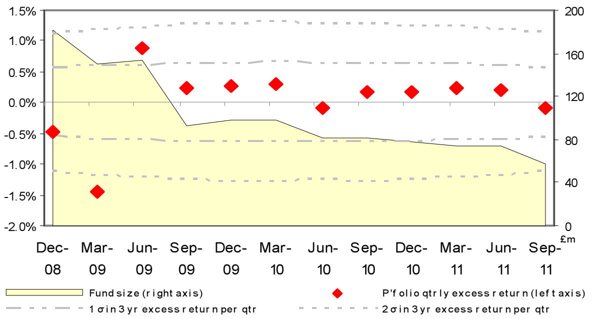
Relative returns #1



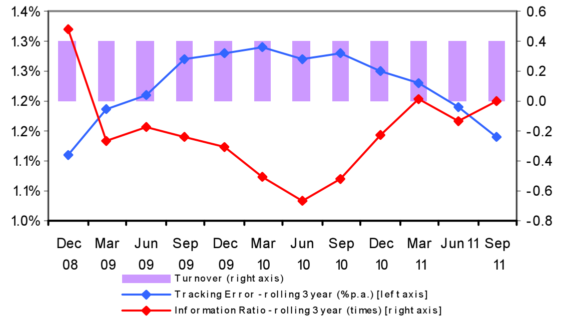
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



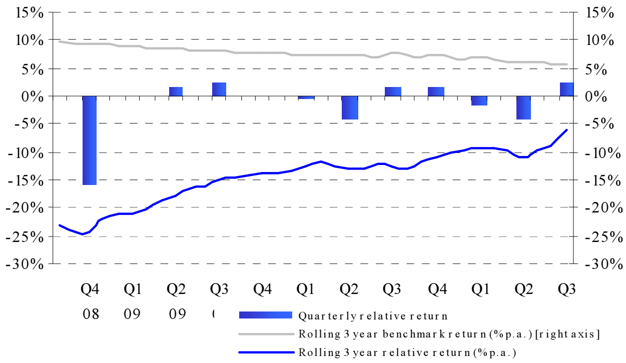
Source: Data provided by WM Performance Services, and SSgA

Comments:

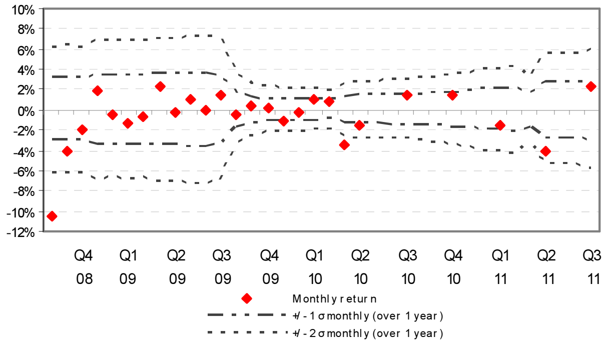
- Over the last quarter, the Fund tracked the benchmark, producing an absolute return of -11.4%.
- Over the last year, the Fund outperformed the benchmark by 0.6%, producing an absolute return of -3.5%. Over the last 3 years, the Fund outperformed the benchmark by 0.2% p.a., producing an absolute return of 8.4% p.a.
- Turnover has remained consistent over the last three years, which is what is expected of this style of investment management.
- 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.

Lyster Watson Management Inc – Fund of Hedge Funds

Relative returns [#1]



Monthly / Quarterly relative returns [#2]



Note that returns after Q2 2010 above are quarterly returns.

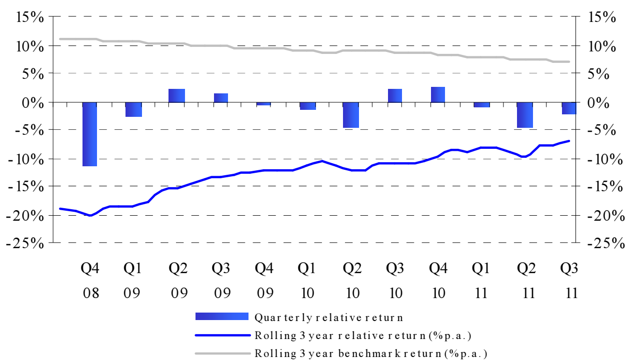
Source: Data provided by WM Performance Services, and Lyster Watson

Comments:

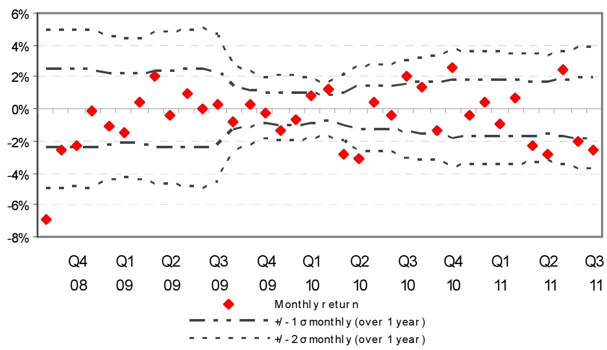
- From 30 June 2011 to the point of disinvestment from Lyster Watson, the Fund outperformed the benchmark by 2.3%, producing an absolute return of 3.5%.
- Over the last year (to the point of disinvestment), the Fund underperformed the benchmark by 3.7%, producing an absolute return of 1.1%. Over the three year period (to 31 July 2011), the Fund underperformed the benchmark by 9.8% p.a., producing an absolute return of -4.2% p.a.
- The allocation to Lyster Watson was removed over the third quarter of 2011. The returns seen in the charts above are therefore not representative of a full quarter of investment.

MAN – Fund of Hedge Funds

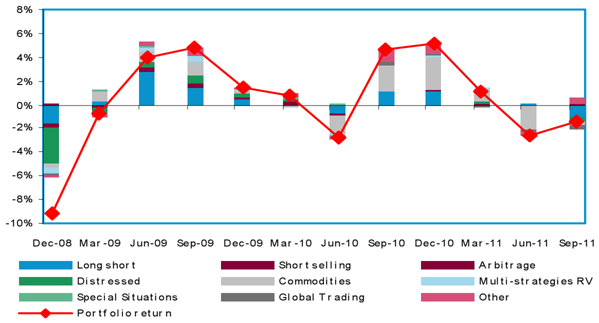
Relative returns [#1]



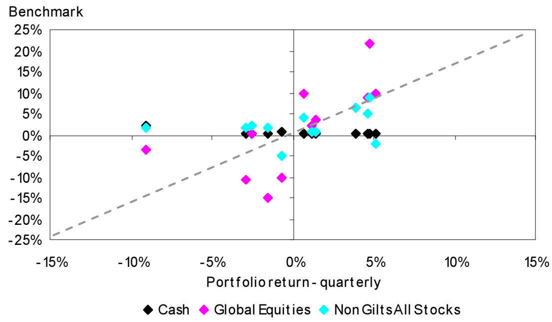
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



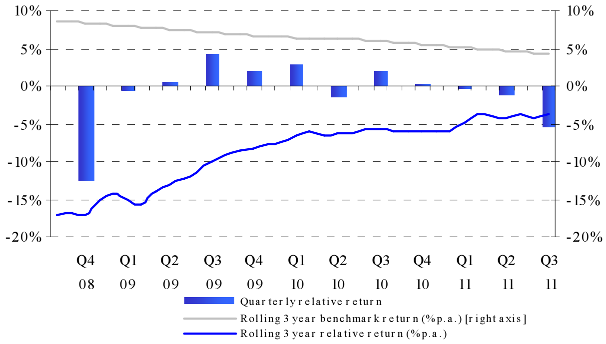
Source: Data provided by WM Performance Services, and MAN

Comments:

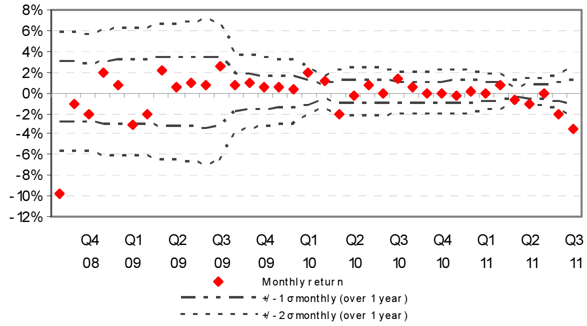
- Over the last quarter, the Fund underperformed the benchmark by -2.3%, producing an absolute return of -0.7%.
- Over the last year, the Fund underperformed the benchmark by 5.3%, producing an absolute return of 1.3%. Over the last 3 years, the Fund underperformed the benchmark by 7.1% p.a., producing an absolute return of -0.1% p.a.
- The key drivers of the negative performance were the allocations to Emerging Markets and Long / Short strategies, which produced negative returns, except for the Long / Short Japan strategy, which produced, positive returns.
- The Fund continues to hold a diverse exposure to hedge fund strategies, with the largest allocations to Long / Short and Commodities strategies, making up 63.2% of the fund.
- 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.
- As part of the recent review of Fund of Hedge Funds, it was decided that the allocation to Man would be reduced. This was completed in Q3 2011.
- As discussed during the review, Man have begun to reduce the number of underlying manager holdings in the portfolio.

Signet – Fund of Hedge Funds

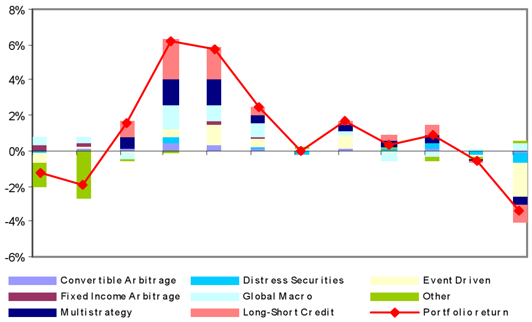
Relative returns [#1]



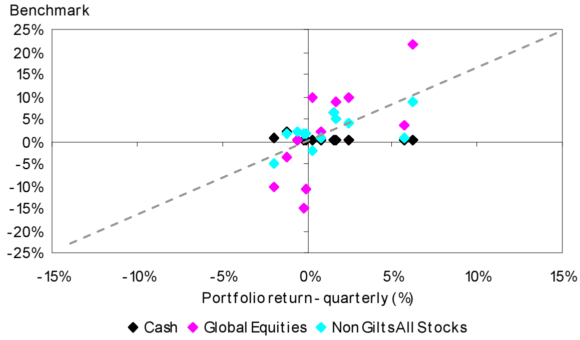
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]

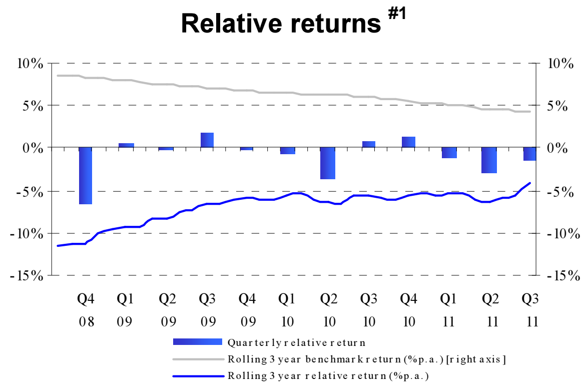


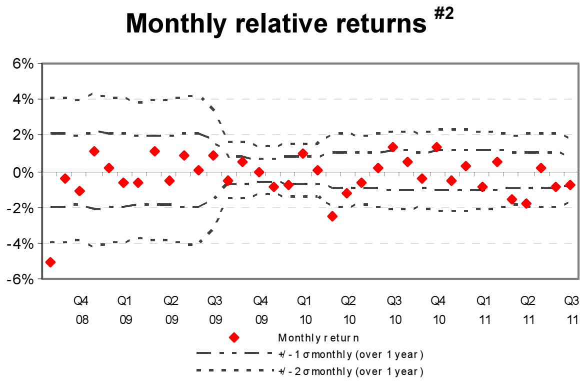
Source: Data provided by WM Performance Services, and Signet

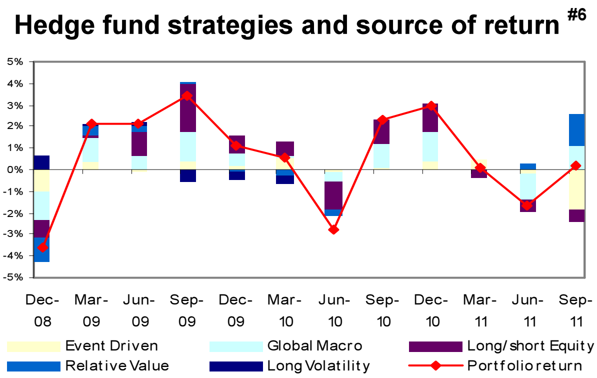
Comments:

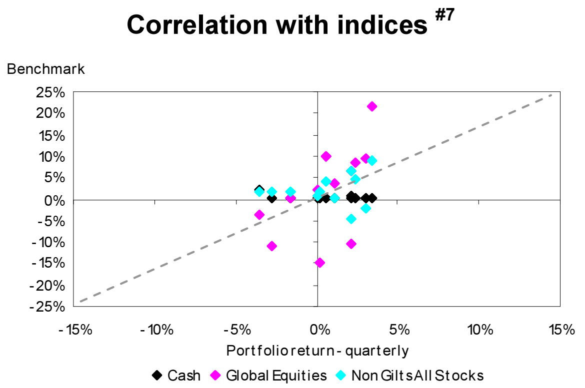
- Over the last quarter, the Fund underperformed the benchmark by 5.6%, producing an absolute return of -4.6%.
- Over the last year, the Fund underperformed the benchmark by 6.7%, producing an absolute return of -2.9%. Over the 3 year period, the Fund underperformed the benchmark by 3.6% p.a., producing an absolute return of 0.6% p.a.
- Despite positive contributions from a number of strategies, the allocation to event driven strategies and distressed securities led to the negative return over the quarter.
- 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.
- The allocation to Signet within the fund of hedge fund portfolio was increased over the quarter as part of the implementation of the changes from the fund of hedge fund portfolio review undertaken earlier in the year.

Stenham – Fund of Hedge Funds









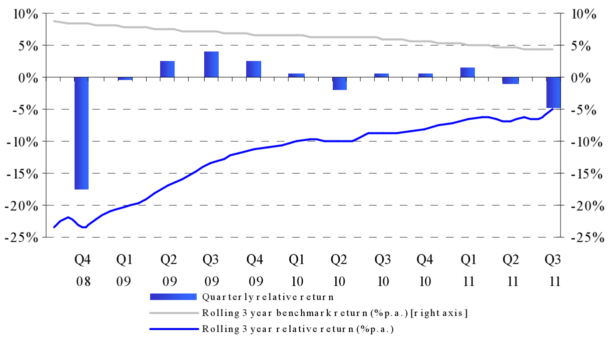
Source: Data provided by WM Performance Services, and Stenham

Comments:

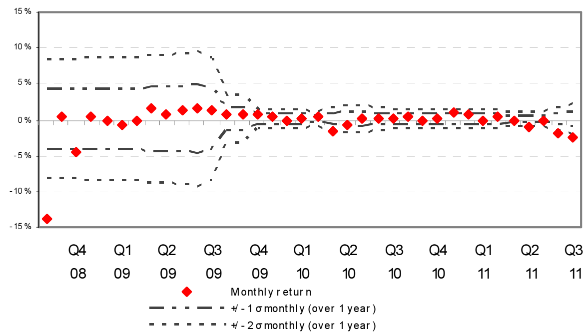
- Over the last quarter, the Fund underperformed the benchmark by 1.5%, producing an absolute return of -0.5%.
- Over the last year, the Fund underperformed the benchmark by 4.2%, producing an absolute return of -0.4%. Over the last 3 years, the Fund underperformed the benchmark by 4.1% p.a., producing an absolute return of 0.1% p.a.
- Relative value strategies provided strong absolute returns over the quarter of 17.3% while negative absolute returns of 9.6% from Event Driven strategies affected the total portfolio return.
- The allocation to the Global Macro and Long / Short Equity strategies made up 66.0% of the total Fund allocation. The allocation to Cash rose from 2.0% to 8.0% over the quarter.
- 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.
- The allocation to Signet within the fund of hedge fund portfolio was increased over the quarter as part of the implementation of the changes from the fund of hedge fund portfolio review undertaken earlier in the year.

Gottex – Fund of Hedge Funds

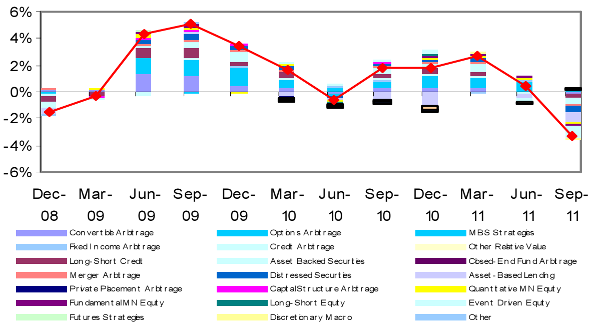
Relative returns #1



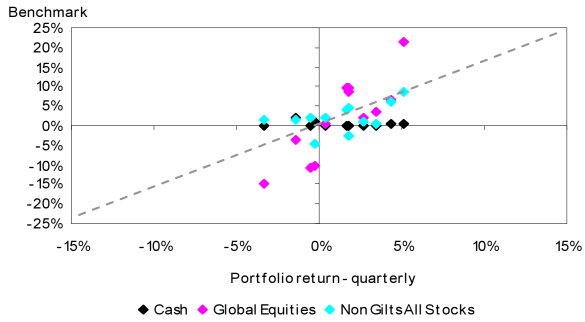
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



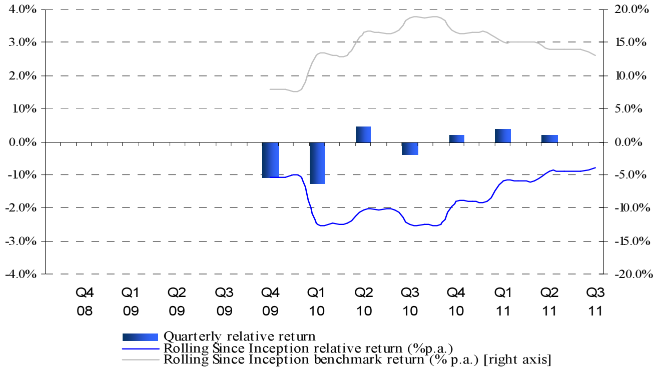
Source: Data provided by WM Performance Services, and Gottex

Comments:

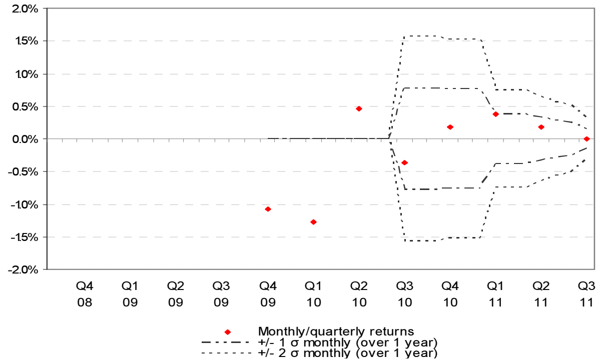
- Over the last quarter, the Fund underperformed the benchmark by 4.7%, producing an absolute return of -3.7%.
- Over the last year, the Fund underperformed the benchmark by 3.5%, producing an absolute return of 0.3%. Over the last 3 years, the Fund underperformed the benchmark by 4.8% p.a., producing an absolute return of -0.6% p.a.
- The Fund generated a negative return during the quarter. This was primarily led by Event Driven Equity, Asset-Backed lending and Asset Backed Securities. Negative performance was marginally offset by positive contribution from Options Arbitrage, Short credit and Cash.
- The Fund has a diverse range of strategy exposures, with the major exposures to MBS, ABS, Fundamental MN Equity and Fixed Income Arbitrage Strategies. There were no significant changes to the strategy asset allocations in the fund.
- 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.

Schroder – UK Property

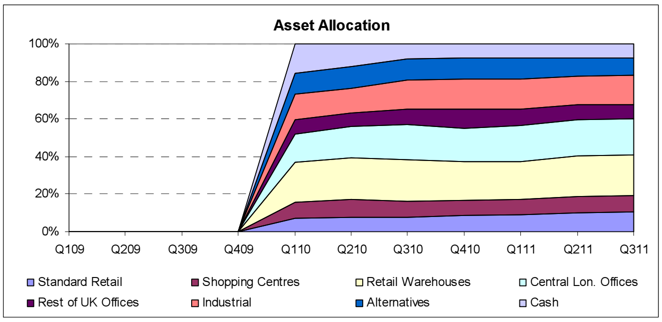
Relative returns #1



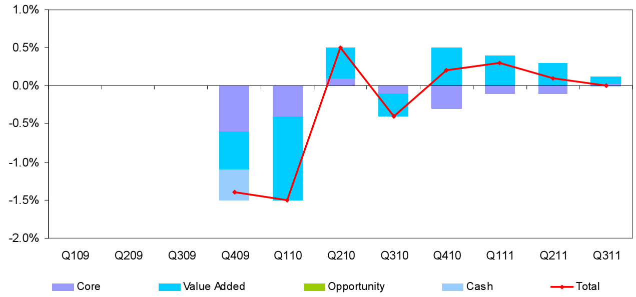
Monthly relative returns #2



Asset Allocation #5



Contribution to relative return #6



Source: Data provided by WM Performance Services, and Schroders

Comments:

- Over the last quarter, the Fund tracked the benchmark, producing an absolute return of 1.8%.
- Over the last year, the Fund produced a return of 8.4%, outperforming the benchmark by 0.8%.
- Over the third quarter of 2011, the strongest contributor to performance came from the value add funds, which comprise 39% of the portfolio. The value add funds have also been the strongest contributor over the last 12 months.
- The Fund retains an overweight position, relative to the benchmark in central London offices. The West End of London PUT, which specialises in central London offices, was the strongest performer at the stock level.
- Schroder were appointed to manage UK Property on a segregated, multi-manager basis. The investments held within the underlying funds are primarily direct, although some managers might use listed securities for diversification.

Partners – Overseas Property

- The mandate awarded to Partners by the Fund commenced in August 2009, although draw downs are being made gradually over time, and the full extent of the Fund's commitment has not yet been invested.
- Partners invest in direct, primary and secondary private real estate investments on a global basis.

Portfolio update

To date, Partners have drawn down approximately £60 million, or approximately 44.5% of the Fund's intended commitment of approximately £134 million. A total of £5.58 million was drawn down over the quarter. The draw downs commenced in September 2009.

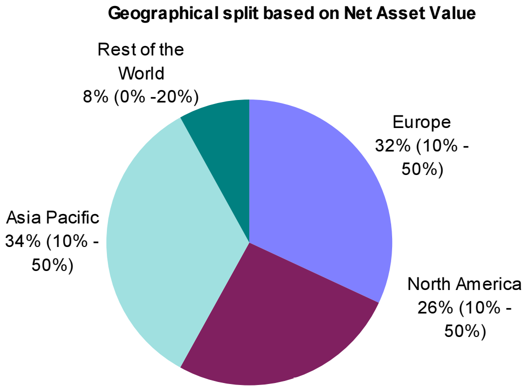
Partners have communicated that the extent of the draw downs to date are broadly as they expected, and they note that their strategy is to build a diversified portfolio in a disciplined manner, spread across different "vintage" years.

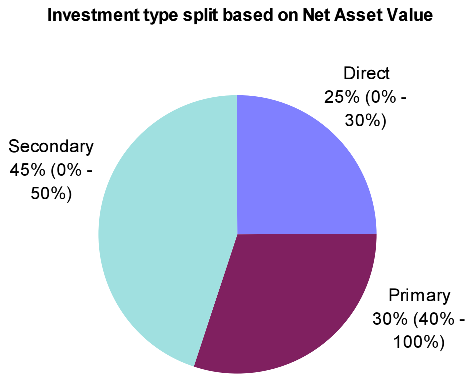
The funds invested to date have been split by Partners as follows:

Partners Fund	Net Drawn Down (£ Million)	Net Asset Value as at 30 September 2011 (£ Million)
Asia Pacific and Emerging Market Real Estate 2009	9.69	11.13
Direct Real Estate 2011	2.69	2.63
Distressed US Real Estate 2009	10.87	11.01
Global Real Estate 2008	23.62	25.61
Global Real Estate 2011	5.57	5.22
Real Estate Secondary 2009	7.11	8.52
Total (£)	**59.76**	**64.12**

Source: Partners. Please note, whilst the valuation on page 14 is as at 30 June 2011 (adjusted for cash flows), the above is Partners' valuation as at 30 September 2011.

The investments in the funds noted above have resulted in a portfolio that was, as at 30 September 2011, split regionally as shown in the chart on the left below, and across different investment types as shown on the right. We show in brackets for each region the current guideline allocations to each region that are in place for the Fund's portfolio.





Source: Partners

Changes to the geographical allocation to the portfolio over the quarter include an increase to Europe from 31% to 32%, to North America from 25% to 26% and the rest of the world from 4% to 8%. The exposure to the Asia Pacific region has reduced from 40% to 34% as a result of growth in assets in other geographies.

In terms of the portfolio allocation by investment type, the exposure to direct investments has increased from the position last quarter from 24% to 25%. The exposure to primary investments has decreased from 33% to 30%, and the exposure to secondary investments has increased from 43% to 45%.

The exposure to Primary is currently below the guidelines, but short term deviation from the allocation restrictions in place can be expected at such an early stage of investment and we do not believe the current positioning to be of concern. In total, 53% of the commitments are allocated to primary investments.

Performance over Q32011

Please note that due to data timing issues, Partners' returns and values will be lagged by a quarter, except those shown on this and the previous page, and therefore reflect the previous quarter's returns and values.

Distributions since inception total £4.61m, with £0.61m distributions over the most recent quarter.

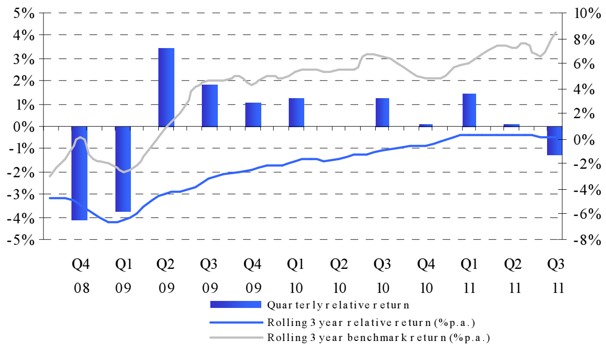
Conclusion

Over the quarter, Partners increased the amount drawn down by £5.58 million. There have been some changes to the asset allocations and the geographical split; however, these are at present due to the draw-downs from the amounts committed. There have been no further changes to the guidelines, and those implemented in October 2010 remain in place.

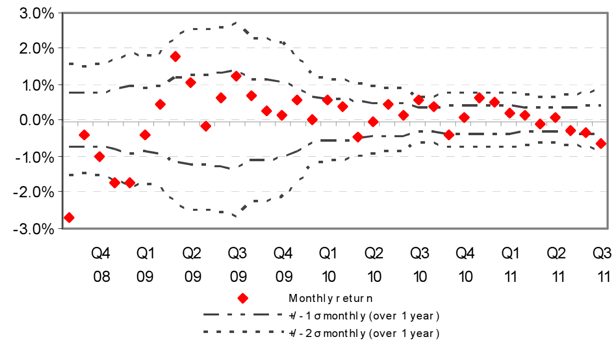
We have no concerns with Partners.

Royal London Asset Management – Fixed Interest

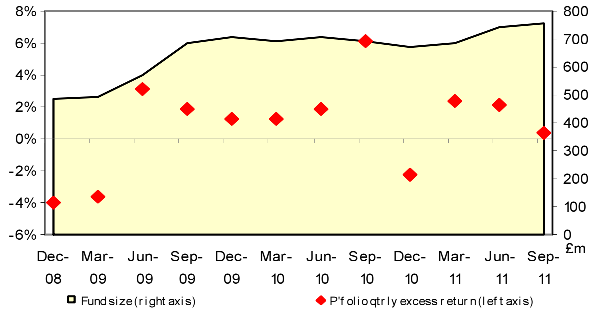
Relative returns #1



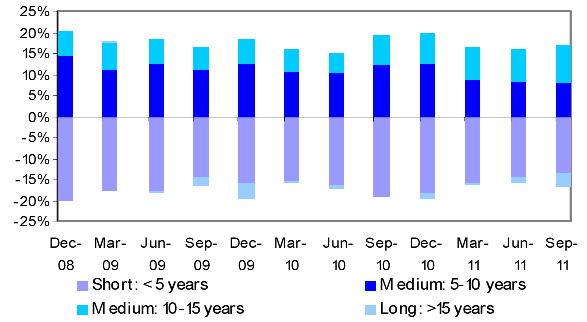
Monthly relative returns #2



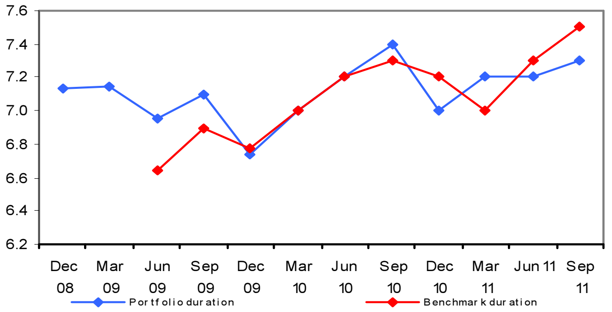
Performance v fund size #3



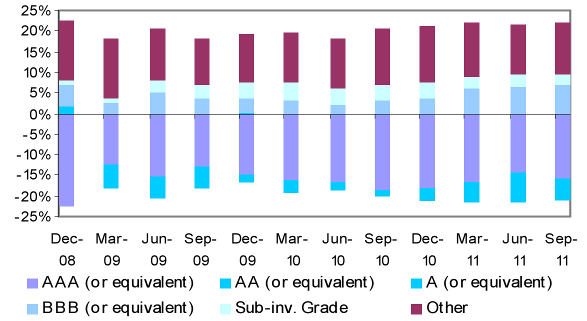
Relative Maturity exposure #8



Duration #10



Relative Ratings exposure #9



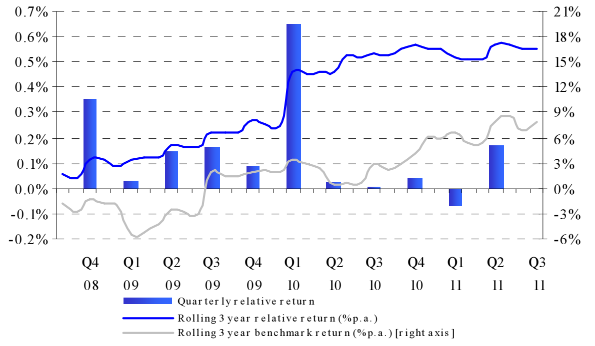
Source: Data provided by WM Performance Services, and RLAM

Comments:

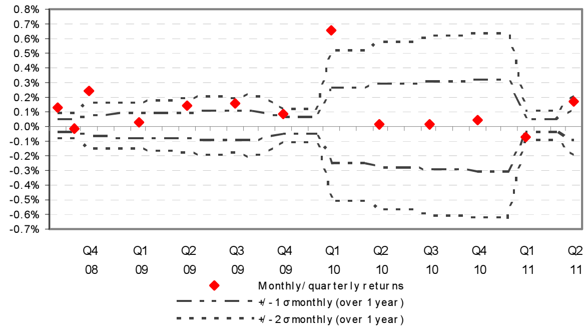
- Over the last quarter, the Fund underperformed the benchmark by 1.2%, producing an absolute return of 0.4%.
- Over the last year, the Fund outperformed the benchmark by 0.4%, producing an absolute return of 2.4%. Over a rolling 3 year period, the Fund outperformed the benchmark by 0.2% p.a., producing an absolute return of 8.6% p.a.
- The Fund remains significantly underweight to AAA and to a lesser extent AA and A rated bonds, and overweight BBB and unrated bonds.
- The Fund continues to be considerably overweight in medium term maturity bonds, and underweight short maturity and long dated bonds.
- Performance relative to the benchmark may be volatile in the short term due to RLAM's allocation to unrated bonds. These investments are not necessarily riskier or "junk status" and RLAM place their own rating on the bonds using their own research.

BlackRock – Passive Multi-Asset

Relative returns #1

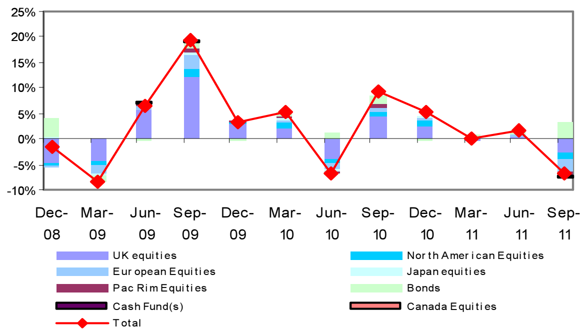


Monthly/Quarterly relative returns #2

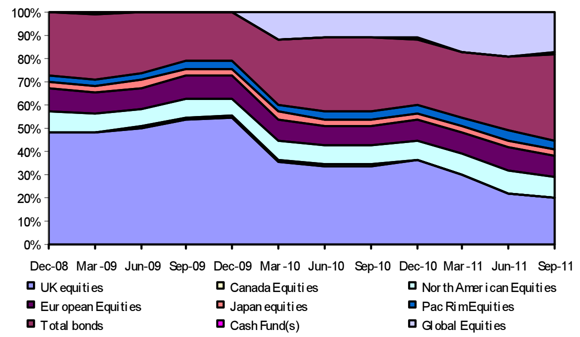


Note that returns after Q4 2008 above are quarterly returns.

Contribution to absolute return #6



Asset Allocation #5

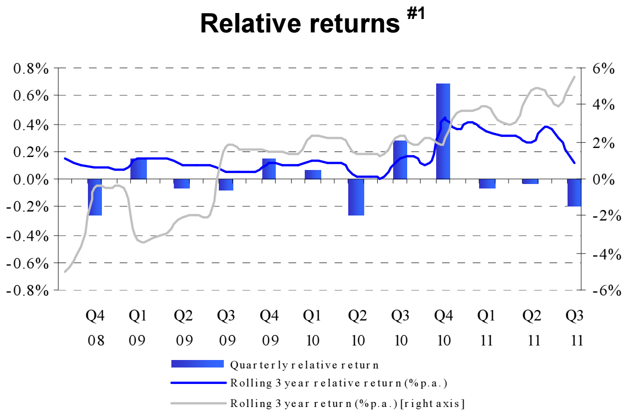


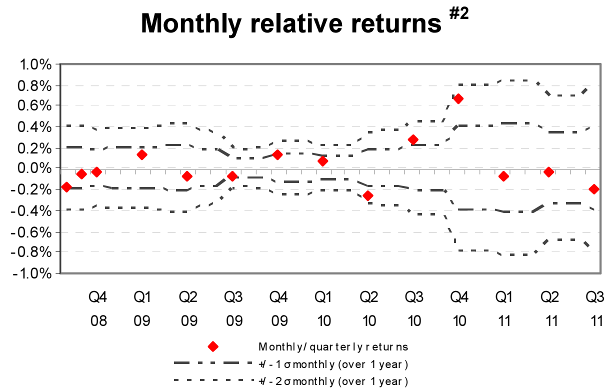
Source: Data provided by WM Performance Services, and BlackRock

Comments:

- Over the last quarter, the Fund tracked the benchmark, producing an absolute return of -6.8%.
- Over the last year, the Fund outperformed its benchmark by 0.1%, producing an absolute return of 1.1%. Over the last 3 years, the Fund outperformed the benchmark by 0.3% p.a., producing an absolute return of 8.4% p.a.
- 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 magnitude of the relative volatility in the portfolio remains small.
- This is the fourth consecutive quarter where the allocation from UK equities has declined and allocation to UK Gilts and UK Corporate bonds has increased. Bond allocation now stands at 38.0% These changes are in line with the changes made to the total Fund strategic asset allocation and market movements.

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





Note that returns after Q4 2008 above are quarterly returns.

Source: Data provided by WM Performance Services, and BlackRock

Comments:

- Over the last quarter, the Fund underperformed the benchmark by 0.2%, producing an absolute return of 0.5%.
- Over the last year, the Fund produced a return of 3.6%, outperforming the benchmark by 0.2%. Over a rolling 3 year period, the Fund produced an absolute return of 5.6% p.a., and tracked the benchmark return.
- Over the quarter the Fund's holding in cash increased by approximately 9% as assets were liquidated to allocate to property investments.
- Over the quarter, the positive absolute return contribution to the total portfolio returns from UK Gilts (7.4%) was offset by negative absolute return contribution from the European, UK and US equities.

Appendix A – Market Events

UK market events – Q3 2011

- **Quantitative Easing:** The Bank of England announced plans of restarting its quantitative easing programme, injecting more money than market expectation. Bank of England policymakers have discussed pumping more electronic money into the economy than the £75 billion they agreed in October 2011.
- **Government Debt:** At the end of September 2011 UK national debt stood at £966.8 billion, or 62.6% of Gross Domestic Product.
- **Unemployment:** The number of people unemployed in the UK increased by 114,000 over the three months to August to reach 2.57 million - a 17 year high according to official figures. The unemployment rate for the three months to August 2011 was 8.1%. The number of people claiming Jobseeker's Allowance (the claimant count) increased by 17,500 in September 2011 to 1.60 million according to the ONS.
- **Manufacturing Sector:** The Purchasing Managers' Index ("PMI") manufacturing survey increased to a seasonally adjusted figure of 51.1 in September after declining to 49.4 in August. The 50-level being the point at which 'contraction' is deemed to become 'growth'. The average PMI reading in Q3 2011 (50.0) was well below on those of Q1 2011 (59.4) and Q2 2011 (52.7).
- **Inflation:** CPI annual inflation of 5.2% in September 2011 was highest since September 2008, up from 4.5% in August 2011. RPI annual inflation of 5.6% was the highest reading since June 1991, up from 5.2% in August 2011. The largest upward pressures to the change in CPI inflation came from an increase in gas and electricity charges. Bills for gas and electricity have risen 9.9% in the past month and are up 18.3% on the year. There were large upward pressures also from air transport and communication services.
- **Gross Domestic Product ("GDP"):** In the third quarter of 2011, GDP increased by 0.5%. Britain's economy grew faster than expected in the third quarter but the decline in the manufacturing sector has accelerated and economists are warning the UK is on the verge of recession. Much of the growth in the third quarter was down to a jump in output from the service sector, which makes up just over three quarters of the economy.
- **Interest Rate:** Despite inflation remaining well above the Bank of England's target of 2.0%, the Bank's Monetary Policy Committee maintained interest rates at a record low of 0.5%, which has been the case since March 2009.

Europe market events – Q3 2011

- **European sovereign debt crisis:** European leaders said they secured a deal to reduce Greece's debt after they managed to arrive at an agreement on what they had billed as a blockbuster package to stem the Continent's debt crisis. The leaders had reached an agreement with private banks on a voluntary 50% reduction of Greece's debt in the hands of private investors. The leaders had also agreed to expand the firepower of the euro zone's bailout vehicle, known as the European Financial Stability Facility, by four - or five-fold — suggesting it could provide guarantees for around €1 trillion, or about $1.4 trillion, of bonds issued by countries such as Spain and Italy.

- **Italy:** Italian bonds came under renewed pressure on 31st October 2011 as investors continued to question Europe's debt crisis plan and the willingness of the European Central Bank to keep up its bond purchasing programme. The yield on Italy's benchmark 10-year bond rose more than 15 basis points to 6.18%, with the spread over German bonds widening above 400 basis points. Italy's debt costs have steadily climbed back close to the levels of early August, when the ECB started intervening on the open market following a commitment by Silvio Berlusconi's centre-right government to implement structural reforms and cut public sector debt.
- **Greece:** The Greek prime minister's high-risk decision on 31st October 2011 to call a national referendum on the country's second international bail-out rattled global investors and left politicians reeling, amid doubts over the deal agreed at the previous week's Brussels summit. George Papandreou shocked both his own Pan-Hellenic Socialist Movement (Pasok) and the opposition conservatives by opting for a plebiscite in a move aimed at defusing mounting pressure from his party to hold an early election. The Premier's move reinforced concerns that Greece's fraught domestic politics are spiralling out of control amid growing popular anger over public sector job cuts and tax increases. Strikes and violent demonstrations have become frequent in Athens and other cities. Shares slumped on fears that a "no" vote by the Greek people could lead to a messy default by Athens triggering sovereign debt contagion though the financial system.
- **Spain:** Spain saw its credit rating cut by two notches on 19th October 2011 with a negative outlook on the new rating, as Moody's warned that the country risked being sucked deep into the European debt crisis. The agency raised the pressure on EU leaders prior to this weekend's crucial summit by cutting Spain's credit rating to A1, its fifth highest rating, from Aa2. Moody's pointed to Spain's low growth prospects and high levels of debt. Spain's government is aiming to cut its deficit to 6% in 2011, from 9.0% in 2010. The Spanish unemployment rate has soared to 21.0%, with 4.2 million people now officially out of work. This has led to an increase in bad debts across Spain's banking sector, as people find they are unable to meet repayment costs. The previous week, both S&P and Fitch cut their rating on Spain, leaving the country at AA-, their fourth-highest rating.
- **France:** In mid September 2011, Credit rating agency Moody's has downgraded two French banks after reviewing their exposure to Greek debt. Credit Agricole was cut from Aa1 to Aa2 and Societe Generale from Aa2 to Aa3. A third bank, BNP Paribas, was kept on review for a possible downgrade. European stocks tumbled and the euro dropped against the dollar on 14th October 2011, after France was given a warning over its AAA rating by Moody's. The rating agency said the country's financial strength had weakened and the deterioration in government debt meant it was now among the weakest countries with the top rating. Finance Minister Francois Baroin said the government would do everything to make sure France was not downgraded.
- **Unemployment:** The EU27 unemployment rate was at 9.5% in August 2011, unchanged compared with July 2011. Among the Member States, the lowest unemployment rates were recorded in Austria (3.7%), the Netherlands (4.4%) and Luxembourg (4.9%), and the highest in Spain (21.2%), Greece (16.7% as at June 2011) and Latvia (16.2% as at June 2011).
- **Services and Manufacturing Sectors:** The Eurozone composite PMI fell to 47.2 in October 2011 from 49.1 in September 2011. Manufacturing PMI fell to 47.3 from 48.5 in September 2011 while services PMI declined to 47.2 from 48.8 in September 2011.
- **Inflation:** The inflation rate in the Euro area was reported at 3.0% in September 2011.
- **GDP:** GDP growth for the third quarter was not available at the time of writing, although for the second quarter of 2011, this was 0.2%.

- **Interest Rate:** The European Central Bank's base rates remained unchanged at 1.5% in October 2011.

US market events – Q3 2011

- **Unemployment:** The rate of unemployment in the US decreased from 9.2% in June 2011 to 9.1% in September 2011. Nonfarm payroll edged up by 103,000 in September 2011.
- **Manufacturing and Industrial Production:** Industrial production increased 0.2% in September 2011, being unchanged since August 2011. For the second quarter as a whole, total industrial production increased at an annual rate of 5.1%. In the manufacturing sector, output moved up 0.4% in September 2011 after having gained 0.3% in August 2011.
- **Inflation:** The US CPI rate increased from 3.6% in June 2011 to 3.9% in September 2011.
- **GDP:** US real GDP increased by 2.5% over the third quarter of 2011, against a 1.3% increase in the second quarter.
- **Interest Rate:** The Federal Reserve continues to hold interest rates at 0.25%.

Emerging Markets market events – Q3 2011

- The performance of emerging market equities was driven by global growth and fears over the world economy. This caused the stocks of those economies most exposed to the West, such as China, Korea and Taiwan, to suffer the biggest losses during the quarter. Sentiment in the Chinese stock market was also hurt by signs of weakness in the country's economy, as well as further interest rate increases as the government battled to get inflation under control. Similarly in India, the central bank has raised interest rates 13 times since March 2010 amid inflation fears.
- India's inflation rate accelerated to a 13-month high of 9.8% in August 2011, highlighting the dilemma facing policy-makers as they wrestle with the twin woes of rising inflation and slowing economic growth. The higher-than-expected inflation figures up from 9.2% came just two days after data showed that India's industrial production growth slowed sharply in July to a mere 3.3%, down from 8.8% in June 2011. The industrial production growth for the month of August 2011 stands at 4.1%.
- Thailand's prime minister has warned that it will take the country three months to recover from the worst floods in decades, even though the capital's central districts have thus far escaped being inundated. Nearly 400 people have been killed by the flooding in the country since July, when heavy monsoon rains began pounding the region. More than 1,000 factories have been closed, leading to global shortages of hard-disk drives and car parts, and a quarter of the rice crop has been destroyed in the world's biggest rice-exporting nation. The Thai central bank slashed its gross domestic product growth forecast for this year to 2.6% from 4.1% and warned that output could be downgraded again.
- The International Monetary Fund cut its China growth estimates for this year and next and indicated that a stronger yuan would help to contain inflation and rebalance the economy. Gross domestic product will grow 9.5% this year, less than a June estimate of 9.6%; the 2012 forecast was lowered to 9.0% from 9.5%. China is also battling inflation which stood at 6.1% in September 2011, well above the government's 4.0% target for the year.

Global summary – 1 year

Economy

- The rate of inflation, as measured by the Consumer Prices Index ("CPI") rose from 3.1% in September 2010 to 5.2% in September 2011. Although the Bank of England's Monetary Policy Committee ("MPC") kept interest rates on hold at 0.5% over the year it restarted its programme of quantitative easing in Q3 2011 and unveiled plans to increase the size from £200 billion to £275 billion. The extension is the first change to the programme since November 2009 and provided the clearest signal yet that the Bank of England is concerned the UK is on the brink of a double-dip recession.
- Gross Domestic Product (GDP) grew at an annualised rate of 0.5% over the year to 30 September 2011. GDP turned negative in the fourth quarter of 2010 but fears of a double recession has begun to return despite the first three quarters of 2011 seeing positive economic growth. Analysts expect conditions in the UK economy to remain challenging over Q4 2011 and into 2012 as the crisis in the Eurozone poses a danger to economic growth.
- The Office for National Statistics ("ONS") reported that the unemployment rate had risen to 8.1% with the number of people unemployed reaching 2.57 million, a 17 year high. Youth unemployment is a particular problem with the total of 16 to 24 year olds unemployed reaching a record high of 991,000 in the quarter, which equals 21.3% of that age group. The number of people out of work and claiming benefits rose to 1.6 million in September.
- The European Central Bank ("ECB") has raised interest rates from 1.25% to 1.5% in a bid to curb inflation and signalled further potential rate rises, despite faltering growth in southern Europe and the crisis facing the peripheral European Government bond markets. The ECB is becoming increasingly concerned about the rate of inflation, which has risen from 2.2% to 3.0% during 2011, and inflation will not fall back. However at its November meeting the ECB has announced a 0.25% reduction in interest rates back down to 1.25% citing the ongoing financial crisis in the Eurozone.
- The US Federal Reserve announced a new stimulus programme, dubbed "operation twist", which involves the Federal Reserve selling $400 billion of Treasury bonds with maturities of 3 years or shorter and purchasing an equivalent amount of Treasury bonds with maturities of between 6 and 30 years. In addition the central bank decided to reinvest principal payments from its holdings of agency debt and MBS into agency mortgage backed securities, rather than into Treasuries in an effort to support the housing market.
- Concerns that Greece will default intensified in the third quarter as fears that many major banks would suffer serious losses because of their holdings of Greek government debt. These fears were exacerbated by the problems at the Franco-Belgian bank, Dexia, which has a €3.4bn exposure to Greek debt, a problem which has led to the French and Belgian governments stating that they would prevent a collapse of the bank. The downgrade of Italian government debt by Moody's also reignited fears that a Greek default might have a domino effect on other sovereign bond markets.
- The Portuguese government followed their Greek and Irish counterparts cap in hand to the ECB to request a bailout. The Greek government passed stringent austerity measures despite fierce protests from its citizens and narrowly avoided defaulting by managing to roll over its current debt into longer term obligations. Commentators fear that the current measures have just moved the default of Greece "down the road" were realised in the third quarter of 2011. After the 30 September 2011, a further bailout package has been announced for Greece, which includes a 50% hair cut on government debt.

- The pound depreciated against the US Dollar and Yen over the year but strengthened against the Euro. The sovereign debt crisis facing the Eurozone was the main driver in the depreciation of the Euro against Sterling.
- Economic Growth has slowed in Emerging Markets following tightening monetary policies against the background of increasing inflationary pressures. Rising finished goods inventories and falling export orders in Emerging Market countries such as South Korea and China, are likely to force companies to reduce further levels of production. The "knock-on" impact may lead to slower growth over 2011. However Emerging Market governments such as the Chinese Government have invested billions into infrastructure programmes to stimulate its economy. Meanwhile, the government has made a major effort to transform the economy away from its reliance on exports and towards stronger domestic consumption. Emerging Market countries have a more than manageable debt to GDP ratio, unlike certain Western economies such as Greece and Italy.

Equities

- The performance of equities over the year has been dominated by events in Q3 2011, with political differences in the US and the sovereign debt crisis in the Eurozone. The global equity markets fell sharply in late July and early August and were extremely volatile over the third quarter.
- The performance of global equities over the year to 30 September 2011 has been extremely volatile, with the UK equities producing a return of -4.4% and Europe ex UK equities performing poorly with a return of -13.6%, on fears about the stability of the banking system. This was driven by the political uncertainty in the US and the sovereign debt crisis facing the Eurozone. In Sterling terms US equities have produced a return of 2.1% and Japan achieved a return of 1.9%. The equity markets in the Asia Pacific ex Japan and Emerging Markets regions produced returns of -11.7% and -15.3% respectively.

Fixed Interest

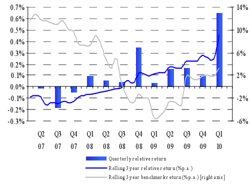
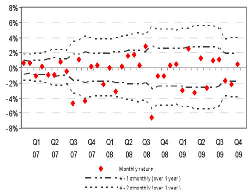
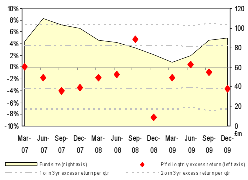
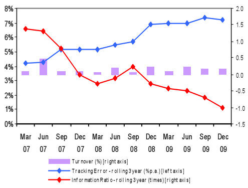
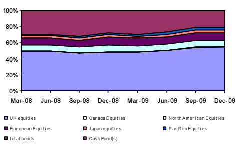
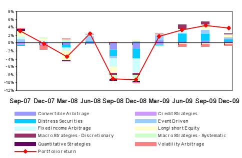
- Against the turmoil in the equity markets and the government bond markets in the Eurozone, the UK gilt market was perceived to be a safe haven and produced a return of 11.2% over the year. Corporate bonds produced a return of 3.3%, driven by corporate restructuring that has resulted in strong balance sheets, strong cash flow and healthy margins.
- Gilt yields fell amid the "flight-to-quality", caused by the continued uncertainty in the European bond markets. Italian bond yields have reached a record level in Q3 2011 and the sovereign debt crisis in Greece has continued to dominate headlines in over Q2 and Q3.
- Index-linked fixed interest assets produced a return of 13.6% over the year. Annual inflation rose above 5% as at 30 September 2011, a result of rising utility bills and the rising cost of household goods. However the Bank continues to believe annual inflation will fall sharply next year and could dip below the 2% target.
- The European debt crisis continues to dominate the headlines and the two major ratings agencies have downgraded Greece to junk bond status. The ECB's decision to keep interest rates at 1.5% is a blow to the southern European peripheral economies, which shows the ECB is more concerned about fighting inflation than holding down borrowing costs for embattled governments. Portuguese government bonds have also been cut to "junk bond" status and the yields on Italian government bonds has reached a record level.

Alternative Asset Classes

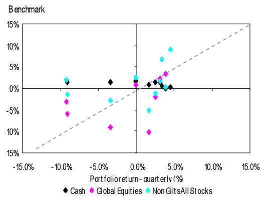
- Commodities produced a 4.1% return over the year. The price of gold has increased dramatically over the year, however has been volatile over Q3, peaking toward the end of August and significantly falling over the month of September on hopes that the European Finance Ministers were making progress towards solving the Eurozone sovereign debt crisis.
- Commercial property continued its upward trend over the year producing a return of 8.7%, with rental income the main driver of performance.
- Hedge funds produced a positive absolute return over the year but lagged certain equity regions.

Appendix B – Glossary of Charts

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

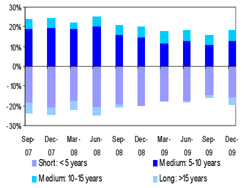
Reference	***Description***
#1 	This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year 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 latest quarter 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



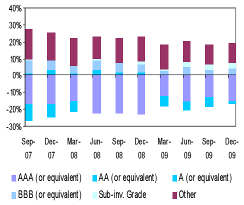
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance. 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



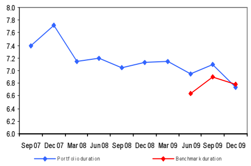
This chart shows the holding in short, medium and long maturity bonds relative to the benchmark. Over/underweight positions expose the fund to changes in the yield curve at different terms.

#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 C – 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%
Schroder	Global Equities (Unconstrained)	MSCI AC World Index Free	+3.5-4.5%
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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3 October 2011

Ms Liz Feinstein
Bath & North East Somerset Council
PO Box 9
Floor 3 South
Riverside
Temple Street
Keynsham
Bristol
BS31 1LA

Dear Liz

We write with regard to our discussion on BlackRock's approach to corporate governanceactivitiesin relation to companies in which we may invest for our clients.

This is an area that we take seriously and apply good industry practice. We are signatories to the United Nations Principles for Responsible Investment and have regard to the UK Stewardship Code. Our status as one of the largest global asset managers gives us significant access to company boards and management teams and we use this access to ensure that our views are heard.

BlackRock's Corporate Governance & Responsible Investment (CGRI) programme focuses on protecting and enhancing the long-term economic value of the companies in which it invests on behalf of its clients. We do this through engagement with the boards and management of investee companies and, for those clients who have given us authority, through voting at shareholder meetings. In our view, corporate governance is about BlackRock assessing the strength and quality of a company's board, leadership and executive management. Through our engagement with companies we seek to assess this, as well as to build mutual understanding between ourselves, the boards and the management of companies we invest in. Additionally, the CGRI team works closely with portfolio managers to ensure an integrated approach to governance matters.

Our duty to our clients is executed in the following ways:

- BlackRock has adopted a risk-based approach to identify companies with which to engage. In order to do this, we use internal screening and external tools and methodologies to help us evaluate risks and potential triggers for engagement. Our risk-based approach is wide-ranging, taking into account corporate governance, social, environmental, ethical and economic issues; and our engagement covers a wide spectrum of activity, ranging from "low impact" activities such as telephone conversations with management to clarify/explain particular issues, to "high impact" activities such as voting at general meetings of shareholders, or scheduling a series of meetings over an extended period to achieve significant change. We believe that the most effective engagement is usually done by directly engaging with companies. .

- BlackRock has a clearly established process that is applied to all engagements. When we undertake an engagement, the CGRI team will first address its concerns to the non-executive directors of the board. We focus on the board of directors because it is the party that is legally accountable to shareholders. Our goal is to gain comfort that the board is providing proper oversight in ensuring that the executive team manages (and is incentivised to manage) the company in a manner that promotes long-term shareholder value creation. Our portfolio managers engage with company executives and evaluate social, ethical, environmental and governance risks and opportunities for an industry or company as they consider potential economic issues related to their investments.

- BlackRock demonstrates its commitment to protection and enhancement of shareholder value by: (i) voting at shareholder meetings in the way that we believe is in the best interest of our clients, (ii) undertaking different types of engagement that include thematic engagement, performance-based engagement and event driven engagement. As mentioned above, while BlackRock's practice is to engage directly with company boards to discuss areas of concern, we will also use voting to reflect our concerns - for instance by voting against the re-election of directors in a company that is not, in our view, satisfactorily addressing issues that have been raised.

Below we set out some areas of recent engagements:

- **Thematic:** These engagements address issues that BlackRock has identified that are common to a number of companies or to specific sectors. Typical of this category would be engagements around environmental social and governance (ESG) issues. We engage with companies in this instance to understand what policies management have in place to monitor and mitigate such risks. This approach is consistent with our support for and participation in broad-based initiatives such as the Carbon Disclosure Project or the Extractive Industries Transparency Initiative. As an example, last year we met with a number of extractive industries companies to discuss safety in mining in Kazakhstan. Also typical of this category would be engagement around remuneration and benefits. As an example, this year we engaged with major banks in the UK and Europe (namely Germany and Switzerland) to discuss executive remuneration in light of the current economic environment. Our goal was to understand the approach taken by each company and the extent to which there was a robust process behind overall remuneration packages, determining whether we considered them reasonable and not excessive in the context of the market and individual banks' performance. Our approach to reviewing executive remuneration is focused on the structure and whether it is linked to the stated strategy and performance of the company.

- **Performance-based:** These engagements focus on companies that have suffered poor financial performance as a result of company-specific factors, particularly poor governance practices. Unlike the majority of our engagements which aim to pre-empt poor financial performance, engagements in this category are premised on getting management or the board to face up to and actively address performance problems. They tend to be undertaken over a longer period of time and involve our portfolio managers. Whilst for confidentiality reasons we are not at liberty to disclose named examples of this type of engagement, some of the changes that we have successfully lobbied for include the establishment of a Health, Safety and Environment committee that reports to the board and is addressing past weakness in this area that had negatively impacted a company's performance. In another instance we have called for the appointment of independent board directors with a strong relevant industry experience that would contest status quo thinking and enable the company's board to provide greater challenge and oversight of the management team, with an ultimate goal of improving performance.

- **Event-Driven:** These engagements stem from a significant development at a company or in a sector that potentially has, or has had, material economic ramifications for shareholders. In our communication with management or board members we aim to understand the event (and why it occurred), and seek to get clarification on whether the event could reasonably have been prevented and what steps have been taken to remedy it. We may also try to ascertain the extent to which the event is the result of poor management practices or ineffectual board oversight. An example of event driven engagement is with BP plc in the aftermath of the Macondo incident. Here we met extensively with board level executive and non-executive directors immediately after the event, as well as with below-board management. It was shown that the health and safety initiatives being communicated from the top had not been successfully embedded further down the chain of command. The company has since re-organized the way it manages safety and operational risk by creating a separate function with independent specialists working alongside the line management to ensure full compliance with the company's approach to risk management. In order to satisfy ourselves that these matters have been adequately addressed, we continue to engage with the company on a regular basis to monitor how these changes are being implemented and ensure that the new procedures are sufficient to address the weaknesses that have been exposed. We also take these issues into account when engaging with other companies in high risk or operationally intense industries.

BlackRock's governance activities are co-ordinated by the Corporate Governance & Responsible Investment team, which is resourced by 20 dedicated professionals within the portfolio management group. The teams are based in the US, UK, Japan, Hong Kong and Australia and each team is responsible for the engagement and voting activities in their region, with overall responsibility resting with the global head of corporate governance based in San Francisco. The teams work closely with portfolio managers on voting and engagement where there is an active shareholding, and in consultation with them when the only holding is indexed. The intention is to ensure that corporate governance and social, ethical and environmental factors are integrated, to the extent they are material, into the investment process.

In addition to the resources that we deploy internally, BlackRock leverages its efforts by participating in a number of formal coalitions and shareholder groups, such as the Association of British Insurers in the UK, the Asian Corporate Governance Association in Asia, and the International Corporate Governance Network globally, aiming to further responsible share ownership. We will also, at times, work informally with other shareholders (where such activities are permitted under the law) to engage companies on specific issues or areas of common concern. And finally, as mentioned above, BlackRock is a signatory to the United Nations Principles for Responsible Investment and we will therefore undertake engagements in collaboration with the UN PRI Engagement Clearinghouse.

In conclusion, BlackRock takes its responsibilities in corporate governance very seriously and we believe that our corporate governance team's engagement principles and risk-based processes are well suited to protect and enhance shareholder value.

We hope that this provides a clearer picture of our efforts in this area.

Yours sincerely

Rohan Worrall

Rohan Worrall
Managing Director

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Appendix 6

Euro and European Financials exposure

Estimated exposure to Euro Denominated assets at 30 September 2011

	£m	% of asset class
Overseas Bond portfolios	21.6	3.7%
Equity portfolios	137.4	9.6%
Global Property Funds	45.8	62.0%
Total Euro denominated exposure	204.8	8.9%

The Overseas Bond Portfolio has no exposure to Sovereign bonds issued by Greece, Ireland and Portugal. It has an estimated £2.1m invested in Spanish Government Bonds and £5.4m in Italian Government Bonds.

Estimated exposure to European Banks and Insurance Companies at 30 September 2011

	£m	% of asset class
Equities		
UK Banks	38.7	
European Banks	35.4	
UK Insurers	17.6	
European Insurers	18.4	
Total	**110.1**	**7.7%**
Corporate Bonds		
Financial companies	38	
Total	**38**	**27.8%**

Note: this excludes hedge funds; European banks includes Eurozone, Swiss, Swedish, Danish and Norwegian banks

Stock Price performance since 30 June 2011 (Sterling returns)

	Approx % of index at 30/9/11	Price change 30/6/11 to 12/11/11
HSBC	5.7%	-18.6%
Barclays	1.3%	-30.5%
Lloyds	0.9%	-41.2%
Royal Bank Scotland	0.3%	-41.5%
Banking Sector	10.0%	-22.5%
Life Insurance Sector	3.7%	-14.4%
FTSE All Share		-7.7%
European Bank Sector	13.9%	-30.0%
European Insurance Sector	6.4%	-24.4%
FTSE AW Europe		-14.5%

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Bath & North East Somerset Council		
MEETING:	**Avon Pension Fund Investment Panel**	
MEETING DATE:	**22 NOVEMBER 2011**	**AGENDA ITEM NUMBER**
TITLE:	**SSGA Pooled Funds**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Exempt Appendix 1 – 20 October Workshop: Summary of Investment Panel conclusion Exempt Appendix 2 - Additional Information - Options		

1 THE ISSUE

1.1 This paper summarises the impact of the reduction in size of the SSgA pooled funds in which the Avon Pension Fund is invested.

1.2 The issue was raised by the Committee and addressed when SSgA presented to the Investment Panel at a workshop on 20 October 2011.

2 RECOMMENDATION

2.1 The Investment Panel recommends to the Avon Pension Fund Committee that no further action is required and that Officers will continue to monitor fund size as part of their on-going monitoring.

3 FINANCIAL IMPLICATIONS

3.1 There is a potential impact on costs should there be any change to the investment manager structure. Careful analysis would be undertaken on the impact of any change in costs before any changes would be made.

4 ISSUE

4.1 Following a reduction in the size of the SSgA pooled funds in which the Fund invests in, the Committee expressed concerns at the potential impact on performance and costs due to smaller economies of scale, and sought reassurance from SSgA of their continued commitment to these funds.

4.2 As at 30 Sept 2011 the Fund holds £25m of a total of £30m in SSgA's European ex-UK enhanced index fund, and £52m of a total of £57m in SSgA's Pacific enhanced index fund.

4.3 Exempt Appendix 1 provides further details provided by SSgA in response to the questions raised which have been summarised below.

5 IMPACT ON COSTS AND PERFORMANCE

5.1 The information provided by SSgA satisfied the Panel that the impact on costs of the redemptions by other investors and impact on administration and management costs of a smaller fund do not impact remaining investors. When investors divest they bear the full costs of the transaction. The size of the funds are still at a level at which optimal economies of scale are achievable.

5.2 SSgA explained how the investment process and development resources put into the model would not be affected by the reduction in fund size. The Panel were reassured that performance would not be adversely affected by the reduction in fund size.

5.3 The funds in question are still of a size that is considerably above the size at which SSgA would begin to question commercial viability and therefore it is very unlikely that while the Fund continues to be an investor SSgA would seek to close the funds. SSgA manage other pooled funds where there is only one investor.

5.4 Given SSgA's commitment to their enhanced indexation strategy the Panel felt it unlikely that SSgA would stop supporting the development of the model (from which the funds the APF is invested will continue to benefit).

6 ALTERNATIVE OPTIONS

6.1 In addition to the information considered at the Investment Panel at a workshop on 20 October 2011, in the event that these funds were closed, Officers have identified the 4 alternative options and these are explained in Exempt Appendix 2.

6.2 For the reasons set out in Exempt Appendix 2, these alternative options all have advantages and dis-advantages but when compared with the current arrangements material drawbacks have been identified.

7 CONCLUSIONS

7.1 The Panel were reassured that SSgA remained committed to the pooled funds and that it would not suffer a reduction in resourcing or from a negative impact on costs.

7.2 Given the minimal impact of the reduction in size on costs and performance, the low probability that SSgA closes the funds, and the dis-advantages associated with alternative options, it is recommended no further action is taken and that Officers continue to monitor the size of the funds as part of their on-going monitoring.

8 RISK MANAGEMENT

8.1 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund and through the selection process followed before managers are appointed. This report monitors the return of the strategic benchmark and the performance of the investment managers. An Investment Panel has been established to consider in greater detail investment performance and related matters and report back to the committee on a regular basis.

9 EQUALITIES

9.1 This report is primarily for information only.

10 CONSULTATION

10.1 This report is primarily for information and therefore consultation is not necessary.

11 ISSUES TO CONSIDER IN REACHING THE DECISION

11.1 The issues to consider are contained in the report.

12 ADVICE SOUGHT

12.1 The Council's Monitoring Officer (Council Solicitor) and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Feinstein, Investments Manager (Tel: 01225 395306)
Background papers	
Please contact the report author if you need to access this report in an alternative format	

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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-11-016

Meeting / Decision: Avon Pension Fund Investment Panel
Date: 22 November 2011

Author: Liz Feinstein
Report Title: SSgA Pooled Funds Exempt Appendix Title: Appendix 1 – 20 October Workshop: Summary of Investment Panel conclusion Appendix 2 - Additional Information - Options

The Report contains exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption: 3. *Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the Report be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

<u>PUBLIC INTEREST TEST</u>

If the Committee wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972

Act exempts information which relates to the financial or business affairs of the Community Admission Bodies which is commercially sensitive to the Community Admission Bodies (CAB). The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

Weighed against this is the fact that the exempt appendix 1 contains the observations and opinions regarding the performance of SSgA and the impact of the reduction in size of the SSgA pooled funds. Exempt Appendix 2 provides details on Council officer's observations of possible alternatives should the SSgA funds be closed.

It would not be in the public interest if advisors and officers could not express in confidence opinions which are held in good faith and on the basis of the best information available. The information to be discussed is also commercially sensitive and if disclosed could prejudice the commercial interest's of the investment managers.

It is also important that the Committee should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest has been served by the fact that a significant amount of information, regarding the situation with SSgA and the overall decision reached considering the alternative options, has been made available on these issues – by way of the main report.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**	
MEETING DATE:	**22 NOVEMBER 2011**	**AGENDA ITEM NUMBER**
TITLE:	**PANEL WORKPLAN**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Nil		

1 THE ISSUE

1.1 This report sets out the workplan for the Panel to May 2012. The workplan is provisional as will respond to issues as they arise and instructions from the Committee.

1.2 Panel dates need to be agreed for April/May.

1.3 The workplan will be updated for each Panel meeting.

2 RECOMMENDATION

2.1 **That the Panel agrees the workplan to be recommended to the Committee.**

3 FINANCIAL IMPLICATIONS

3.1 There are no financial implications arising from this report.

4 PROVISIONAL WORKPLAN

4.1 The provisional workplan is as follows:

Panel meeting / workshop	Proposed reports	Outcome
22 Nov 2011 Workshop and Meeting	• Review mangers performance to Sept 2011 • SSgA Pooled Funds • Meet the managers workshop (Genesis)	• Agree any recommendations to Committee • Agree any recommendations to Committee
22 Feb 2012 Workshop and Meeting	• Review mangers performance to Dec 2011 • Meet the managers workshop (Partners, Schroder equity)	• Agree any recommendations to Committee • Agree any recommendations to Committee
Apr 2012 Workshop	• Meet the managers workshop (Intro to Hedge Funds, Man, Signet)	• Agree any recommendations to Committee
May 2012 Workshop and Meeting	• Review mangers performance to Dec 2011 • Meet the managers workshop (Gottex, Stenham)	• Agree any recommendations to Committee • Agree any recommendations to Committee

4.2 The Panel's workplan will be included in the regular committee report setting out the committee's and pensions section workplans. This will enable the Committee to approve or alter the planned work of the Panel.

5 RISK MANAGEMENT

5.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

6 EQUALITIES

6.1 An equalities impact assessment is not necessary.

7 CONSULTATION

7.1 N/a

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 This report is for discussion.

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer (Council Solicitor) and Section 151 Officer (Director of Resources and Support Services) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Feinstein, Investments Manager 01225 395306
Background papers	
Please contact the report author if you need to access this report in an alternative format	

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