Bath & North East Somerset Council

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Date: 28 August 2012
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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: Wednesday, 5th September, 2012

You are invited to attend a meeting of the **Avon Pension Fund Committee - Investment Panel**, to be held on **Wednesday, 5th September, 2012** at **9.30 am** in the **Kaposvar Room - Guildhall, Bath.**

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 01225 395090 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 - Wednesday, 5th September, 2012

at 9.30 am in the Kaposvar Room - 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

   At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to indicate:

   (a) The agenda item number in which they have an interest to declare.

   (b) The nature of their interest.

   (c) Whether their interest is **a disclosable pecuniary interest** *or* an **other interest**, (as defined in Part 2, A and B of the Code of Conduct and Rules for Registration of Interests)

   Any Member who needs to clarify any matters relating to the declaration of interests is recommended to seek advice from the Council's Monitoring Officer before the meeting to expedite dealing with the item during the meeting.

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: 17 MAY 2012 (Pages 5 - 8)

8. REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 JUNE 2012 (Pages 9 - 66)

9. PANEL WORKPLAN (Pages 67 - 70)

The Committee Administrator for this meeting is Sean O'Neill who can be contacted on 01225 395090.

AVON PENSION FUND COMMITTEE - INVESTMENT PANEL

Minutes of the Meeting held

Thursday, 17th May, 2012, 2.00 pm

Members: Councillor Charles Gerrish (Chair), Ann Berresford, Councillor Mary Blatchford, Councillor Nicholas Coombes and Andy Riggs (In place of Bill Marshall)
Advisors: Tony Earnshaw (Independent Advisor) and John Finch (JLT Investment Consultancy)
Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (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 Cllr Gabriel Batt. Andy Riggs substituted for Bill Marshall.

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: 22 FEBRUARY 2012

The public and exempt minutes for the meeting of the 22 February 2012 were approved as a correct record and signed by the Chair.

8 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 MARCH 2012

The Assistant Investments Manager highlighted the following issues:

a) The quarterly return had been driven by positive returns from all equity markets, supported by small returns from hedge funds and property. Fixed income assets had negative returns in the quarter, except UK corporate bonds.
b) Monitoring of TT had continued since the previous meeting. Overall their stock selection, including financials and oil and gas, had produced a positive return in the quarter.
c) Meetings had been held with Man and Signet, as reported in exempt appendix 3.
d) The funding level had improved over the quarter from 66% to 70%.
e) The benchmark data was not complete, because the Panel was meeting earlier than usual.
f) There had been a significant downturn in markets since the end of the quarter.

Mr Finch commented on the JLT report in appendix 1. Referring to page 11 of the report, he said that in aggregate managers had done quite well. There was, however, concern about Man's ongoing performance. On the wider economic front, it was fortunate that inflation was not triggering wage inflation. Inflation could have a beneficial effect in reducing debt. In response to questions from Members, Mr Finch and officers stated:

- there was reason to be confident about investments in corporate bonds as although a number of European banks had been downgraded, many companies had strong balance sheets

  the trigger to reverse the tactical bond allocation has not been reached. The spread is at 141% compared to 1.46% at the March committee meeting. Corporate bond yields have not risen and John Finch confirmed that the 1.20% target to reverse the switch was still justified given market conditions.

- Schroders had a low exposure to European banks within its actively managed global equity portfolio.

A Member suggested that the Fund's investment managers were not doing very well at the moment against their benchmarks. Mr Finch replied that Genesis, an unconstrained manager, was performing very strongly, though there was variation among the others. Members agreed that it was unwise to attach too much importance to performance in a single quarter and that performance over a three year period was more informative. A Member noted that most of the Fund's managers had improved over three years, with the exception of Man. It was noted that a meeting would take place with Man shortly.

A Member asked about the impact of active currency hedging. The Investments Manager replied that the hedging ratio against the Euro had increased, which is providing protection against the current weakness in the Euro. Last year the Euro remained strong against expectations and the hedging programme was not profitable.

RESOLVED:

1. To note the information as set out in the report.

That continuing concerns about the performance of Man should be notified to the Avon Pension Fund Committee.

9 OPTIONS FOR REBALANCING POLICY

The Investments Manager introduced this item. She reminded the Panel that at the last meeting of the Avon Pension Fund Committee a Member had been concerned about the suspension of the corporate bonds/equities rebalancing policy, suggesting that it should either be abolished or modified. As a result JLT had proposed a revised policy for rebalancing that is flexible to implement across all market conditions.

Mr Finch introduced the JLT review report, circulated as Appendix 1. He said that the report suggested that wider bandwidths for the switching would result in fewer transactions and hence lower transaction costs in a volatile market. It also suggested that property and the Fund of Hedge Funds might be included in the rebalancing policy Framework.

The Chair said that he wished to understand which officers would be responsible for taking decisions under the policy and how they would arrive at a decision. He asked what would happen if a decision to whether or not to implement the trigger had to be considered when officers were absent on leave. The Head of Business, Finance and Pensions said there would always be cover. Those normally involved in the decision would be the Investments Manager, Assistant Investments Manager, Mr Finch and the Head of Business, Finance and Pensions, or, if he was on holiday, the Strategic Director of Resources. There was a continuous review of market conditions, so that it was unlikely that a possible trigger situation would come entirely out of the blue. The Chair pointed out that one of these key officers could be on holiday for several weeks. The Head of Business, Finance and Pensions replied that if it appeared that a trigger situation could arise during the leave of a key officer, a position would be agreed in advance. The Investments Manager said JLT would always be consulted before a decision was taken. She thought that a pragmatic approach was needed; there had to be a trigger, but one that was too mechanistic could cause problems. The Chair suggested that the recommendations in the report should be amended so that tactical reviews and decisions would be taken by Officers “having consulted the Investment Advisers”. The Head of Business, Finance and Pensions said that it would be absurd to implement any rebalancing policy if there was a complete market collapse. Mr Finch said that the aim was to produce a more flexible policy, but there was no question of removing the Committee’s governance responsibility.

RESOLVED

The Panel recommends that a rebalancing policy is maintained by the Fund, subject to the following amendments:

1. For equities/bonds, introduce a “two-tiered” set of boundaries:

    i) a deviation of between 2% and 5% is subject to a tactical review by the Officers having consulted the Investment Advisers;

    ii) a deviation greater than 5% results in an automated rebalancing back to at least +/- 2% weighting as a default. An additional tactical decision is then taken by the Officers supported by the Fund’s consultants on whether this is fully rebalanced back to the central benchmark allocation or otherwise.

2. For the less liquid assets, introduce a “soft” bandwidth at which the allocation should be reviewed and discussed by the Investment Panel no less than six-monthly:

    i. Property: +/- 5%;
    ii. Fund of Hedge Funds: + 5%.

10 WORKPLANS

The updated workplans were circulated.

RESOLVED to note the workplans.

The meeting ended at 2.59 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND INVESTMENT PANEL	
MEETING DATE:	5 SEPTEMBER 2012	AGENDA ITEM NUMBER
TITLE:	Review Of Investment Performance For Periods Ending 30 June 2012	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – JLT performance monitoring report		

1 THE ISSUE

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

1.2 This report contains performance statistics for periods ending 30 June 2012.

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

Section 4. Funding Level Update

Section 5. Investment Performance: A - Fund, B - Investment Managers.

Section 6. Investment Strategy

Section 7. Portfolio Rebalancing

1.4 JLT's report in Appendix 2 provides a full commentary on the performance of the fund (pages 10 to 20), the investment managers (pages 21 to 39) and market background (pages 4 to 6). It also puts the performance into the context of changes to the liabilities and funding level (pages 7 to 9).

2 RECOMMENDATION

That the Investment Panel:

2.1 Notes the information as set out in the report.

2.2 Identifies issues to be notified to the Committee.

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 4 of this report discusses the trends in the Fund's liabilities and the funding level.

4 FUNDING LEVEL

4.1 Using information provided by the Actuary, JLT has analysed the funding position as part of the quarterly report (see pages 7-9). This analysis shows the impact of both the assets and liabilities on the (estimated) funding level. ***It should however be noted that this is just a snapshot of the funding level at a particular point in time.***

4.2 Key points from the analysis are:

(1) The funding level at 31 June 2012 fell to 69% from 70% at 31 March 2012.

(2) The largest contributor was the increase in liabilities due to the reduction in the gilt yield (3.1% versus 3.4% at 31 March) which was only partially offset by the fall in inflation expectations

(3) In addition, asset returns were lower than the returns assumed in the funding model.

5 INVESTMENT PERFORMANCE

A – Fund Performance

5.1 The Fund's assets decreased by £56m (-1.9%) in the quarter, giving a value for the investment Fund of £2,702m at 30 June 2012. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.

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

Table 1: **Fund Investment Performance**
Periods to 30 Jun 2012

	3 months	12 months	3 years (p.a.)
Avon Pension Fund (incl. currency hedging)	-1.9%		
Avon Pension Fund (excl. currency hedging)	-1.6%	0.5%	11.6%
Strategic benchmark *(Fund relative to benchmark)*	-1.7% *(+0.1%)*	0.0% ***(+0.5%)***	11.4% *(+0.2%)*
Customised benchmark *(Fund relative to benchmark)*	-1.4% *(-0.2%)*	1.1% ***(-0.6%)***	11.8% *(-0.2%)*
Local Authority Average Fund *(Fund relative to benchmark)*	-1.9% *(=)*	-0.9% ***(+1.4%)***	11.5% *(+0.1%)*

Note that because currency hedging has been in place for less than twelve months, for consistency all "*Fund relative to benchmark*" data in the above table excludes currency hedging. The impact of currency hedging is addressed at paragraph 5.8.

5.3 **Avon Pension Fund**: Quarterly return driven by negative returns from equities and hedge funds offsetting positive returns from bonds and property.

5.4 Over three years the Fund has outperformed the return expectations underpinning the investment strategy. This is largely a result of strong three year returns from both equities and bonds. However, the strong equity returns reflect the relatively low valuations of three years ago and returns over the next three years could be significantly lower, particularly if concerns regarding the Eurozone and global growth come to pass. Also, bond yields have fallen to historic lows, and the prospects for similar high returns over the next three years from bonds are low.

5.5 **Versus Strategic Benchmark (which reflects an allocation of 60% equities, 20% bonds, 10% property, 10% hedge funds):** Annual relative outperformance was largely driven by the Fund's hedge fund, property and equity (emerging markets and UK) managers outperforming their respective benchmarks used in the strategic benchmark. The overweight to corporate bonds (which performed strongly) also added to the outperformance over the twelve month period.

5.6 **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 relative underperformance of the Hedge Funds and Schroder Equity, more than offsetting outperformance by Jupiter, Genesis, SSGA and Partners over the year. The other managers performed broadly in line with their benchmarks.

5.7 **Versus Local Authority Average Fund**: Annual relative outperformance driven by Fund's lower than average allocation to UK equities which performed negatively over the year, and higher than average allocation to bonds which performed well and provided protection from equity losses.

5.8 **Currency Hedging**: This quarter sterling strengthened against the euro, and weakened against the US dollar and yen, resulting in the returns from euro denominated equity assets reducing in sterling terms and returns from US dollar and yen denominated assets increasing in sterling terms. The underlying currency return on the c£630m assets in the hedging programme had a positive impact of 1.32% over the quarter, with the hedging programme detracting 1.08% from this reducing the net currency return on the assets in the programme to +0.32%. In terms of the Fund's total return, the hedging programme detracted 0.3% from the Fund's total return in the quarter.

5.9 Since the end of the quarter, global equity markets have been positive with the FTSE All Share up over 6% (to 20th August). The total return for the Over 15-year Gilt index was c. +2.2% during the same period. Sterling strengthened against both the dollar (+1%) and Euro (+2.5%) from quarter end to 20th August.

B – Investment Manager Performance

5.10 A detailed report on the performance of each investment manager has been produced by JLT – see pages 17 to 36 of Appendix 2. Other than comments on Man and Schroder (see 5.12 and 5.13 below) their report does not identify any new performance issues with the managers.

5.11 MAN remains under close review as they restructure the portfolio after a period of disappointing performance.

5.12 The Schroder global equity mandate has underperformed over 12 months. Because of the unconstrained nature of the mandate, performance relative to benchmark is expected to be volatile over the short term. Schroder continue to adhere to the approach and philosophy outlined during the tender process. Schroder will be invited to the Panel meeting to be held in 1Q13.

5.13 As part of the 'Meet the Managers' programme, the Panel are to meet with 2 of the Fund's Fund of Hedge Fund managers on 5 Sept 2012.

6 INVESTMENT STRATEGY

6.1 During the quarter the tactical allocation within the bond portfolio was reversed. In August the spread between gilts and corporate bonds reached the pre-determined trigger point (spread between gilt and corporate bond yields narrows to 120 basis points) for the tactical position to be reversed. Officers subsequently arranged the sale of £80m of corporate bonds to unwind the tactical allocation. Having consulted the Investment Consultant, the proceeds were not re-invested into gilts given that gilt yields were (even) lower than when the tactical position was established and the asset allocation between equities and bonds was nearing the lower band of the rebalancing range. Their advice was to invest the proceeds in global equities (to effect rebalancing policy discussed in section 7). After transaction costs, the tactical allocation benefitted the Fund by £2.4m when compared to the outcome had the monies remained invested in gilts over the period.

6.2 JLT's report did not highlight any strategy issues for consideration. The Fund will be undertaking a full investment strategy review, commencing in Q4 2012.

7 PORTFOLIO REBALANCING

7.1 The rebalancing policy agreed by the Committee on 22 June 2012 requires rebalancing of the Equity/Bond allocation to occur when the equity portion deviates from 75% by +/- 5%, and allows for tactical rebalancing between deviations of +/- 2 to +/- 5%, on advice from the Investment Consultant. The implementation of this policy is delegated to Officers.

7.2 Rebalancing was undertaken this quarter in conjunction with the reversal of the tactical switch. The Equity:Bond allocation was estimated at 72:28 which was within the tactical decision range. On advice from the Investment Consultant, Officers took the opportunity to rebalance whilst reversing the tactical allocation within the bond portfolio. Gilt values remain very high, so repurchasing gilts at this time was not preferred. JLT advised investing the proceeds from selling the corporate bonds in global equities as equities look better value on a relative basis to gilts. They preferred allocating to an active manager who is better able to take account of current market conditions. The proceeds from the sale of £80m of the RLAM corporate bond fund were allocated to Invesco, Schroder Global Equity and BlackRock with £5m being retained as cash for cashflow management purposes. As a result of the transactions and market movements, the Equity:Bond allocation was estimated at 76:24 (22 August).

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 (i) the strategic policy and funding level in terms of whether the strategy is on course to fund the pension liabilities as required by the funding plan and (ii) 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 (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Matt Betts, Assistant Investments Manager (Tel: 01225 395420)
Background papers	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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APPENDIX 1

AVON PENSION FUND VALUATION – 30 JUNE 2012

	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	Includes Currency Hedging		
EQUITIES														
UK	262.6	14.5	125.4	106.0		14.3							522.8	19.4%
North America	134.5	9.2				64.2							207.9	7.7%
Europe	107.3	4.5				17.4		27.1					156.3	5.8%
Japan	33.7					10.8		26.6					71.1	2.6%
Pacific Rim	45.0					12.2		28.0					85.2	3.2%
Emerging Markets					133.5	12.1							145.6	5.4%
Global ex-UK							165.3						165.3	6.1%
Global inc-UK	221.8											8.3	230.1	8.5%
Total Overseas	***542.3***	***13.7***			***133.5***	***116.7***	***165.3***	***81.7***				***8.3***	***1061.5***	**39.3%**
Total Equities	**804.9**	**28.2**	**125.4**	**106.0**	**133.5**	**131.0**	**165.3**	**81.7**				**8.3**	**1584.3**	**58.7%**
BONDS														
Index Linked Gilts	192.1												192.1	7.1%
Conventional Gilts	112.0	29.5											141.5	5.2%
Sterling Corporate	13.8								232.2				246.0	9.1%
Overseas Bonds	80.4												80.4	3.0%
Total Bonds	**398.3**	**29.5**							**232.2**				**660.0**	**24.4%**
Hedge Funds										209.2			209.2	7.7%
Property											199.8		199.8	7.3%
Cash	4.7	14.6	5.8	9.4		4.4					3.3	6.1	48.3	1.8%
TOTAL	**1207.9**	**72.3**	**131.2**	**115.4**	**133.5**	**135.4**	**165.3**	**81.7**	**232.2**	**209.2**	**203.1**	**14.4**	**2701.6**	**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 June 2012

Avon Pension Fund

JLT INVESTMENT CONSULTING

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.

Funding level

- There is expected to have been a minor decline in the funding level over the second quarter of 2012, when considering the impacts of financial markets only.
- The drivers of the slight decline in the funding level are:
  - a negative return from the Fund's assets; and,
  - a decrease in gilt yields, which, all else being equal, is expected to have increased the value placed on the Fund's liabilities. The expected impact of the fall in yields was partially offset by a fall in expected inflation, which, again all else being equal, is expected to decrease the value placed on the liabilities.

Fund Performance

- The value of the Fund's assets decreased in value by £56m during the second quarter of 2012 to £2,702m. The total Fund, (including the impact of currency hedging), slightly underperformed the Fund's strategic benchmark over the quarter, producing a negative absolute return of -1.9%.

Strategy

- Equity markets posted negative returns and had a negative impact on the Fund's total return over both the 3 month and 1 year periods, although 3 year returns are ahead of the assumed strategic return. The strong 3 year returns for equities reflect the relatively low valuations 3 years ago. Returns over the next 3 years could be significantly lower, particularly if concerns over the Eurozone and slowing global growth materialise.
- Bond returns have also been very high over the 3 year period. Their yields have fallen as a result and therefore the prospects for similarly high returns over the next 3 year period are low.
- The Fund's UK corporate bond portfolio produced positive returns over the 3 month and 1 year periods, albeit underperforming gilts. The 3 year return was ahead of gilts and index-linked gilts.
- The allocation to fund of hedge funds detracted whilst the allocation to property was broadly neutral over the shorter time periods but positive over a three year period.

Managers

- In aggregate the managers underperformed the customised benchmark over the year, with outperformance by Genesis and Jupiter more than offset by underperformance by the hedge funds and Schroder Equity.
- There have been no significant concerns raised with any of the Fund's managers. Whilst we have no immediate concerns regarding the Schroder global unconstrained equity mandate, the manager slightly underperformed its benchmark this quarter, and has underperformed over 12 months. This is an unconstrained mandate and relative performance is expected to be volatile over short periods. Schroder will be invited to present to the Investment Panel in early 2013 to discuss the portfolio.

- The performance of Man also remains disappointing. The manager has recently completed the restructure of the mandate, reducing the number of underlying funds in which it invests. Again, now that the restructure is largely completed, we suggest that performance of the mandate is monitored closely.

Key points for consideration

- The performance of Man should be closely monitored as changes are made to the portfolio to reduce the number of underlying managers, increase the use of managed accounts and amend the allocation to underlying strategies.
- The Fund had taken an overweight position to corporate bonds by selling government bonds in December 2011. This has generally benefited the Fund and the position should be monitored to determine if and when it is appropriate to reverse it.

Contents

Section Two – Market Background

This update covers the three months, and 12 months to the end of June 2012.

Yields as at 30 June 2012	% p.a.
UK Equities	3.7
UK Gilts (>15 yrs)	2.9
Real Yield (>5 yrs ILG)	-0.1
Corporate Bonds (>15 yrs AA)	4.2
Non-Gilts (>15 yrs)	4.6
Mercer Gilt Yield	3.2

Absolute Change in Yields	3 Mths %	1 Year %
UK Gilts (>15 yrs)	-0.3	-1.3
Index-Linked Gilts (>5 yrs)	0.0	-0.6
Corporate Bonds (>15 yrs AA)	-0.4	-1.3
Non-Gilts (>15 yrs)	-0.3	-0.9
Mercer Gilt Yield	-0.3	-1.2

Inflation Indices	3 Mths %	1 Year %
Price Inflation - RPI	0.4	2.8
Price Inflation - CPI	0.1	2.4
Earnings Inflation *	1.0	1.7

Market Returns Bond Assets	3 Mths %	1 Year %
UK Gilts (>15 yrs)	6.7	27.9
Index-Linked Gilts (>5 yrs)	0.8	16.9
Corporate Bonds (>15 yrs AA)	5.3	18.3
Non-Gilts (>15 yrs)	4.2	15.5

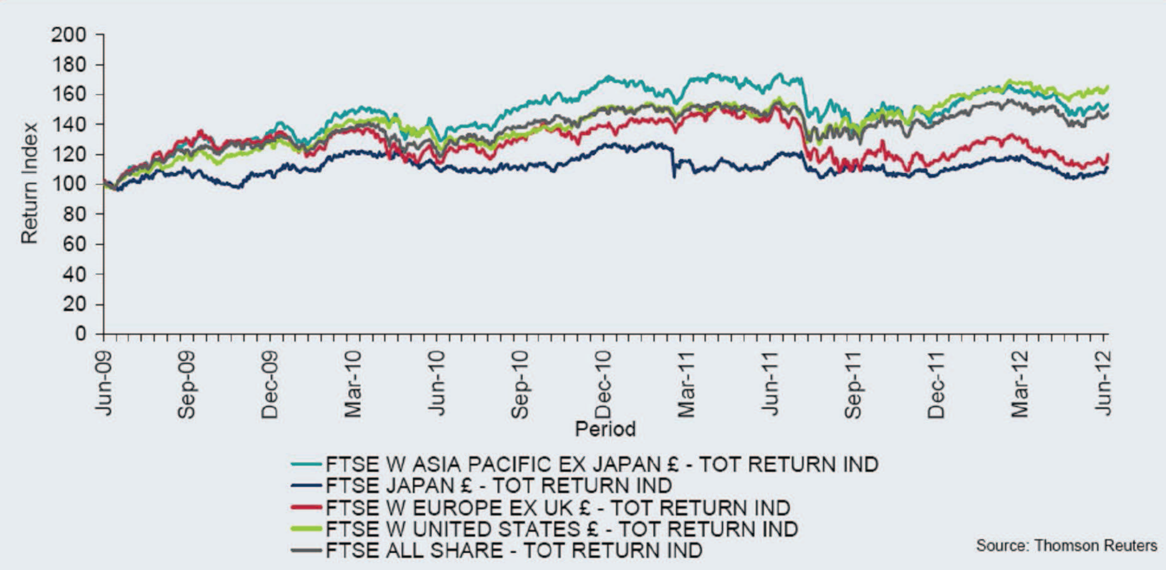
Subject to 1 month lag
Source: Thomson Reuters

Market Returns Growth Assets	3 Mths %	1 Year %
UK Equities	-2.6	-3.1
Overseas Equities	-3.7	-4.2
USA	-1.0	7.8
Europe	-7.2	-20.2
Japan	-5.5	-4.8
Asia Pacific (ex Japan)	-4.7	-10.6
Emerging Markets	-7.3	-13.6
Property	0.3	4.8
Hedge Funds	-1.6	-1.5
Commodities	-10.7	-8.6
High Yield Bonds	2.3	6.7
Cash	0.1	0.5

Change in Sterling	3 Mths %	1 Year %
Against US Dollar	-1.8	-2.3
Against Euro	3.0	11.6
Against Yen	-4.8	-3.5

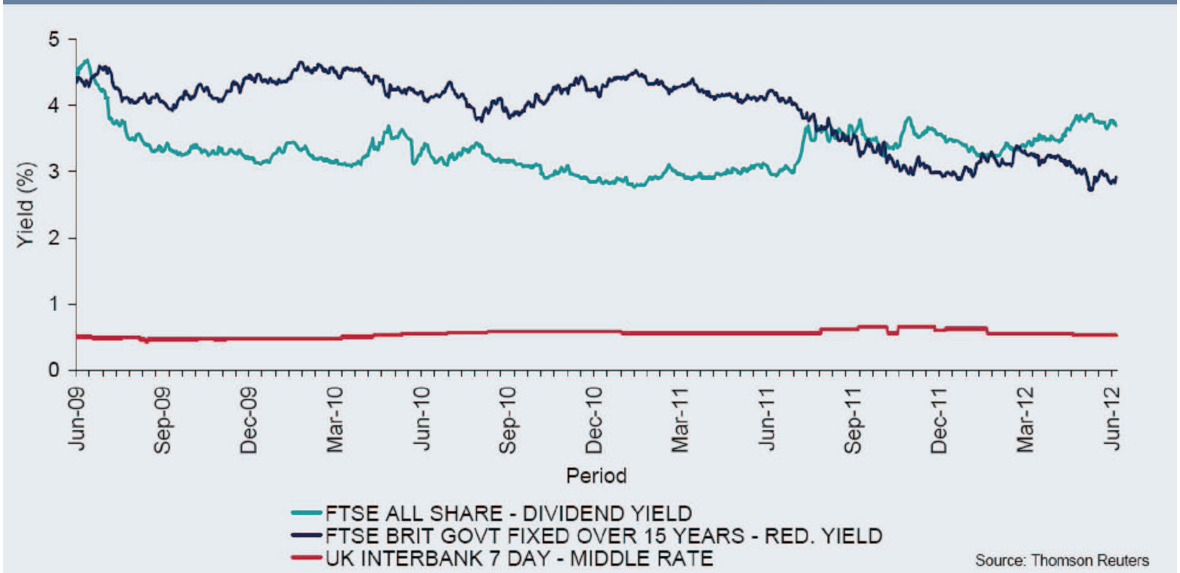
Market Background

Equity Market Returns over the last 3 years



The graph above shows the equity market returns for the last three years; both the medium-term trend and the short-term volatility. The graph is based on the FTSE World Index series, rebased to 100.

Changes in Yields over the last 3 years



The graph above shows the historical yields for gilts, UK equities and UK cash over the last three years. It shows how the redemption yield on government debt has changed over the medium term, and the trend of falling yields over the last year.

The table below compares general market returns (i.e. not achieved Fund returns) with assumptions about returns made in the Investment Strategy agreed in 2009.

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
UK equities	8.4	13.8	Significantly ahead of assumed strategic return, reflecting relative low point for equity markets 3 years ago. Next 3 years is less certain due to current economic uncertainty.
Global equities	8.4	13.1	
UK Gilts	4.7	12.4	Significantly ahead of assumed strategic return as gilt yields have fallen to historic lows and corporate bond yields have also fallen. Low yields limits return potential over next few years.
Index Linked Gilts	5.1	11.6	
UK Corporate Bonds	5.6	12.9	
Overseas Fixed Interest	5.6	7.6	Ahead of assumed strategic return.
Fund of Hedge Funds	6.6	2.8	Behind assumed strategic return. Low LIBOR levels could lead to continued low performance.
Property	7.4	12.3	Ahead of assumed strategic return.

Source: Statement of Investment Principles, Thomson Reuters.

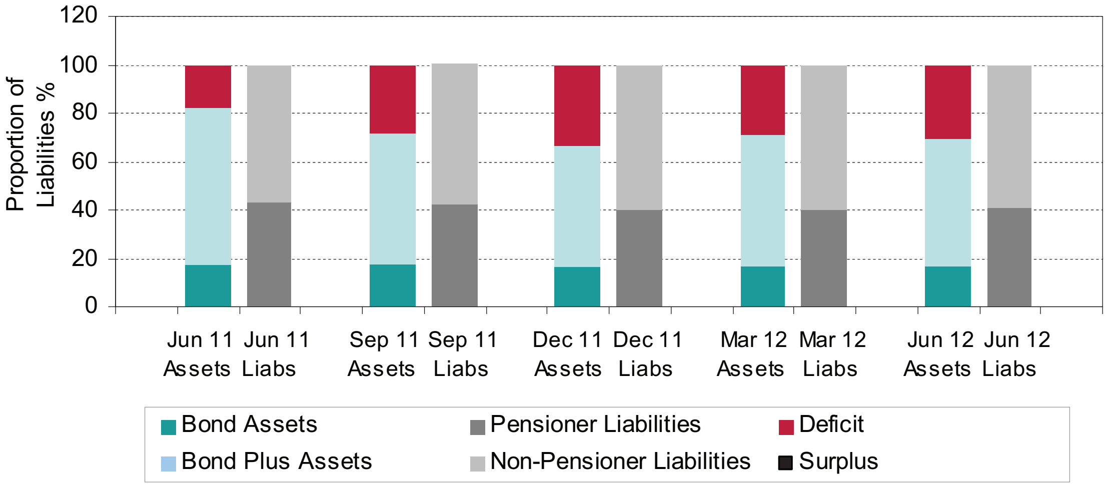
See appendix A for economic data and commentary

Section Three - Consideration of Funding Level

- This section of the report considers the estimated funding level of the Fund. Firstly, it looks at the Fund asset allocation relative to its liabilities. Then it looks at market movements, as they have an impact on both the assets and the estimated value placed on the liabilities.

Asset allocation and liability split

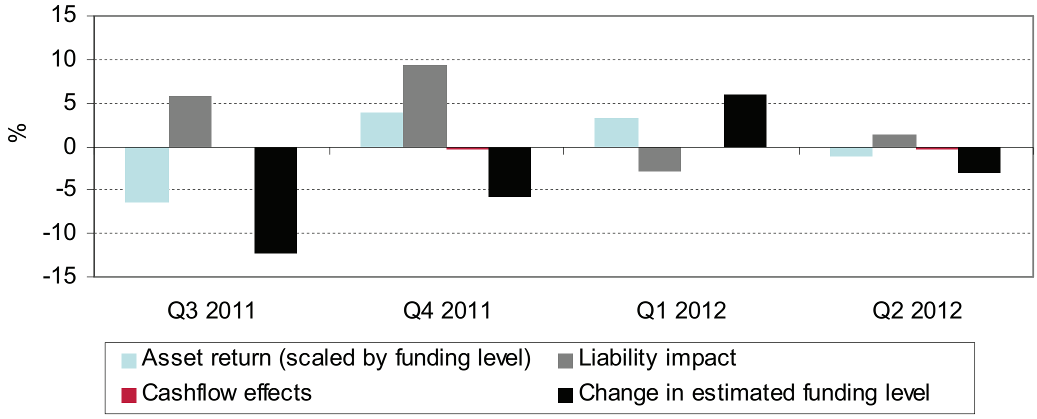
- The chart below shows the allocation of the Fund to Bond and Growth assets against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield used for the liabilities is the Mercer Gilt yield (see appendix for definition). The liability benchmark is based on the valuation results from 31 March 2010.
- These calculations do not take account of any unexpected changes to the Fund membership or changes to the demographic assumptions and should not be construed as an actuarial valuation.



- Based on financial market values, investment returns and cashflows into the Fund, the estimated funding level slightly decreased over the second quarter of 2012, all else being equal. This was driven by:
  - The fall in the reference yield (-0.3%) used to place a value on the liabilities, is expected, all else being equal, to have led to an increase in their value.
  - The Fund assets producing a negative absolute return.
- At the valuation date, 31 March 2010, the Scheme was 82% funded. Since then financial market movements, actual cashflows, and investment returns are expected to have reduced the overall funding level, all else being equal.

Scheme performance relative to estimated liabilities

- The chart below shows, quarter by quarter, the return on the assets and the impact on the liabilities due to changes in financial market values and expected member movements.
- As detailed above, such movements in liabilities are based upon the bond yield underlying the Scheme Actuary's calculation of liabilities.

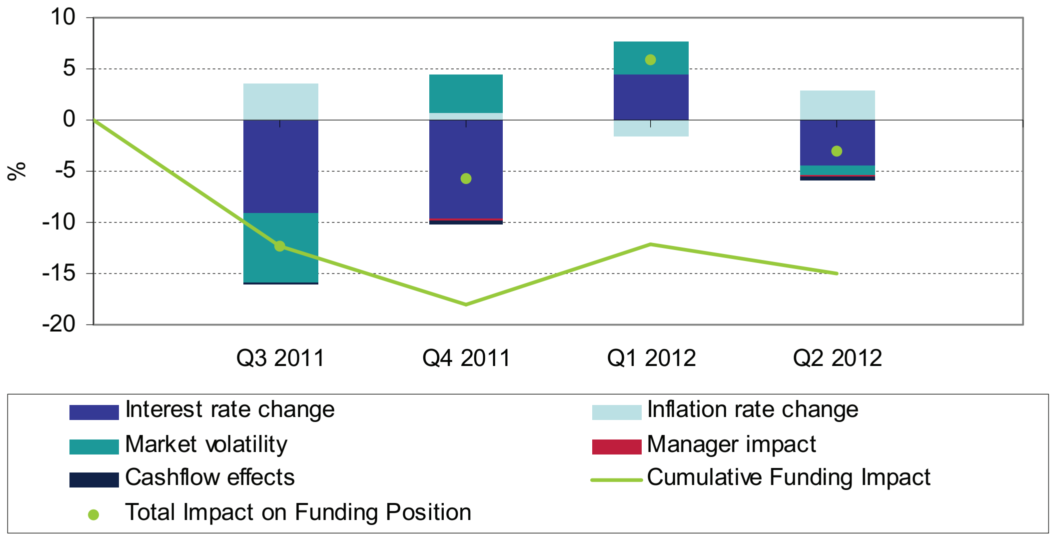


Note 1: A decrease in liabilities and an increase in assets improves the funding level and vice-versa.

- The graph above shows that the Fund's assets, scaled to take into account the estimated funding level, have produced an absolute return of -1.1%, over the last quarter.
- Over the quarter, the value placed on the liabilities has increased by an estimated 1.5%, driven primarily by the fall in the Gilt yield.
- Overall, the combined effect is expected to have led to a slight decrease in the estimated funding level to 69% (from 70% at 31/03/2012).

Key drivers of performance against the estimated liabilities

- The chart below shows the main contributors to the change in the estimated funding level. For reference, please note that the underlying calculations are based on the Mercer gilt yield.



- The interest rate (yield) on the reference gilt yield used to place a value on the liabilities fell over the quarter by 0.3%. This fall in the reference gilt yield increases the value placed on the liabilities, all else being equal. This factor was the largest negative contributor.
- This was partially offset by a fall in the market's expectation of future inflation, as represented by the light blue bar.
- Market volatility has had a negative impact on the funding position over the quarter as the Fund's assets produced a negative return over the quarter, which was behind the expected return of the actuarial valuation.
- Manager performance was a negative contributor over the quarter, as the Fund's assets underperformed the customised benchmark overall.

Section Four – Fund Valuations

- The table below shows the asset allocation of the Fund as at 30 June 2012, 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 June 2012 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	522,800	19.4	18.0
Overseas Equities	1,061,827	39.3	42.0
Bonds	660,062	24.4	20.0
Fund of Hedge Funds	209,246	7.7	10.0
Cash (including currency instruments)	48,300	1.8	-
Property	199,378	7.4	10.0
TOTAL FUND VALUE	**2,701,613**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets decreased by £56m over the second quarter of 2012 to £2,702m. This was a result of negative absolute investment performance.
- In terms of asset allocation, there were minimal changes over the quarter, with most changes driven by the investment returns, which the managers have achieved.
- There was some further funding of property investment with Partners over the quarter, with monies coming from the BlackRock (property) portfolio.
- The valuation of the investment with each manager is provided on the following page.

Manager	Asset Class	31 March 2012		Net new money £'000	30 June 2012	
		Value £'000	Proportion of Total %		Value £'000	Proportion of Total %
Jupiter	UK Equities	115,581	4.2	-	115,438	4.3
TT International	UK Equities	134,334	4.9	-	131,198	4.9
Invesco	Global ex-UK Equities	173,237	6.3	-	165,283	6.1
Schroder	Global Equities	141,812	5.1	-	135,430	5.0
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	86,241	3.1	-	81,646	3.0
Genesis	Emerging Market Equities	140,617	5.1	-	133,548	4.9
MAN	Fund of Hedge Funds	63,099	2.3	-	60,928	2.3
Signet	Fund of Hedge Funds	64,379	2.3	-	63,263	2.3
Stenham	Fund of Hedge Funds	33,272	1.2	-	32,494	1.2
Gottex	Fund of Hedge Funds	52,820	1.9	-	52,560	2.0
BlackRock	Passive Multi-asset	1,224,804	44.4	-	1,207,763	44.7
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	73,308	2.7	-1,900	72,372	2.7
RLAM	Bonds	227,557	8.3	-	232,188	8.6
Schroder	UK Property	129,011	4.7	-	129,504	4.8
Partners	Property	70,394	2.6	1,900	73,553	2.7
Record Currency Mgmt	Dynamic Currency Hedging	339	0.0	+3,125	-4,864	-0.2
Record Currency Mgmt 2	Overseas Equities (to fund currency hedge)	10,698	0.4	-3,125	8,343	0.3
Internal Cash	Cash	15,833	0.6	-	10,966	0.4
Rounding		1	0.0	-	-	0.0
TOTAL		**2,757,337**	**100.0**	**-**	**2,701,613**	**100.0**

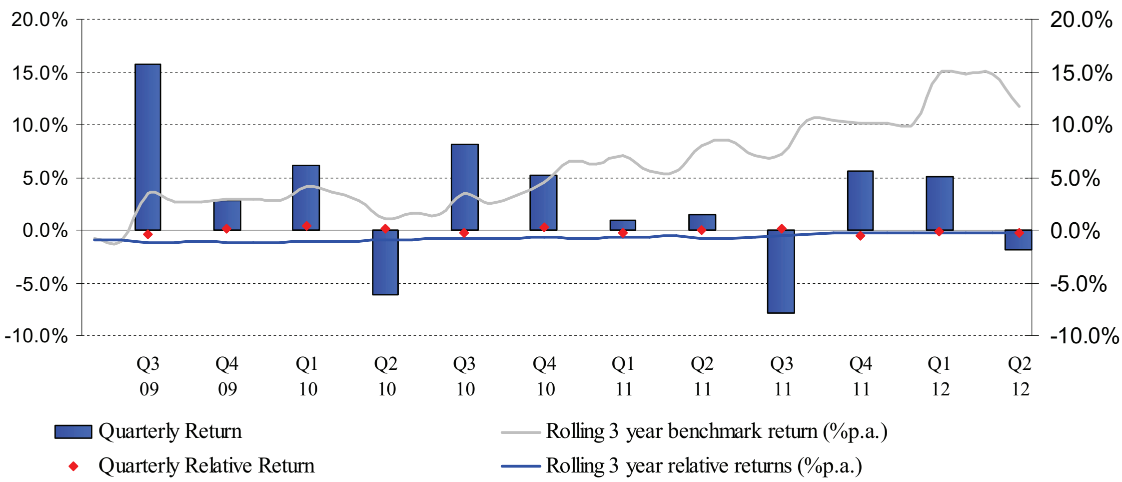
Source: Avon Pension Fund, Data provided by WM Performance Services.

Section Five – 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



Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	-1.9	n/a	n/a
Total Fund (ex currency hedge)	-1.6	0.5	11.6
Strategic Benchmark	-1.7	0.0	11.4
Relative (inc currency hedge)	-0.2	n/a	n/a
Relative (ex currency hedge)	+0.1	+0.5	+0.2

Source: Data provided by WM Performance Services.

Strategy performance

- The table below shows the strategic allocation to each of the major asset classes and the benchmark returns over the quarter and year to 30 June 2012.

Asset Class	Weight in Strategic Benchmark	Index returns Q2 2012	Contribution to total benchmark (quarter)	Index returns 1 year	Contribution to total benchmark (1 year)
UK Equities	18%	-2.6%	-0.5%	-3.1%	-0.6%
Overseas Equities	42%	-3.7%	-1.5%	-4.2%	-1.8%
Index Linked Gilts	6%	0.6%	0.0%	14.3%	0.9%
Fixed Coupon Gilts	6%	3.8%	0.2%	15.9%	1.0%
UK Corporate Bonds*	5%	1.7%	0.1%	7.9%	0.4%
Overseas Fixed Interest	3%	3.2%	0.1%	5.3%	0.2%
Fund of Hedge Funds	10%	-1.6%	-0.1%	-6.6%	-0.7%
Property	10%	0.3%	0.0%	4.8%	0.5%
Total Fund	**100%**				

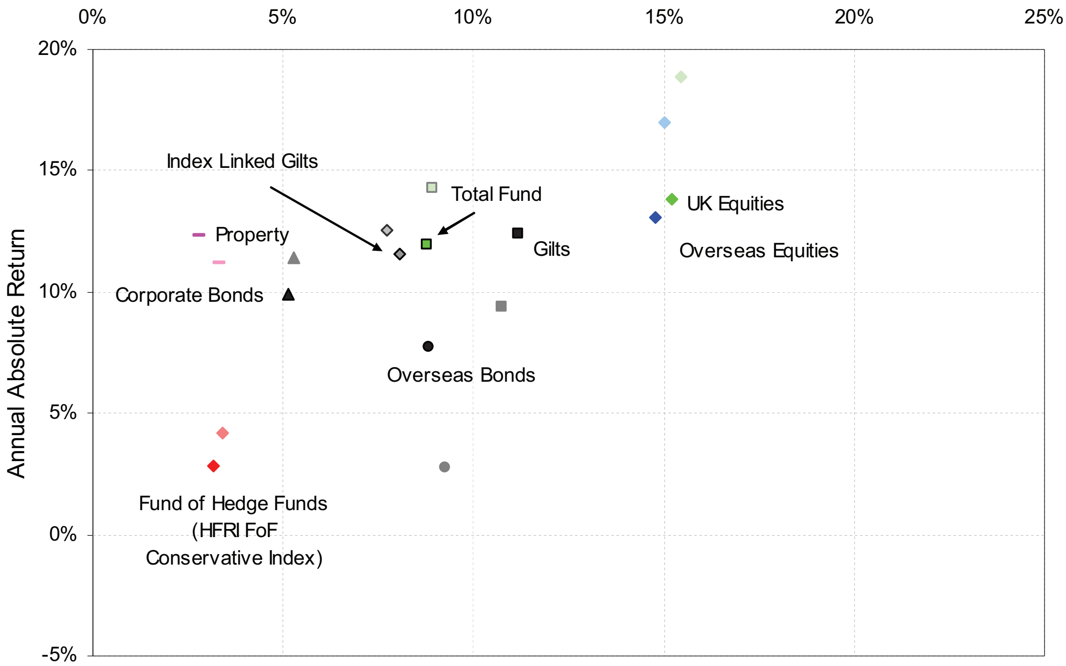
Source: Avon Pension Fund, Data provided by WM Performance Services. *Please note that this is an 'all maturities' index return and so differs from the 'long maturities' index returns shown on the Market Background page in Section Two.

- **Market impact:** there were again ongoing concerns regarding sovereign debt in the Eurozone, markets produced negative returns as confidence suffered. Europe was the poorest performer with concerns regarding Spain's ability to pay its debt hampering performance in the region.
- UK and overseas equity markets produced returns of -2.6% and -3.7% respectively over the 3 months. Over the 1 year returns were -3.1% for UK equities and -4.2% for overseas equities.
- Sterling weakened against the US Dollar and Yen over the quarter, meaning a higher return on the US Dollar and Yen denominated overseas equities in sterling terms. Against the Euro, Sterling strengthened meaning that a lower return on Euro denominated equities in sterling terms. All the major equity markets produced negative returns for the quarter in local currency and Sterling terms.
- Yields on government and corporate bonds fell over the quarter, resulting in positive returns. Index linked gilt returns were lower as future inflation expectation fell.
- The allocations to fund of hedge funds and property posted low absolute returns, however, these were ahead of those posted by equities over the 3 month and 1 year periods.
- **Strategic Benchmark:** performance of the strategy was driven by the two largest components, UK (18%) and overseas (42%) equities, as the market returns were negative, this detracted 0.5% and 1.5% respectively to the strategic benchmark return over the 3 months and 0.6% and 1.8% respectively over the 1 year period.
- UK Gilts (6% benchmark weight) and UK Index-Linked Gilts (6%) both produced marginal positive contributions.

Risk Return Analysis

- 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 June 2012 of each of the underlying asset benchmarks, along with the total Fund strategic benchmark. We also show the position as at last quarter, as shadow points.
- This chart can be compared to the 3 year risk vs return managers' chart on page 19.

3 Year Risk v 3 Year Return to 30 June 2012



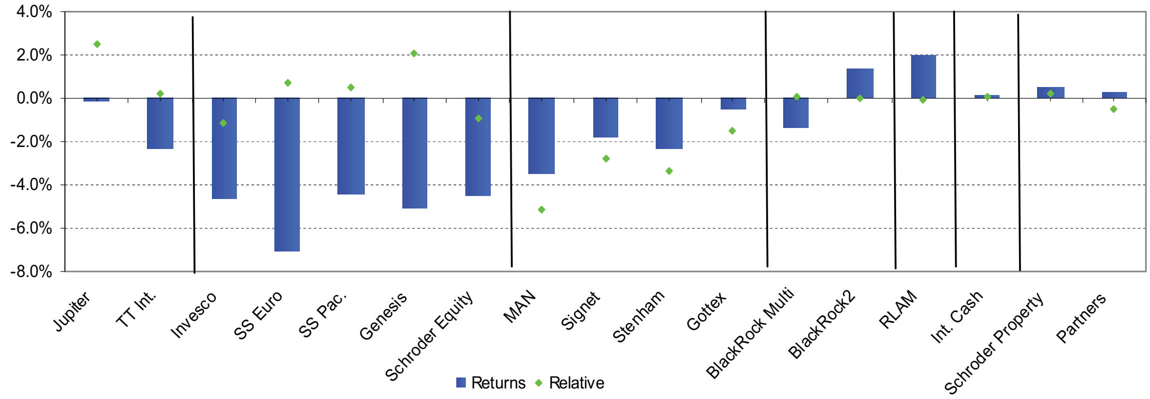
Source: Data provided by Thomson Reuters

- All of the underlying benchmarks have produced a positive return over the period (3 years p.a.).
- Compared to the 3 year period reported the previous quarter (represented by the lighter shaded marks), both UK and overseas equities have lower returns with broadly similar risk. The volatility of gilts and index linked gilts has slightly increased. The return for index linked gilts and corporate bonds has slightly decreased, whereas the return for gilts has increased. Overseas bonds have seen the largest increase in return from all the asset classes combined with a slightly lower risk.
- Fund of Hedge Funds continue to be the least volatile asset class but have seen the returns slightly decrease. Property has seen an increase in the return, with slightly less risk.
- With the exception of Fund of Hedge Funds, all asset classes over the three year period have performed above the assumed strategic return.

Aggregate manager performance

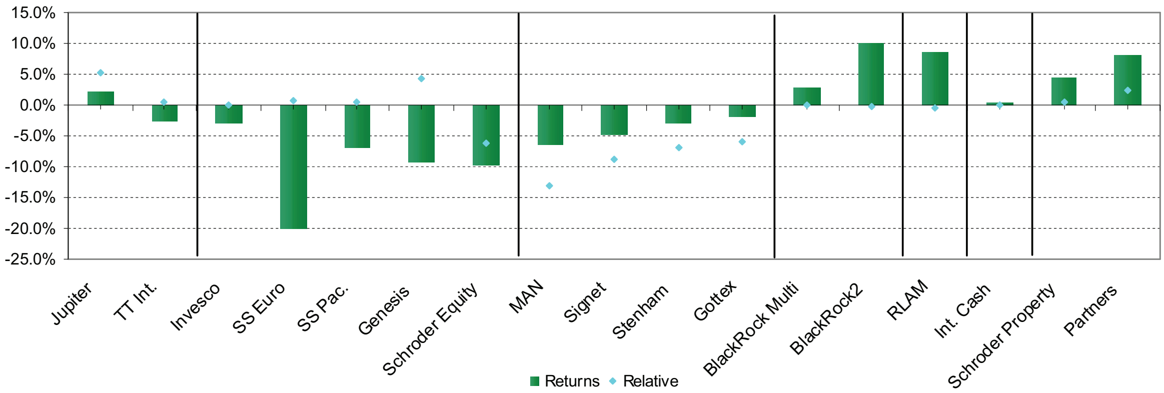
- In aggregate, the managers underperformed the customised benchmark over the quarter and year.
- The charts below show the absolute return for each manager over the quarter, one year and three years to the end of June 2012. The relative quarter, one year and three year returns are marked with green and blue dots respectively.

Absolute and relative performance - **Quarter to 30 June 2012**



Partners data is lagged by 1 quarter.

Absolute and relative performance - **Year to 30 June 2012**



Absolute and relative performance - **3 years to 30 June 2012**

Source: Data provided by WM Performance Services

- The table below shows the relative returns of each of the funds over the quarter, one year and three years to the end of June 2012. Returns in blue text are returns which outperformed the respective benchmarks, red text shows an underperformance, and black text represents performance in line with the benchmark.

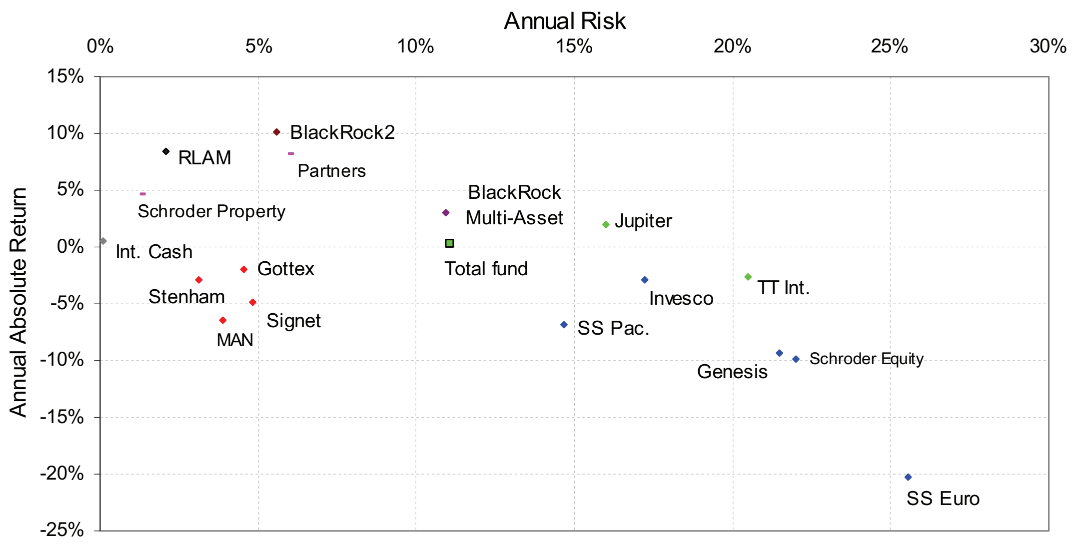
Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)	3 year performance versus target
Jupiter	+2.5	+5.1	+3.1	Target met
TT International	+0.3	+0.3	-0.5	Target not met
Invesco	-1.2	-0.1	-0.1	Target not met
SSgA Europe	+0.7	+0.9	+0.7	Target met
SSgA Pacific	+0.4	+0.5	+0.8	Target met
Genesis	+2.1	+4.3	+5.3	Target met
Schroder Equity	-0.9	-6.1	N/A	N/A
Man	-5.0	-13.2	-6.6	Target not met
Signet	-2.7	-8.8	-0.2	Target not met
Stenham	-3.3	-6.9	-3.8	Target not met
Gottex	-1.5	-5.9	+0.3	Target met
BlackRock Multi - Asset	0.0	-0.1	+0.1	Target met
BlackRock 2	0.0	-0.2	+0.1	Target met
RLAM	-0.1	-0.6	+2.3	Target met
Internal Cash	+0.1	0.0	+0.3	N/A
Schroder Property	+0.2	+0.6	-0.4	Target not met
Partners Property	-0.5	+2.4		N/A

Source: Data provided by WM Performance Services
Data for Partners is lagged by 1 quarter.

Manager and total Fund risk v return

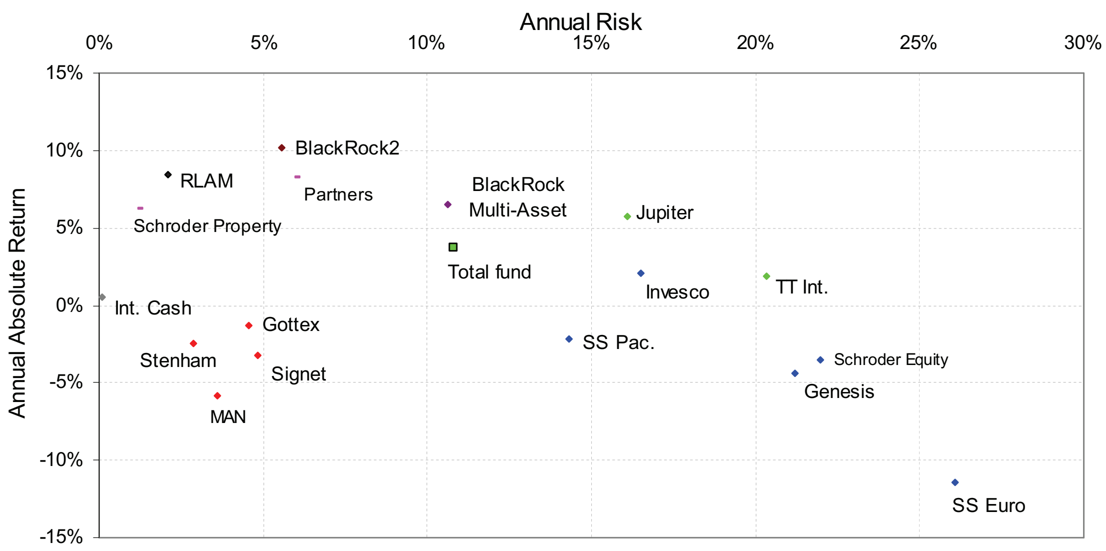
- The chart below shows the 1 year absolute return ("Annual Absolute Return") against the 1 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of June 2012 of each of the funds. We also show the same chart, but with data to 31 March 2012 for comparison.

1 Year Risk v 1 Year Return to 30 June 2012



Source: Data provided by WM Performance Services

1 Year Risk v 1 Year Return to 31 March 2012



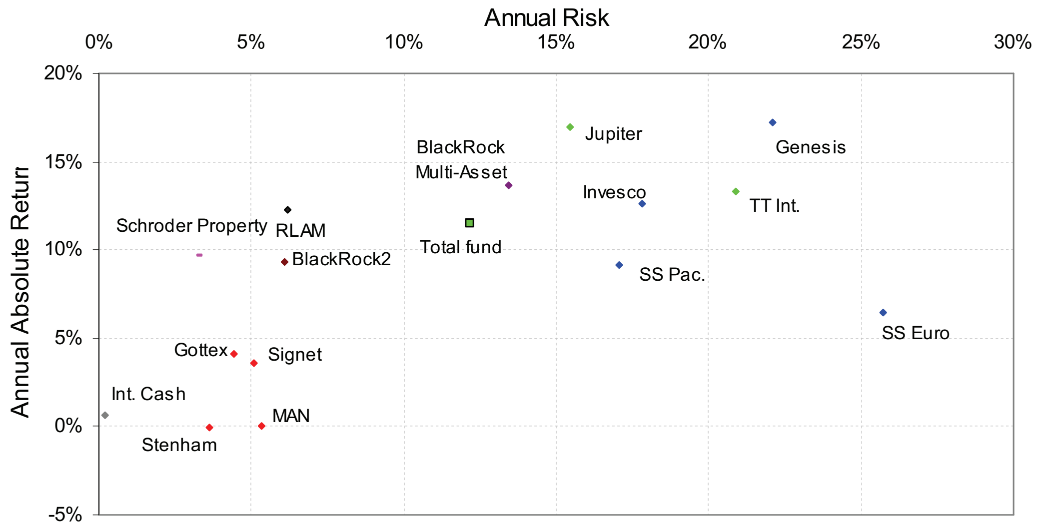
Source: Data provided by WM Performance Services

- 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 majority of the equity funds have seen a decrease in the absolute return with similar levels of risk when compared to the previous quarter.
- There were minimal changes to the risk / return profile of the fund of hedge funds, RLAM and the BlackRock portfolios.

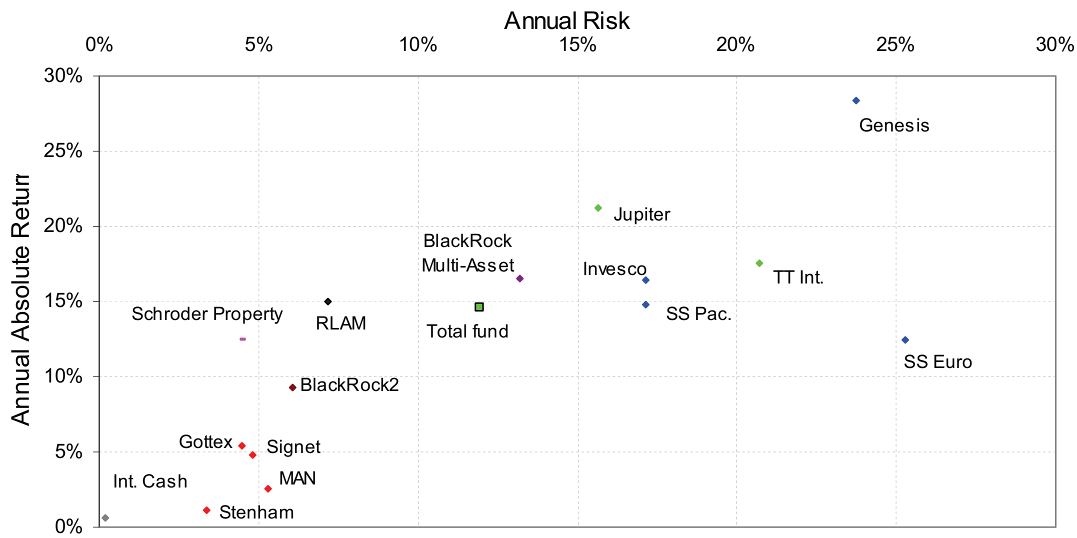
- The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of June 2012 of each of the funds. We also show the same chart, but with data to 31 March 2012 for comparison.

3 Year Risk v 3 Year Return to 30 June 2012



Source: Data provided by WM Performance Services

3 Year Risk v 3 Year Return to 31 March 2012



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

- Overall, there has been little change to the level of risk within the portfolio, or the level of risk seen from the various funds in which the Fund invests.
- There has, however, been a decrease in the returns which each of the funds have achieved over the 3 year period when compared with the position last quarter. This is more notable for the more volatile funds such as equities.
- Compared to the 1 year chart, all of the returns are positive, with a similar level of risk.

Conclusion

- As expected, the Fund of Hedge Fund managers have provided the least volatile performance and, looking at the 1 year returns, have outperformed some of the equity funds. However, over the longer 3 year period they have generally underperformed their assumed strategic return.
- The strong 3 year returns for equities reflect the relatively low valuations 3 years ago. Returns over the next 3 years could be significantly lower, particularly if concerns over the Eurozone and slowing global growth materialise.
- Bond returns have also been very high over the 3 year period. Their yields have fallen as a result and therefore the prospects for similarly high returns over the next 3 year period are low.

Section Six – 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.

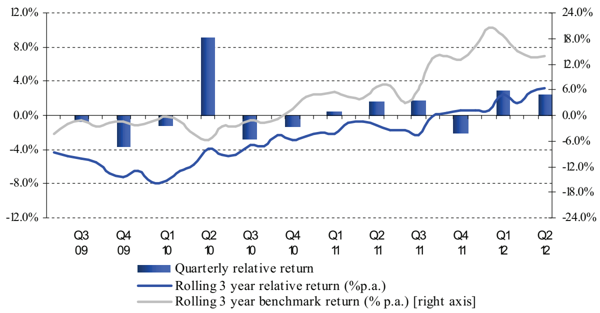
Key points for consideration

- We have not identified any significant issues with the performance of the majority of the active investment managers and have no concerns with investment into any of the active managers for rebalancing purposes.
- We continue to believe that the performance of Man within the Fund's fund of hedge fund portfolio should be kept under close scrutiny given disappointing performance and, more importantly, a restructure of the portfolio.
- We include a qualitative assessment of the Schroder global unconstrained equity manager, implemented in Q2 2011. Whilst we have no immediate concerns regarding the Schroder global unconstrained equity mandate, the manager slightly underperformed its benchmark this quarter, and has underperformed over 12 months. However this is an unconstrained mandate and relative performance is expected to be volatile over short periods. Schroders will be invited to present to the Investment Panel in early 2013 to discuss the portfolio.

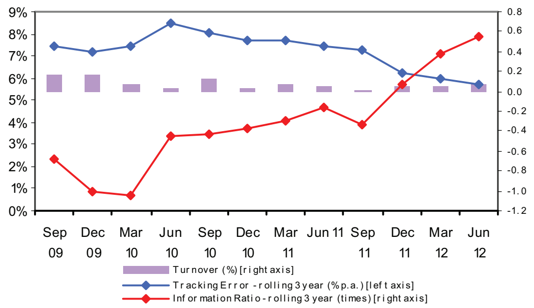
Jupiter Asset Management – UK Equities (Socially Responsible Investing)

Mandate	Benchmark	Outperformance target	Inception date
UK equities (Socially Responsible Investing)	**FTSE All Share**	**+2%**	**April 2001**
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of holdings:**
£115,438	**4.3**	**5.7%**	**Not available**

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-0.1	2.0	16.9
Benchmark	-2.6	-3.1	13.8
relative	+2.5	+5.1	+3.1

Source: Data provided by WM Performance Services, and Jupiter

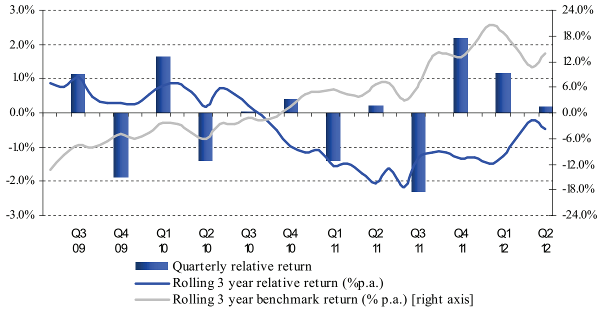
Comments

- The Fund's allocation to Cash (5.7%) decreased compared to the preceding quarter (6.9%) remaining below the 7% limit.
- 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 Q2 2012, Jupiter was significantly underweight Oil and Gas, Consumer Goods, Basic Materials and Financials, with significantly overweight positions in Industrials, Consumer Services and Technology. This relative allocation has been consistent with previous quarters.

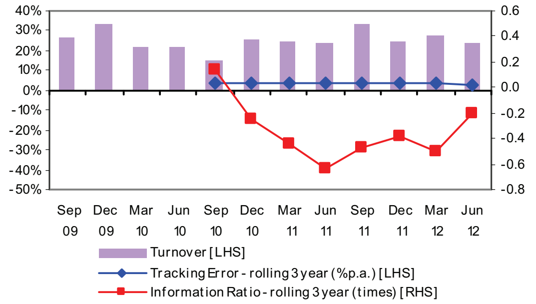
TT International – UK Equities (Unconstrained)

Mandate	Benchmark	Outperformance target	Inception date
UK equities (unconstrained)	FTSE All Share	+3-4%	July 2007
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of holdings**
£131,198	4.9	2.6%	48

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-2.3	-2.8	13.3
Benchmark	-2.6	-3.1	13.8
relative	+0.3	+0.3	-0.5

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

Comments

- The Fund held an overweight position in Consumer Goods by 4.3% and continued to be significantly underweight to Financials, by 4.3%, at the end of the quarter.
- Turnover, over the second quarter, declined to 23.9% compared to the last quarter's number of 27.6%.
- The 3 year tracking error (proxy for risk) has remained broadly consistent over the last few quarters, however, there has been a consistent decrease since Q3 2010. The 3 year information ratio (risk adjusted return), improved by 0.29 after a deterioration last quarter for the first time in four quarters (from -0.38 in Q4 2011 to -0.50 in Q1 2012).
- The majority of the portfolio's risk continues to be taken in active stock selection, which contributed positively to the quarterly performance by 0.4%.

Schroder – Global Equity Portfolio (Unconstrained)

- The mandate was 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 Q2 2012

The Fund underperformed its benchmark by 0.9%, producing an absolute return of -4.5% over the quarter. Over the 1 year period, the return of the Fund was -9.8%, which was behind the benchmark return of -3.7%. The underperformance over the 1 year period, is driven by the Fund underperforming its benchmark in 3 out of the last 4 quarters.

The underperformance of the portfolio over the quarter was driven by financial stocks, which were the largest detractor despite the portfolio being underweight financials versus the benchmark overall. JPMorgan was one of the largest sufferers, which was in part due to the disclosure of trading losses from their proprietary trading activities. Schroder have trimmed the position, however, overall they believe that there is still value within the stock so the holdings has been maintained. Stocks within materials also detracted with Atlas Iron suffering due to risk aversion within the market.

On a regional basis, the UK and Japan were positive for the relative performance of the portfolio. In the UK, Diagio was a positive contributor to the portfolio as the Public Offer to acquire an additional stake in Vietnamese company Halico was accepted. North America detracted the most on a regional basis, primarily due to an underweight position to consumer staples and telecoms hurt performance.

The most underweight country weightings in the portfolio are North America (-4.4%), Continental Europe (-1.6%) and Emerging Markets (-1.1%). The portfolio is overweight to the United Kingdom (+2.2%), and Africa and the Middle East (+1.2%).

In terms of sector weightings, the most underweight positions are to Financials (-3.0%), Energy (-1.9%) and Telecoms (-1.0%). Overweight positions are in Consumer Discretionary (+3.8), Consumer Staples (+0.4%) and Healthcare (+0.3%).

Schroder continue to pursue companies which are benefiting from longer-term global trends. The portfolio is balanced between defensive stocks (e.g. a stock which is not dependent on economic conditions such as stocks in pharmaceuticals or food) and more cyclical industries. Schroder maintain a focus on stock-specific situations where there feel there is good growth and valuation upside.

Conclusion

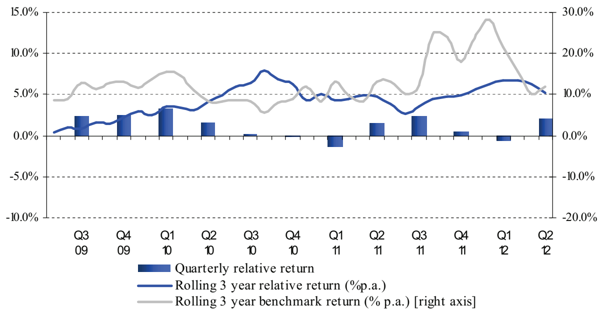
Schroder's approach to stock selection is not constrained by the benchmark. Performance relative to the benchmark is expected to be volatile over short time periods. The underperformance since inception is therefore not of significant concern. Schroder continues to invest in stocks, diversified by sector and country, that they expect to outperform over the long term rather than trying to identify short term price anomalies to purchase stocks of companies that they do not necessarily believe will excel in the long term.

We believe the philosophy has been adhered to and have no immediate concerns with Schroder.

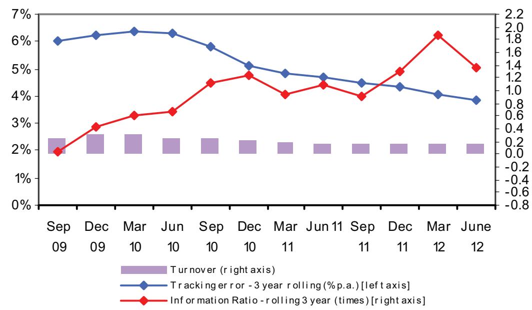
Genesis Asset Managers – Emerging Market Equities

Mandate	Benchmark	Outperformance target	Inception date
Emerging Market equities	**MSCI EM IMI TR**	**-**	**December 2006**
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of holdings**
£133,548	**4.9**	**3.9%**	**158**

Relative returns #1



Tracking error, Information ratio, Turnover #4



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-5.0	-9.4	17.2
Benchmark	-7.1	-13.7	11.9
relative	+2.1	+4.3	+5.3

Source: Data provided by WM Performance Services, and Genesis

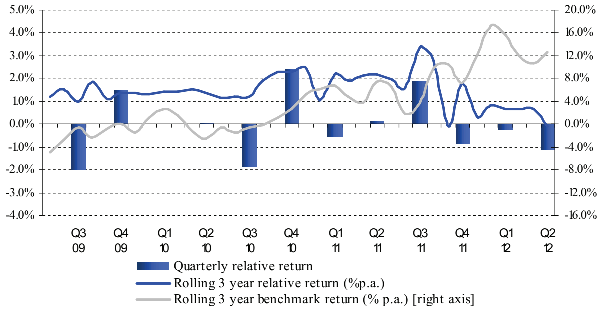
Comments:

- 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) continued to fall from 4.1% in Q1 2012 to 3.9% in Q2 2012. This is the 10th consecutive quarter of the tracking error reducing from when compared to the preceding quarter. The 3 year information ratio (risk adjusted return), fell from 1.9 to 1.4.
- The allocation to Cash (1.5%) increased slightly compared to the previous quarter (1.0%).
- On an industry basis, the Fund is now overweight Consumer Staples (+6.7%), Health Care (+2.7%) and Financials (1.5%). The Fund is underweight to Consumer Discretionary (-5.5%), Energy (-3.8%) and Telecom Services (-1.9%).
- The reduction in tracking error is perhaps expected given the uncertain economic climate and Genesis continue to show they can outperform during both negative and positive equity markets.

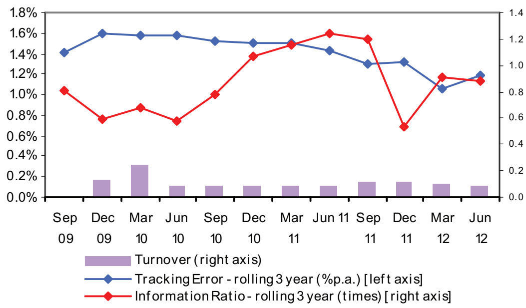
Invesco – Global ex-UK Equities (Enhanced Indexation)

Mandate	Benchmark	Outperformance target	Inception date
Global ex-UK equities enhanced (En. Indexation)	MSCI World ex UK NDR	+0.5%	December 2006
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of holdings**
£165,283	6.1	1.2%	372

Relative returns #1



Tracking error, Information ratio, Turnover #4



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-4.6	-2.9	12.6
Benchmark	-3.4	-2.8	12.7
relative	-1.2	-0.1	-0.1

Source: Data provided by WM Performance Services, and Invesco

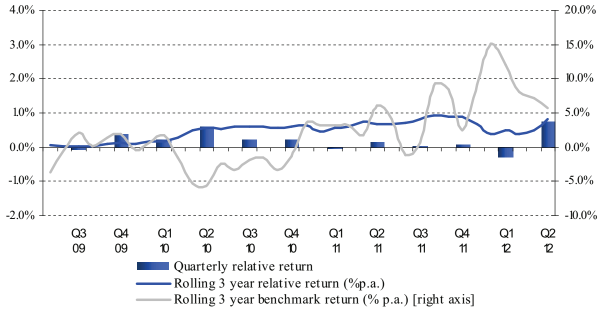
Comments:

- Over the last quarter, all strategies continued to be positive contributors except for Stock and Sector selection. The different timing of the pricing of the Fund versus the benchmark (mid day price versus end day price respectively) accounts for c.1% of the underperformance this quarter.
- The absolute volatility has increased to 13.2% at the end of the second quarter compared to 12.1% at the end of the first quarter. This is the second consecutive quarterly increase.
- The turnover for this quarter of 9.2% decreased from 10.0% in the previous quarter. This is the third consecutive quarter were the turnover reduced from when compared to the preceding quarter. The number of stocks remained almost at par compared to the previous quarter.
- 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 remains appropriate for the enhanced indexation approach.
- Invesco's 3 year performance has fallen marginally behind benchmark but this is not currently of concern. The level of risk taken is appropriate for the outperformance objective and relative outperformance is expected to improve.

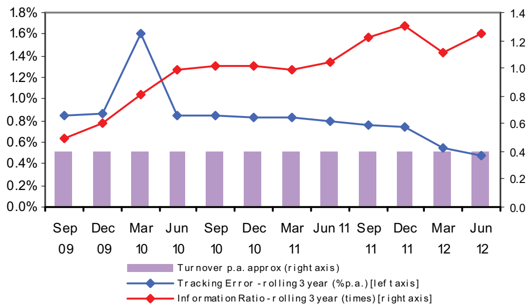
SSgA – Europe ex-UK Equities (Enhanced Indexation)

Mandate	Benchmark	Outperformance target	Inception date
Europe ex-UK equities (enhanced indexation)	FTSE AW Europe ex UK	+0.5%	December 2006
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of holdings**
£27,087	1.0	0.5%	116

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-7.1	-20.0	6.6
Benchmark	-7.8	-20.9	5.9
relative	+0.7	+0.9	+0.7

Source: Data provided by WM Performance Services, and SSgA

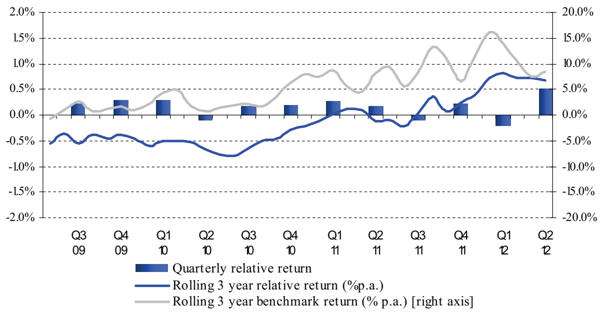
Comments:

- The pooled fund fell in size from £306.12million as at 31 March 2011, to £46.85million as at 30 June 2011. In the third quarter of 2011, it fell further to £30.34million. However, over the second quarter of 2012, there has been a significant increase to the AUM by approximately £59.99 million to £94.42 million.
- Turnover has continued to remain consistent over the last 3 years. The tracking error has continued to decline over the last five quarters.
- The information ratio has improved this quarter following a decrease in the previous quarter.

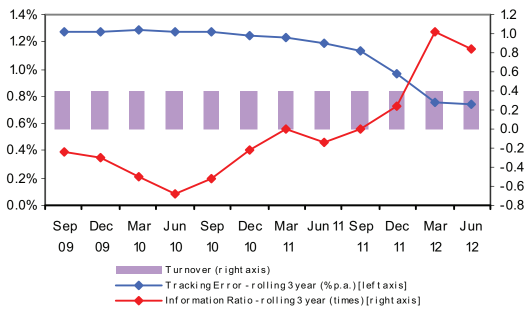
SSgA – Pacific incl. Japan Equities (Enhanced Indexation)

Mandate	Benchmark	Outperformance target	Inception date
Pacific inc. Japan equities	**FTSE AW Dev Asia Pacific**	**+0.5%**	**December 2006**
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of holdings**
£54,559	**2.0**	**0.7%**	**464**

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-4.5	-6.9	9.2
Benchmark	-4.9	-7.4	8.4
relative	+0.4	+0.5	+0.8

Source: Data provided by WM Performance Services, and SSgA

Comments:

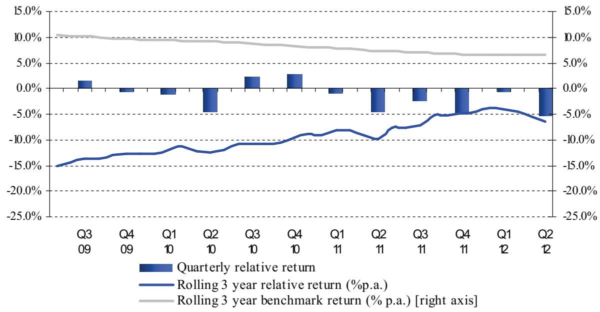
- Turnover has remained consistent over the last three years, which is what is expected of this style of investment management.
- The information ratio (+0.85) has decreased compared to the previous quarter (+1.03).
- The tracking error of the fund has continued to decrease. This is not necessarily inappropriate given the volatility in markets, as the manager may be cautious of volatile performance relative to the benchmark. However, it is important that this does not fall to such a level that the fund's outperformance target cannot be met.

MAN – Fund of Hedge Funds

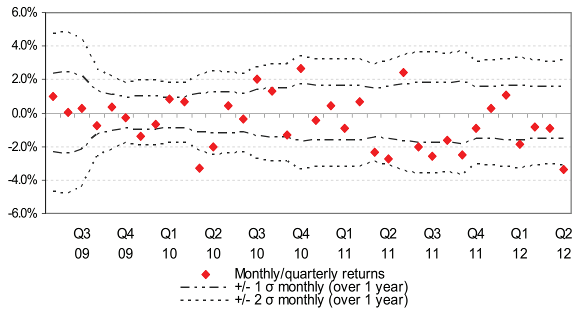
Mandate	Benchmark	Portfolio volatility (3 yr p.a.)	Inception date
Fund of Hedge Funds	3 month LIBOR +5.75%	5.3%	August 2007

Value (£'000)	% Fund Assets	Number of funds
£60,928	2.3	66

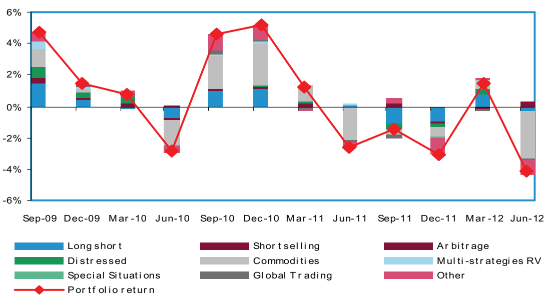
Relative returns [#1]



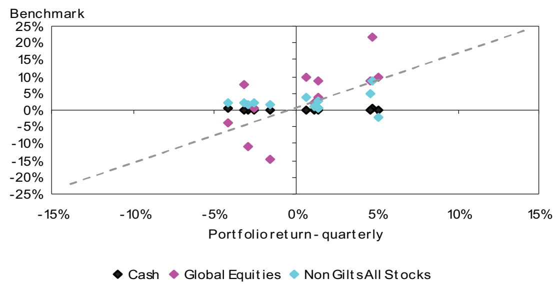
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-3.4	-6.5	0.0
Benchmark	1.6	6.5	6.6
relative	-5.0	-13.2	-6.6

Source: Data provided by WM Performance Services, and MAN

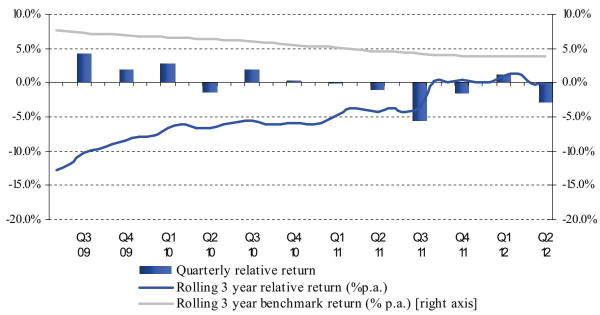
Comments:

- Man has a higher outperformance target than the other fund of hedge fund managers. This is partly responsible for a weaker relative performance, although Man has also been the worst performing fund of hedge fund manager in absolute terms over the last year.
- The fund is reducing the number of managers that it holds and increasing the use of managed accounts. These changes are being introduced to better achieve risk return targets by adopting a more flexible and dynamic allocation strategy. Man must demonstrate their capability of managing assets in this manner. The number of funds reduced over the past quarter from 75 to 66.
- Whilst not generally used for rebalancing anyway, any allocation to the fund of hedge fund portfolio should be allocated to the other managers whilst Man transitions the portfolio.

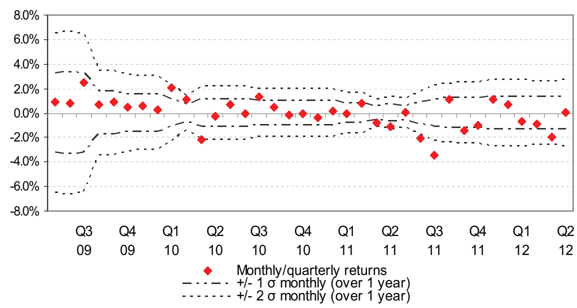
Signet – Fund of Hedge Funds

Mandate	Benchmark	Portfolio volatility (3 yr p.a.)	Inception date
Fund of Hedge Funds	3 month LIBOR +3.0%	5.1%	August 2007
Value (£'000)	**% Fund Assets**	**Number of funds**	
£63,263	2.3	51	

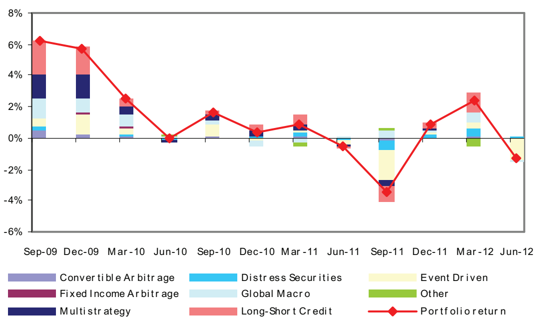
Relative returns [#1]



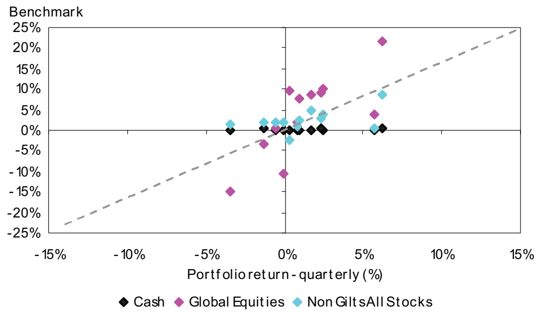
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-1.7	-4.8	3.6
Benchmark	1.0	4.0	3.8
relative	-2.7	-8.8	-0.2

Source: Data provided by WM Performance Services, and Signet

Comments:

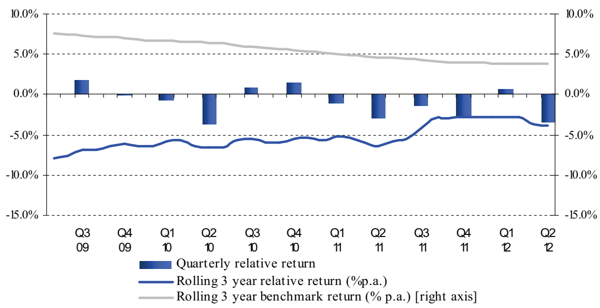
- All strategies contributed to the positive absolute returns except for the Event Driven, Long-Short Credit, Global Macro and Convertible Arbitrage strategies.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

Stenham – Fund of Hedge Funds

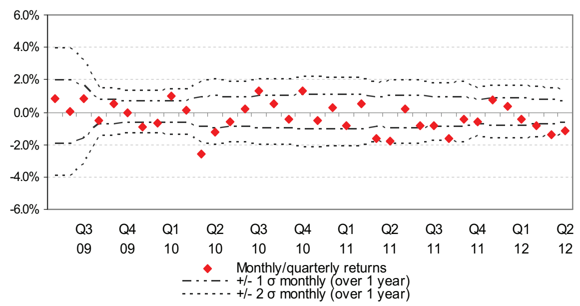
Mandate	Benchmark	Portfolio volatility (3 yr p.a.)	Inception date
Fund of Hedge Funds	3 month LIBOR +3.0%	3.2%	August 2007

Value (£'000)	% Fund Assets	Number of funds
£32,494	1.2	38

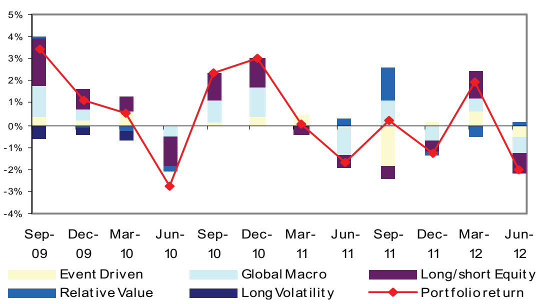
Relative returns [#1]



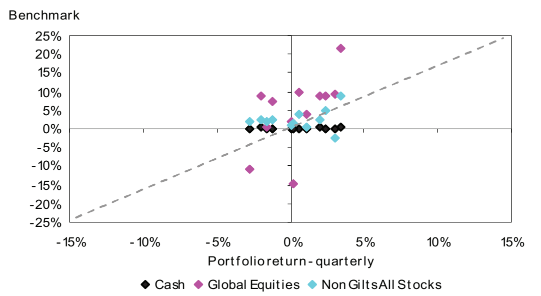
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-2.3	-2.9	0.0
Benchmark	1.0	4.0	3.8
relative	-3.3	-6.9	-3.8

Source: Data provided by WM Performance Services, and Stenham

Comments:

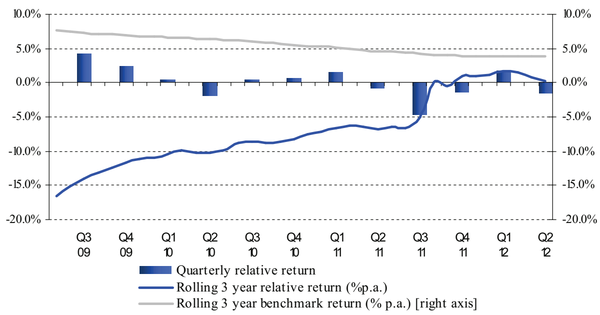
- Event driven strategies produced the lowest return over the quarter, and detracted 0.6% from the portfolio over the quarter. Long / Short equities were the largest detractor to the portfolio. Global Macro also detracted and short selling was neutral. The only positive contribution to performance came only from Relative value strategies (+0.1%).
- The allocation to the Global Macro and Long / Short Equity strategies made up 71.0% of the total Fund allocation. The allocation to Cash continued to decrease from 2.0% to 1.0% 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.

Gottex – Fund of Hedge Funds

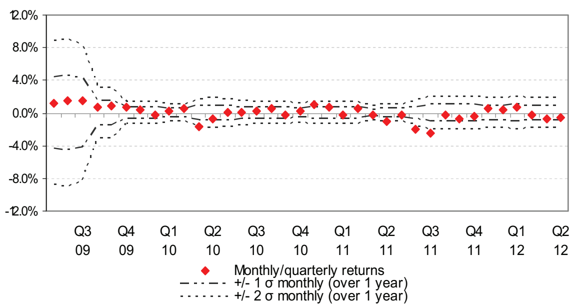
Mandate	Benchmark	Portfolio volatility (3 yr p.a.)	Inception date
Fund of Hedge Funds	3 month LIBOR +3.0%	3.1%	August 2007

Value (£'000)	% Fund Assets	Number of funds
£52,560	2.0	Not available

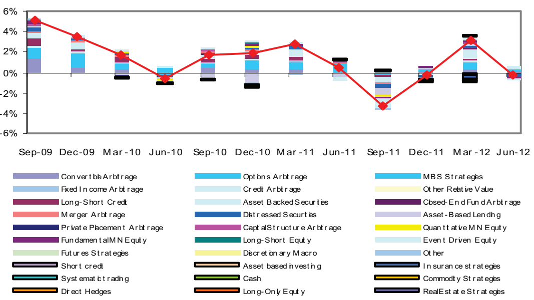
Relative returns #1



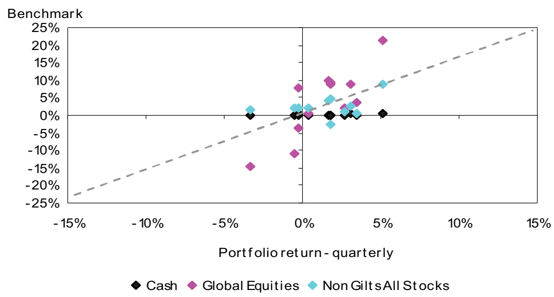
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-0.5	-1.9	4.1
Benchmark	1.0	4.0	3.8
relative	-1.5	-5.9	+0.3

Source: Data provided by WM Performance Services, and Gottex

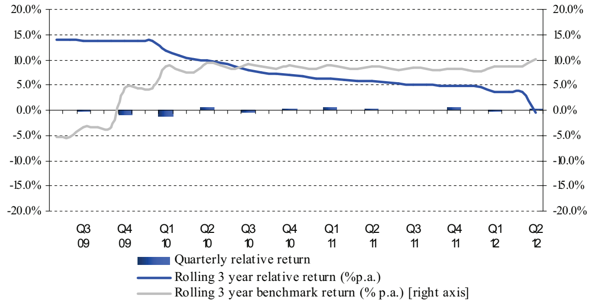
Comments:

- The Fund has a diverse range of strategy exposures, with continued major exposures to Asset Backed Securities, Mortgage Backed Securities and Fundamental MN Equity strategies. Allocations remained broadly in line with those in the earlier 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.

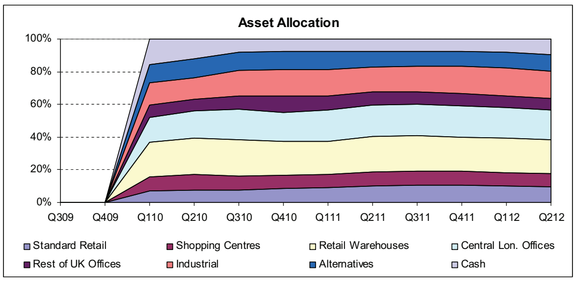
Schroder – UK Property

Mandate	Benchmark	Outperformance target	Inception date
UK property	**IPD UK pooled**	**+1.0%**	**February 2009**
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of funds**
£129,504	**4.8**	**Not available**	**16**

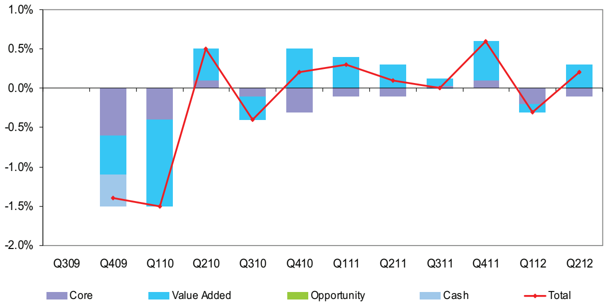
Relative returns [#1]



Asset Allocation [#5]



Contribution to relative return [#6]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	0.5	4.7	10.0
Benchmark	0.3	4.1	10.4
relative	+0.2	+0.6	-0.4

Source: Data provided by WM Performance Services, and Schroders

Comments:

- 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 £70 million, or approximately 53% of the Fund's intended commitment of approximately £132 million. A total of £2.51 million was drawn down over the quarter. The draw downs commenced in September 2009.

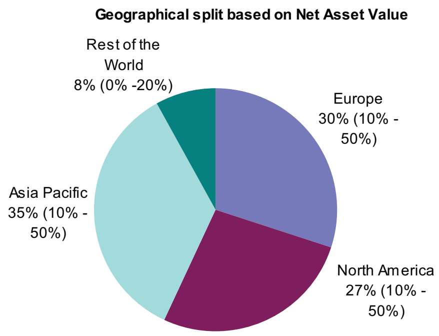
Partners have communicated that the extent of the draw downs to date are broadly as they expected, with the exception of investments in core European real estate which they are delaying due to the uncertain economic environment in Europe. They are currently reviewing the alternative opportunities to invest the funds earmarked for core European real estate. Partners note that their strategy is to build a diversified portfolio in a disciplined manner, spread across different "vintage" years.

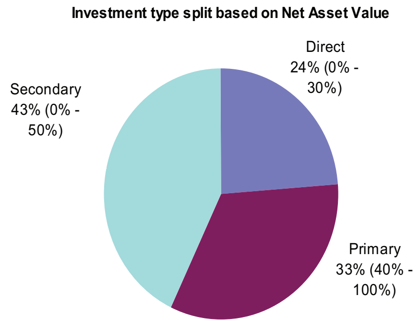
The funds invested to date have been split by Partners as follows:

Partners Fund	Net Drawn Down (£ Million)	Net Asset Value as at 30 June 2012 (£ Million)
Asia Pacific and Emerging Market Real Estate 2009	10.14	11.21
Direct Real Estate 2011	2.64	2.58
Distressed US Real Estate 2009	12.41	12.65
Global Real Estate 2008	27.85	28.55
Global Real Estate 2011	7.54	7.67
Real Estate Secondary 2009	9.60	10.69
Total (£)	**70.18**	**73.35**

Source: Partners. (adjusted for cash flows), the above is Partners' valuation as at 30 June 2012.

The investments in the funds noted above have resulted in a portfolio that was, as at 30 June 2012, 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 and investment type within the portfolio over the quarter were marginal.

The exposure to Primary continues to be 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 Q2 2012

Distributions since inception total £7.71m, with £0.46m distributions over the most recent quarter.

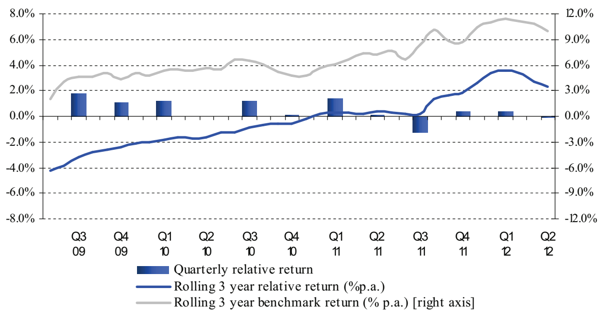
Performance of Partners is lagged by 1 quarter. Performance over Q1 2012 was positive, with the manager producing a return of 0.3%, this was however, behind that of the benchmark. Over the 1 year to 31 March 2012, the performance of Partners was 8.2%, against a benchmark return of 6.3%.

Overall, we believe that Partners has performed as we would have expected since their appointment since September 2009. The manager has been consistently drawing down monies into the portfolio and they remain within the guidelines that have been set. The allocation to primary investments remains below the target allocation of 40%-100%, however, at this early stage whereby not all the monies have been drawn (at the end of June 2012, this stands at 53%) we do not have any concerns as this is a long term target.

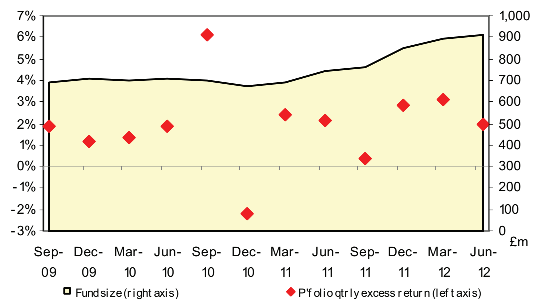
Royal London Asset Management – Fixed Interest

Mandate	Benchmark	Outperformance target	Inception date
UK Corporate Bonds	**iBoxx £ non-Gilts all maturities**	**+0.8%**	**July 2007**
Value (£'000)	**% Fund Assets**	**Number of holdings**	
£232,188	**8.6**	**276**	

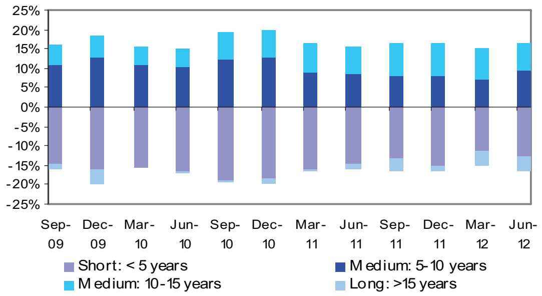
Relative returns [#1]



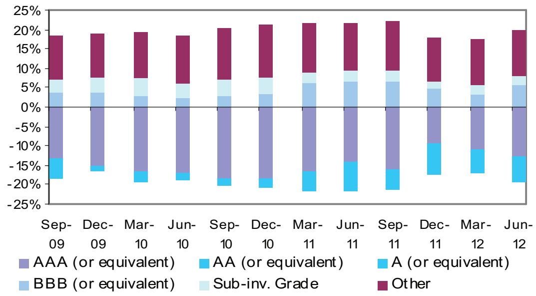
Performance v fund size [#3]



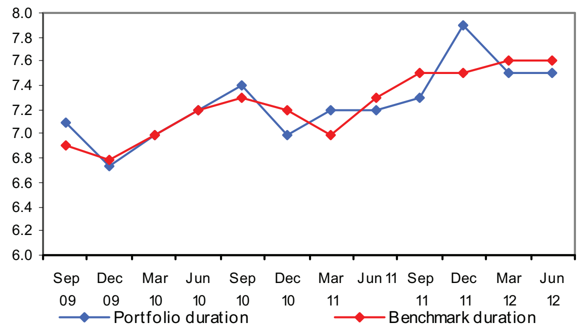
Relative Maturity exposure [#8]



Relative Ratings exposure [#9]



Duration [#10]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	2.0	8.4	12.2
Benchmark	2.1	9.0	9.9
relative	-0.1	-0.6	+2.3

Source: Data provided by WM Performance Services, and RLAM

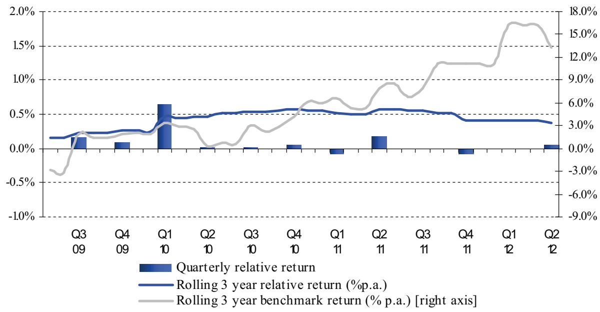
Comments:

- 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.

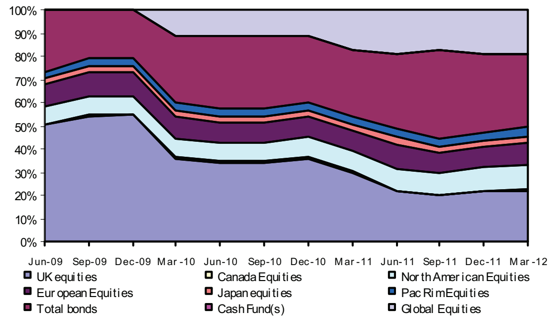
BlackRock – Passive Multi-Asset

Mandate	Benchmark	Outperformance target	Inception date
Passive multi-asset	In line with customised benchmarks using monthly mean fund weights	0%	April 2003
Value (£'000)	**% Fund Assets**		
£1,207,763	44.7		

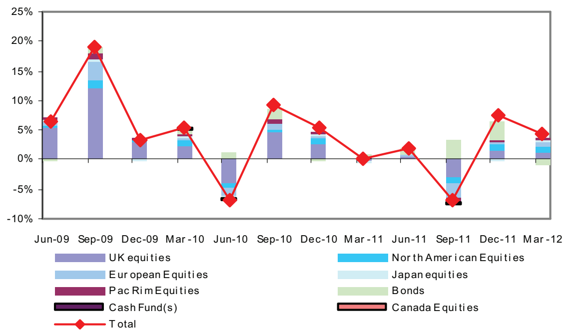
Relative returns #1



Asset Allocation #5



Contribution to absolute return #6



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-1.4	2.9	13.6
Benchmark	-1.4	3.0	13.5
relative	0.0	-0.1	+0.1

Source: Data provided by WM Performance Services, and BlackRock

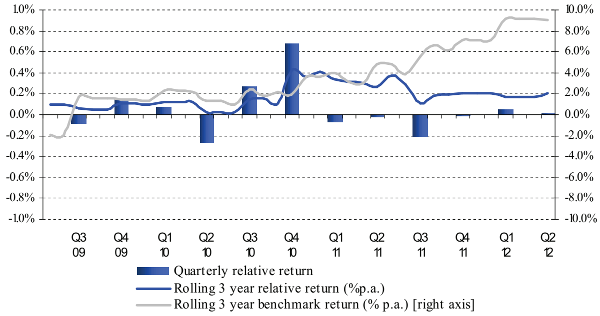
Comments:

- 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.
- Asset allocations moved in line with market movements.

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

Mandate	Benchmark	Outperformance target	Inception date
Overseas property	**Customised benchmarks using monthly mean fund weights**	**0%**	**September 2009**
Value (£'000)	**% Fund Assets**		
£72,372	**2.7**		

Relative returns #1



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.3	10.1	9.3
Benchmark	1.3	10.3	9.2
relative	0.0	-0.2	+0.1

Source: Data provided by WM Performance Services, and BlackRock

Comments:

- Over the quarter the Fund's holdings UK Gilts increased, at the expense of cash, UK equity futures and European equities.
- Over the quarter, the positive absolute return contribution to the total portfolio returns UK Gilts outweighed the negative contributions from UK, US and European equities.

Appendix A – Market Events

Asset Class	What Happened? Positive Factors	Negative Factors
UK Equities	• The UK Bank Rate was held at 0.5% providing some stability in markets. • Inflation continued its downward trend falling to 2.4% over the quarter, benefiting the consumer economy. • Corporate profits held up remarkably well in large parts of the economy, driven mainly by exports, leading to many companies increasing their dividends.	• The LIBOR fixing scandal hit investor confidence in Banks as speculation increased over how many major banks were involved. • Unemployment remained high through the quarter even with the slight boost from Olympic venues. • The Purchasing Managers Index (PMI) fell to 50.2 over the quarter. This is only marginally above the 50.0 point which represents declining confidence.
Overseas Equities		
North America	• US GDP remained in positive territory over the quarter. It is currently stated at 1.9% for Q1 2012 down from the initial estimates of 2.2%. • The US Fed held interest rates and QE aided confidence in the market. The Fed also reported that US consumer credit posted the largest month-over-month gain in more than a decade in March (the most recent data available), rising by more than $21 billion.	• US unemployment rose slightly over the quarter to 8.1% (31/5/12 figures). • Election campaigning has already started to cause uncertainty in US markets. The market has concerns about both candidates.
Europe	• ECB cut interest rates over the quarter by 25bps in an attempt to encourage growth. • Increased bailout funds are providing liquidity to the market and is seen as proof of the political classes commitment to the Euro. • The second Greece election produced a governing coalition to provide support for the Eurozone plan and increase confidence in European Markets.	• Unemployment remains high - particularly in peripheral Eurozone countries as austerity measures impact on confidence. • Spanish debt broke through the 7% yield level and the cost of issuing new debt rose inline with investor confidence falling in respect of Spain's ability to repay its debt. • France voted against Eurozone austerity plans by electing Francois Hollande and reversing many of Sarkozy's social welfare reforms. This added an element of confusion about the direction of Europe.
Japan	• The Japanese economy is growing at 4% p.a. recovering from the sharp fall in activity following the earthquake and consequent disruption to industrial output. Reconstruction spending continued to lift the economy.	• Deteriorating growth in the Emerging Markets, particularly China & India had an negative effect on the Japanese export sector, although exports were strong elsewhere. This was compounded by the flight to safe haven assets such as the Yen.

Asset Class	What Happened? Positive Factors	What Happened? Negative Factors
Asia Pacific	• Economies in much of Asia are performing well, especially domestically. Consumers are experiencing increasing incomes and have a rapidly rising propensity to spend. • Most central banks held their interest rate strategy, helping market confidence. The exceptions were Australia which cut rates by more than the market expected.	• Deteriorating exports caused growth to slow in Hong Kong, Indonesia and Taiwan. • Inflationary pressures have started to build with CPI rising in India, Indonesia, Korea and the Philippines, Singapore and Taiwan.
Emerging Markets	• China cut interest rates by 25bps late in the quarter and Brazil cut 50bps to promote growth. • Growth accelerated in Mexico and the Philippines as exports and domestic consumption improved.	• Several prominent IPO's were delayed this quarter due to market volatility including Formula One and Graff Diamonds. • Emerging Market currencies have suffered in Q2, particularly the Indian Rupee and the Brazilian Real as investors sought safety in the US dollar. The speed of China's slowdown also surprised markets.
Gilts	• Demand for Gilts has proved resilient over the quarter. Capital values appreciated, as the UK continued its 'safe haven' status. This, together with more QE has pushed Gilt yields to historically low levels.	• CPI has continued to trend down hitting 2.4% over the quarter. However, this is still above the Bank of England's 2% target.
Index Linked Gilts	• Demand for Index Linked Gilts remains strong as limited supply supports the price.	• Yields have turned negative in Q2. Whether this is sustainable, at these levels, over time remains a key question.
Corporate Bonds	• Sterling corporate bonds had positive returns. Markets also approved of the EU summit agreement to allow the broader use of EU rescue funds to support eurozone banks and sovereign bond markets. • Spreads on Investment Grade Corporate Bonds have experienced compression against over Gilts over the quarter reducing the premium paid for the additional risk.	• Corporate Bonds have struggled over the quarter to find buyers. This market is currently suffering from a lack of liquidity meaning that trading is becoming more difficult.
Property	• Prime assets, particularly those in London, have outperformed secondary and tertiary properties, as in the first quarter.	• Overall void levels continue to increase in tandem with the lowering of capital values as well as falling rental yields.

Economic statistics

	Quarter to 30 June 2012			Year to 30 June 2012		
	UK	Europe[1]	US	UK	Europe[1]	US
Real GDP growth	-0.7%	n/a	0.4%	-0.8%	n/a	2.2%
Unemployment rate	8.1%	11.2%	8.2%	8.1%	11.2%	8.2%
Previous	*8.2%*	*10.3%*	*8.2%*	*7.9%*	*10.0%*	*9.1%*
Inflation change[2]	0.1%	0.3%	0.0%	2.4%	2.4%	1.6%
Manufacturing Purchasing Managers' Index	48.4	45.1	49.7	48.4	45.1	49.7
Previous	*51.9*	*47.7*	*53.4*	*51.3*	*50.4*	*55.8*
Quantitative Easing / LTRO [3]	£325bn	€1,018bn	$2,654bn	£325bn	€1,018bn	$2,654bn
Previous	*£325bn*	*€489bn*	*$2,654bn*	*£200bn*	*€0bn*	*$2,654bn*

Source: Thomson Reuters, market, Institute for Supply Management, Eurostat, United States Department of Labor, US Bureau of Economic Analysis. All figures to 30 June 2012 unless otherwise stated. "Previous" relates to data as at the previous quarter or year end.

(1) 15 Country Euro area; (2) CPI inflation measure; (3) Refers to amounts announced and therefore ignores changes due to debt maturing. LTRO refers to the European Central Bank's Long Term Refinancing Operation. The UK Monetary Policy Committee announced an additional £50bn of quantitative easing in July 2012, not reflected in the table above.

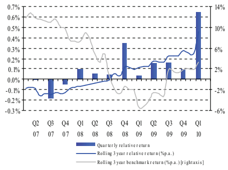
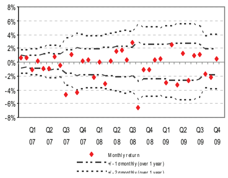
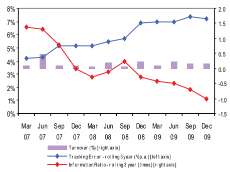
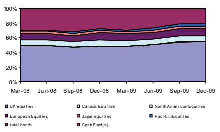
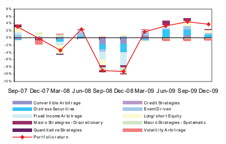
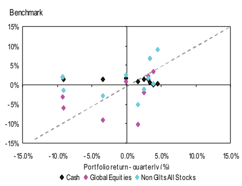
Appendix B – Glossary of Terms

Term	Definition
Absolute Return	The actual return, as opposed to the return relative to a benchmark.
Annualised	Figures expressed as applying to 1 year.
Bond Assets	Assets held in the expectation that they will exhibit a degree of sensitivity to yield changes. The value of a benefit payable to a pensioner is often calculated assuming the invested assets in respect of those liabilities achieve a return based on UK bonds.
Growth Assets	Assets held in the expectation that they will achieve more than the return on UK bonds. The value of a benefit payable to a non-pensioner is often calculated assuming the invested assets in respect of those liabilities achieve a return based on UK bonds plus a premium (for example, if holding equities an equity risk premium may be applied). The liabilities will still remain sensitive to yields although the Growth assets may not.
Duration	The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields.
Funded Liabilities	The value of benefits payable to members that can be paid from the existing assets of the plan (i.e. those liabilities that have assets available to meet them).
High Yield	A type of bond which has a lower credit rating than traditional investment grade corporate bonds or government bonds. These bonds pay a higher yield than investment grade bonds.
Market Statistics Indices	The following indices are used for asset returns: UK Equities: FTSE All-Share Index Overseas Equities: FTSE AW All-World ex UK UK Gilts (>15 yrs or >20 yrs): FTSE Brit Govt Fixed Over 15 (or 20) Years Index Corporate Bonds(>15 yrs AA): iBoxx £ Corp 15+ Years AA Index Non-Gilts (>15 yrs): iBoxx £ Non-Gilts 15+ Years Index Index Linked Gilts (>5yrs): FTSE Brit Govt Index Link Over 5 Years Index Hedge Funds: CS/Tremont Hedge Fund Index Commodities: S&P GSCI Commodity GBP Total Return Index High Yield: Bank Of America Merrill Lynch Global High Yield Index Property: IPD Property Index (Monthly) Cash: 7 day London Interbank Middle Rate Price Inflation: All Items Retail Price Index Earnings Inflation: UK Average Weekly Earnings Index - Whole Economy excluding Bonuses
Market Volatility	The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact.

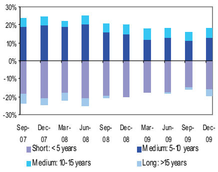
Term	Definition
Mercer Gilt Yield	An estimate of the yield available on a notional portfolio of UK Government conventional gilt stocks whose cashflows approximately match the Fund's estimated benefit cashflows
Money-Weighted Rate of Return	The rate of return on an investment including the amount and timing of cashflows.
Non-Pensioner Liability	The value of benefits payable to those who are yet to retire, including active and deferred members.
Pensioner Liability	The value of benefits payable to those who have already retired, irrespective of their age.
Relative Return	The return on a fund compared to the return on another fund, index or benchmark. For IMAGE purposes this is defined as: Return on Fund less Return on Index or Benchmark.
Scheme Investments	Refers only to the invested assets, including cash, held by your investment managers.
Surplus/Deficit	The estimated funding position of the Scheme. This is not an actuarial valuation and is based on estimated changes in liabilities as a result of bond yield changes, asset movements and, if carried out, output from an asset liability investigation (ALI). If no ALI has been undertaken the estimate is less robust.
Three-Year Return	The total return on the fund over a three year period expressed in percent per annum.
Time-Weighted Rate of Return	The rate of return on an investment removing the effect of the amount and timing of cashflows.
Unfunded Liabilities	The value of benefits payable to members that cannot be paid from the existing assets of the Scheme (i.e. those liabilities that have no physical assets available to meet them). These liabilities are effectively the deficit of the Scheme.
Yield (Gross Redemption Yield)	The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows.

Appendix C – Glossary of Charts

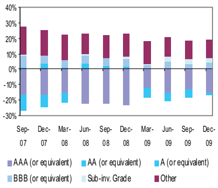
The following provides a description of the charts used in Section 5 and a brief description of their interpretation.

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).
#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

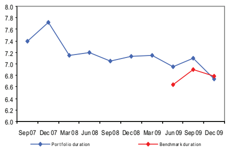
diagonal line.

#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 D – 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%	-
MAN	Fund of Hedge Funds	3M LIBOR + 5.75%	-
Signet	Fund of Hedge Funds	3M LIBOR + 3%	-
Stenham	Fund of Hedge Funds	3M LIBOR + 3%	-
Gottex	Fund of Hedge Funds	3M LIBOR + 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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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**	
MEETING DATE:	**5 SEPTEMBER 2012**	**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 April 2013. The workplan is provisional as will respond to issues as they arise and instructions from the Committee.

1.2 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
5 Sept 2012 Meeting and workshop	• Review mangers performance to June 2012 • Meet the managers workshop (Gottex, Stenham)	• Agree any recommendations to Committee
14 Nov 2012 Meeting and workshop	• Review mangers performance to Sept 2012 • Meet the managers workshop (TT, Partners)	• Agree any recommendations to Committee
Q1 2013	• Review mangers performance to Dec 2012 • Meet the managers workshop (Schroder Global Equity, another to be confirmed)	• 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 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 Woodyard, 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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