Bath & North East Somerset Council

Democratic Services
Guildhall, High Street, Bath BA1 5AW
Telephone: (01225) 477000 *main switchboard*
Direct Lines - Tel: 01225 395090
Web-site - http://www.bathnes.gov.uk

Date: 3 September 2015
E-mail: Democratic_Services@bathnes.gov.uk

To: All Members of the Avon Pension Fund Committee - Investment Panel

Councillor Christopher Pearce (Chair), Councillor David Veale, Councillor Cherry Beath, Ann Berresford, Councillor Mary Blatchford and Shirley Marsh

Chief Executive and other appropriate officers
Press and Public

Dear Member

Avon Pension Fund Committee - Investment Panel: Friday, 11th September, 2015

You are invited to attend a meeting of the **Avon Pension Fund Committee - Investment Panel**, to be held on **Friday, 11th September, 2015** at **2.00 pm** in the **Conference Room 1.1 West, Civic Centre, Keynsham - Civic Centre, Keynsham.**

A training session for Members commencing at 9:30am will be held before the meeting and a buffet lunch for Members will be served at 1pm.

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 Guildhall Bath (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. **Recording at Meetings**:-

   The Openness of Local Government Bodies Regulations 2014 now allows filming and recording by anyone attending a meeting. This is not within the Council's control.

   Some of our meetings are webcast. At the start of the meeting, the Chair will confirm if all or part of the meeting is to be filmed. If you would prefer not to be filmed for the webcast, please make yourself known to the camera operators.

   To comply with the Data Protection Act 1998, we require the consent of parents or guardians before filming children or young people. For more information, please speak to the camera operator

   The Council will broadcast the images and sound live via the internet www.bathnes.gov.uk/webcast An archived recording of the proceedings will also be available for viewing after the meeting. The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

4. **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 - Reception: Civic Centre - 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.

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

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

7. 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 - Friday, 11th September, 2015

at 2.00 pm in the Conference Room 1.1 West, Civic Centre, Keynsham - Civic Centre, Keynsham

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 complete the green interest forms circulated to groups in their pre-meetings (which will be announced at the Council Meeting) 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 or a member of his staff 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: 4 MARCH 2015 (Pages 7 - 8)

8. MANAGING LIABILITIES (Pages 9 - 58)

9. REVIEW OF STRATEGIC HEDGING OF CURRENCY EXPOSURE (Pages 59 - 102)

Before discussing this item, Members are invited to consider the arguments set out in the Public Interest document and to pass the following resolution:

> *"The Committee having been satisfied that the public interest would be better served by not disclosing relevant information, the public shall be excluded from the meeting during the discussion this item, in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended."*

10. INVESTMENT REPORT (Pages 103 - 228)

Before discussing appendix 3 to this item, Members are invited to consider the arguments set out in the Public Interest document and to pass the following resolution:

> *"The Committee having been satisfied that the public interest would be better served by not disclosing relevant information, the public shall be excluded from the meeting during the discussion of exempt appendix 3 to this item, in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended."*

11. WORKPLAN (Pages 229 - 232)

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

Protocol for Decision-making

Guidance for Members when making decisions

When making decisions, the Cabinet/Committee must ensure it has regard only to relevant considerations and disregards those that are not material.

The Cabinet/Committee must ensure that it bears in mind the following legal duties when making its decisions:

- Equalities considerations

- Risk Management considerations
- Crime and Disorder considerations
- Sustainability considerations
- Natural Environment considerations
- Planning Act 2008 considerations
- Human Rights Act 1998 considerations
- Children Act 2004 considerations
- Public Health & Inequalities considerations

Whilst it is the responsibility of the report author and the Council's Monitoring Officer and Chief Financial Officer to assess the applicability of the legal requirements, decision makers should ensure they are satisfied that the information presented to them is consistent with and takes due regard of them.

This page is intentionally left blank

Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE - INVESTMENT PANEL

Minutes of the Meeting held

Wednesday, 4th March, 2015, 11.00 am

Members: Councillor Charles Gerrish (Chair), Councillor Patrick Anketell-Jones, Ann Berresford, Councillor Mary Blatchford, Roger Broughton and Councillor Ian Gilchrist
Advisors:
Also in attendance:

30 EMERGENCY EVACUATION PROCEDURE

The Senior Democratic Services Officer drew attention to the emergency evacuation procedure

31 DECLARATIONS OF INTEREST

There were none.

32 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

33 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

The Chair stated that this would be the last meeting of the Panel to be attended by John Finch. On behalf of the Panel, he extended his thanks to John for his past services and advice.

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

There were none.

35 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

36 MINUTES: 21 NOVEMBER 2014

The Minutes of the previous meeting held on 21st November 2014 were approved as a correct record and were signed by the Chair.

37 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 DEC 2014

The Panel considered a report on the performance of the Fund's Investment Managers for the period ending 31st December 2014 and updated the Panel on routine aspects of the Fund's investments.

The Investments Manager outlined the report. Members discussed the performance monitoring report by JLT (Appendix 2). John Finch stated that there was significant volatility in UK Gilts – there had been a collapse in commodity prices and the Frontier Markets were down in the last quarter. However, the Equity Markets remained positive and good returns were expected after the Quarter. He commented generally on world markets and the healthy UK economic growth although there was concern about the Euro.

He continued by reporting on the performance of managers stating that 10 of the 18 managers had outperformed over the Quarter and 14 out of 16 over the 3 year period. Schroders had made some changes and had outperformed in the last Quarter. He drew attention to some managers not meeting their 3 year targets including Partners. The Investments Manager suggested that this was partially due to the impact of the Foreign Exchange. In addition, the figures calculated by WM use a time weighted return to measure return and this is not so appropriate for investments in closed funds. Consideration may need to be given to setting an appropriate benchmark to monitor Partners.

The Investments Manager commented that Pyrford had made a poor start in 2014 but had improved in the last Quarter. The Chairman stated it should be recorded that the Panel had received a presentation by representatives of Schroders Global Equity portfolio team, namely, Simon Webber, Alex Tedder and Lyndon Bolton. It was apparent that the influence of Alex Tedder had produced a more consistent performance and had strengthened the team. The Panel requested that Officers monitor their performance closely to ensure performance continued to improve and any areas of concern reported to the Panel as a matter of priority.

RESOLVED (1) to note the information set out in the report; and (2) identified issues to be notified to the Avon Pension Fund Committee.

38 WORKPLAN

The Investments Manager circulated an updated Workplan, which was discussed by the Panel.

RESOLVED to note (1) the Workplan; and (2) the proposed manager meeting schedule for the Panel.

The meeting ended at 11.45 am

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

<table>
<tr><td colspan="3">Bath & North East Somerset Council</td></tr>
<tr><td>MEETING:</td><td colspan="2">AVON PENSION FUND INVESTMENT PANEL</td></tr>
<tr><td>MEETING DATE:</td><td>11 September 2015</td><td>AGENDA ITEM NUMBER</td></tr>
<tr><td>TITLE:</td><td colspan="2">MANAGING LIABILITIES</td></tr>
<tr><td>WARD:</td><td colspan="2">ALL</td></tr>
<tr><td colspan="3">AN OPEN PUBLIC ITEM</td></tr>
<tr><td colspan="3">List of attachments to this report:

Appendix 1 – Mercer Report: Risk Management Framework</td></tr>
</table>

1 THE ISSUE

1.1 The Committee requested that the Panel review the range of investment options available to more effectively manage liability risks, how they may be implemented and the potential cost.

1.2 Mercer have evaluated the options and provided the rationale for the proposed way forward for consideration by the Panel. Appendix 1 provides the detailed analysis and recommendations from Mercer.

2 RECOMMENDATION

2.1 **The Panel considers the recommendations from Mercer (summarised in paragraph 6.1) and agrees next steps**

3 FINANCIAL IMPLICATIONS

3.1 There is provision in the 2015/16 budget for investment advice relating to the review of the Fund's management of liability risks. Any future implementation of a liability risk management framework may incur additional costs for future budgets.

4 BACKGROUND

4.1 Pension liabilities are the accrued benefits that will be paid out in the future. The monetary values of these cashflows are known. However, the "net present value" of these liabilities changes over time and the investment strategy only partially matches these cashflows, i.e. there is a "mismatch". The funding strategy calculates the contributions required to be paid into the Fund to fully fund pension cashflows as they fall due.

4.2 **Why manage these risks?** By managing the mismatch between the change in value of assets and liabilities over time, the Fund can minimise funding level volatility and stabilise employer contribution rates more effectively.

4.3 **What are the causes of such risks?** The 2 largest factors affecting changes in the value of liabilities are as follows:

- Changes in interest rate – higher interest rates increase the discount rate used to value liabilities, thereby reducing the current value put on future liabilities (and vice versa)

- Changes in inflation rate – higher rates of inflation lead to larger benefits payments to members

4.4 **How can we manage these risks?** The impact of these risks on the funding level and contributions can be reduced by investing in assets whose value responds to changes in interest rates, inflation rates or longevity, in a similar way as the value of liabilities responds to such changes (i.e. by improving the 'matching characteristics' of the stabilising portfolio to the liabilities).

4.5 The stabilising portfolio seeks to reduce volatility in the valuation outcome; the majority of the investment portfolio remains invested in growth assets that generate higher returns. These "excess" returns help reduce the deficit contributions and employer contribution rates within the funding strategy.

5 MERCER REPORT

5.1 The report produced by Mercer (see Appendix 1) includes the following:

(1) How interest rates and inflation rates impact the liabilities and investments portfolio and how the 'mismatch' in changes to liabilities and assets arises.

(2) How by using current bond assets more efficiently the Fund can significantly improve the matching characteristics of the investments portfolio.

(3) How by setting a target level of matching and putting an appropriate framework in place to reach that target the Fund can ensure the programme is implemented in an efficient manner.

(4) How by managing this mismatch, the increased certainty of outcome allows the actuary to reassess the level of prudency assumed when valuing the liabilities and thereby manage consistent contribution levels.

(5) An explanation of the nature of the investments to be made to achieve the desired outcome.

5.2 When considering the report, Members should also have in mind the following:

(1) How will the proposed changes impact upon the actuarial valuation? Will the changes improve the Fund's ability to stabilise employer contribution rates?

(2) How will the proposed changes impact upon the investments portfolio? Will the expected return and volatility targets of the investments strategy alter? Will income available from the investments portfolio be reduced?

(3) How will the implementation of the changes impact the Fund? The Fund would have to invest in specific instruments to achieve the intended outcome, and such instruments introduce additional risks such as counterparty risk, liquidity impacts and valuation mismatch.

(4) The cost of adopting the proposed changes will depend upon the subsequent implementation choices.

6 RECOMMENDATIONS

6.1 Mercer summarise their recommendations in Appendix 1. They comprise:

(1) An immediate change to the UK government bond portfolio to improve matching.

(2) Developing a three year plan to increase the level of matching.

(3) Establish a longer term plan to reach a target level of matching when affordable.

6.2 Having considered Mercer's report and recommendations, the Panel will need to determine the next steps.

7 RISK MANAGEMENT

7.1 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.

8 EQUALITIES

8.1 An equalities impact assessment is not necessary as the report contains only recommendations to note.

9 CONSULTATION

9.1 N/a

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 Are set out in the report.

11 ADVICE SOUGHT

11.1 The Council's Monitoring Officer (Divisional Director – Legal and Democratic Services) and Section 151 Officer (Divisional Director – Business Support) 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	

HEALTH WEALTH CAREER

RISK MANAGEMENT FRAMEWORK

AVON PENSION FUND

11 SEPTEMBER 2015

Steve Turner
Partner

AGENDA

- Introduction and objectives 2
- Risk management options 13
- Proposed risk management framework 21
- Next steps 32
- Appendices 36

INTRODUCTION AND OBJECTIVES

Page 17

RISK CONSIDERATIONS

Risk	Manage, reduce or monitor?	How?
Equity and growth asset risk	Monitor (and potentially reduce) We expect to be rewarded for this risk but could reduce if we get ahead of plan	Performance monitoring + de-risking if affordable
Credit risk	Monitor (and potentially reduce) We expect to be rewarded for this risk but could reduce if we get ahead of plan	Performance monitoring
Active manager risk	Monitor We expect to be rewarded for this risk	Performance monitoring
Interest rate risk	Reduce – two of the larger risks facing the Fund, and arguably unrewarded	Use physical index-linked gilts and in time leveraged index-linked gilts
Inflation		
Longevity risk	Monitor	As part of the actuarial valuation
Covenant risk	Manage and monitor	Develop employer specific investment strategies

PRINCIPLES OF RISK MANAGEMENT

Stable and affordable contribution rate

versus

Achieve investment returns required under current funding arrangements

Objectives are two-fold but conflicting

- Risk needs to be taken in order to achieve returns but risk does not guarantee returns

Need to ensure a reasonable balance between the two objectives

- No need to take the same level of risk when 70% funded (say) than when 100% funded

RISK MANAGEMENT FRAMEWORK

Maintaining required expected return + **Better Liability Risk Management** = **Improved long-term affordability and sustainability in the cost of pension provision**

Strategic Rationale

- Will help reduce deficit volatility which is high, through better protection against adverse changes in long-term interest rates and inflation expectations
- Expected return on the investment policy is expected to remain broadly the same given proposed initial structure (i.e. no reduction, which is clearly expected to help reduce the deficit over the long-term)

Forward Looking

- Initial emphasis on putting in place “the plumbing” to facilitate future de-risking in a timely fashion, following improvements in the funding level and / or increases in market yields

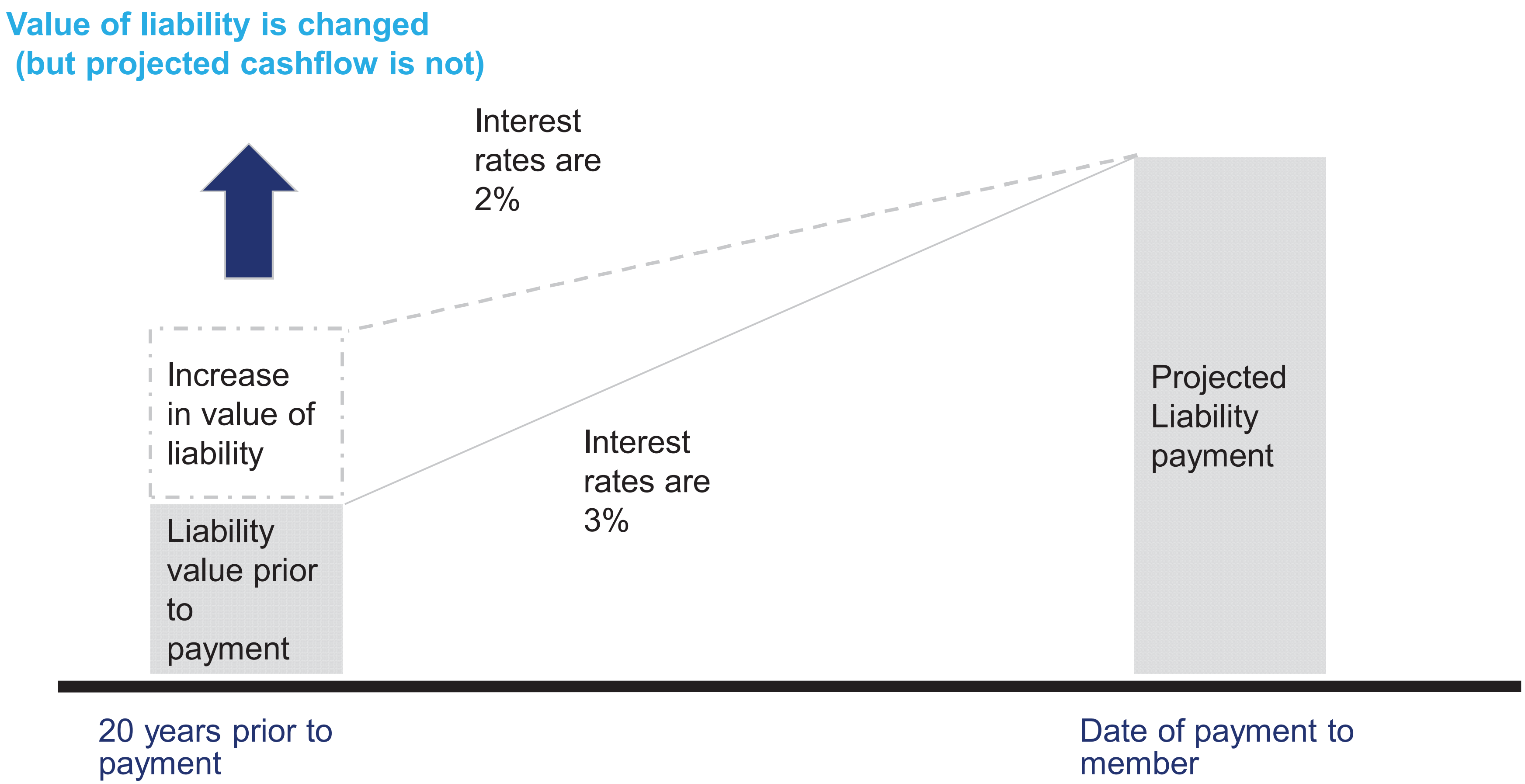
HOW DO INTEREST RATES AND INFLATION AFFECT LIABILITIES?

- There is an **inverse** relationship between interest rates and liability values

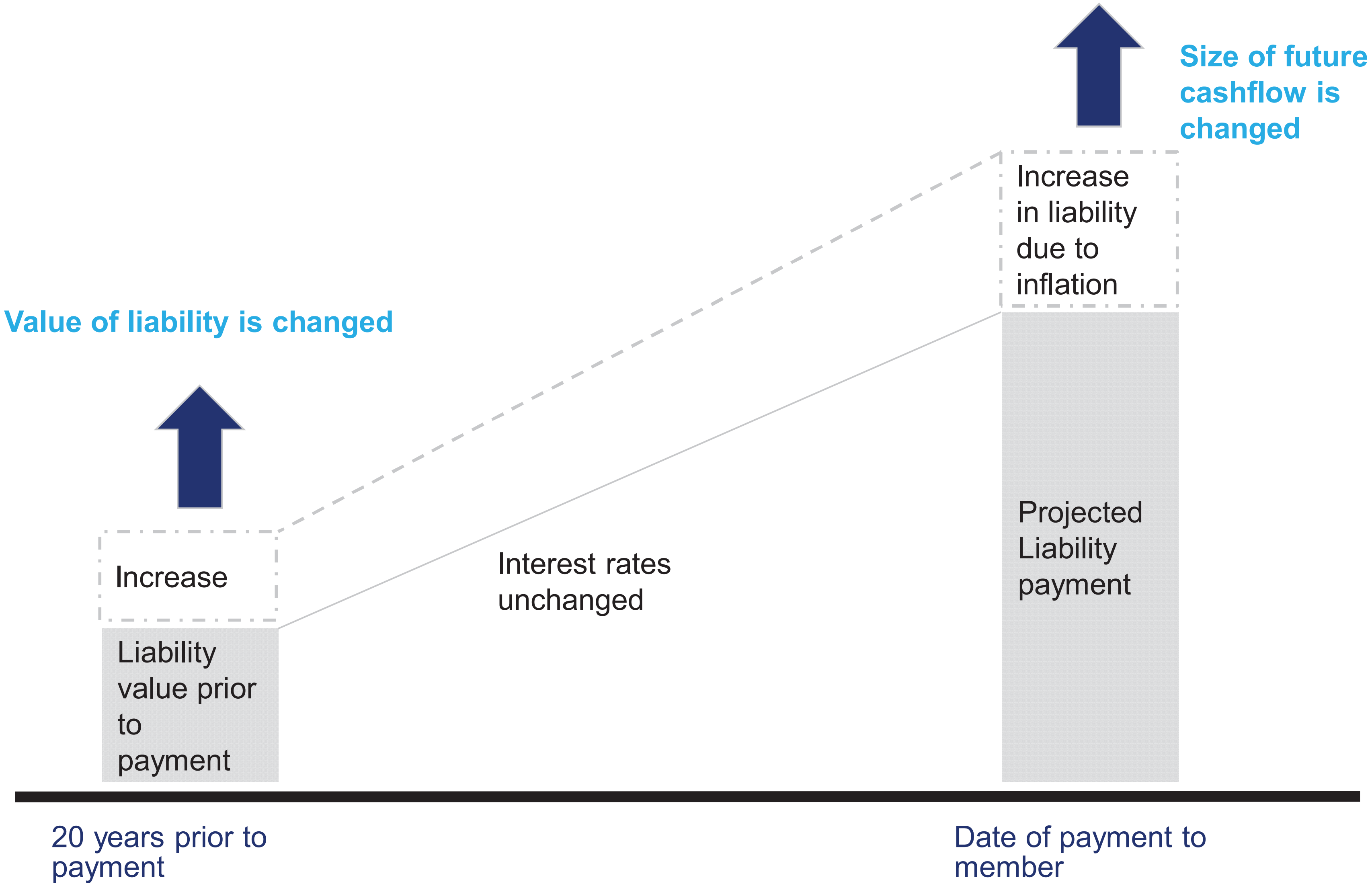
If long-term interest rates fall, the Fund's discount rate falls → Hence the Fund's liabilities rise → So, all else being equal, the funding level deteriorates

- There is a **direct** relationship between changes in inflation expectations and liability values

HOW DO INTEREST RATES AFFECT LIABILITIES?

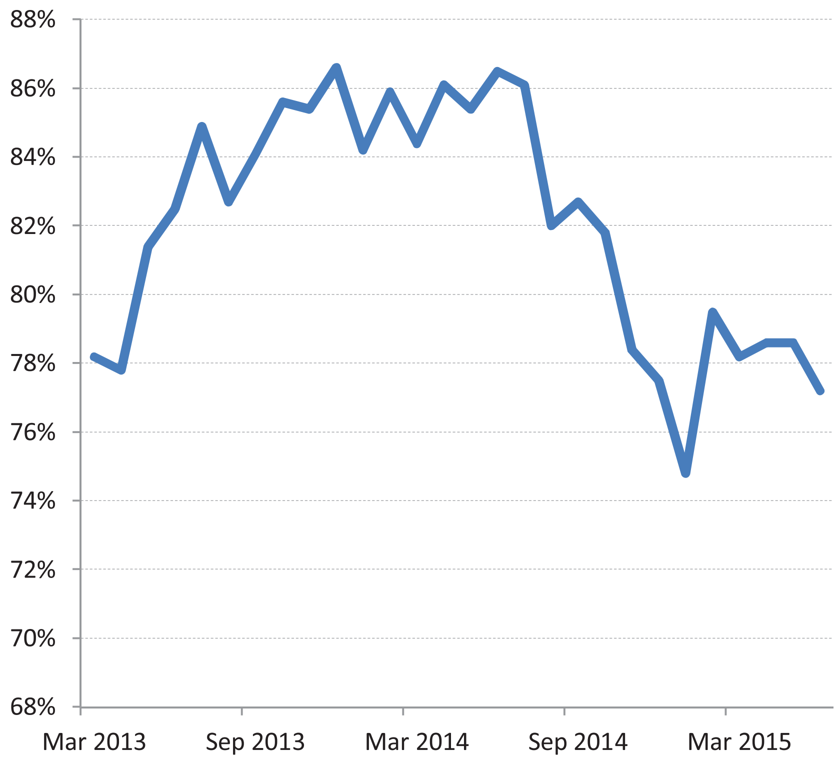


HOW DOES INFLATION AFFECT LIABILITIES?



Page 23

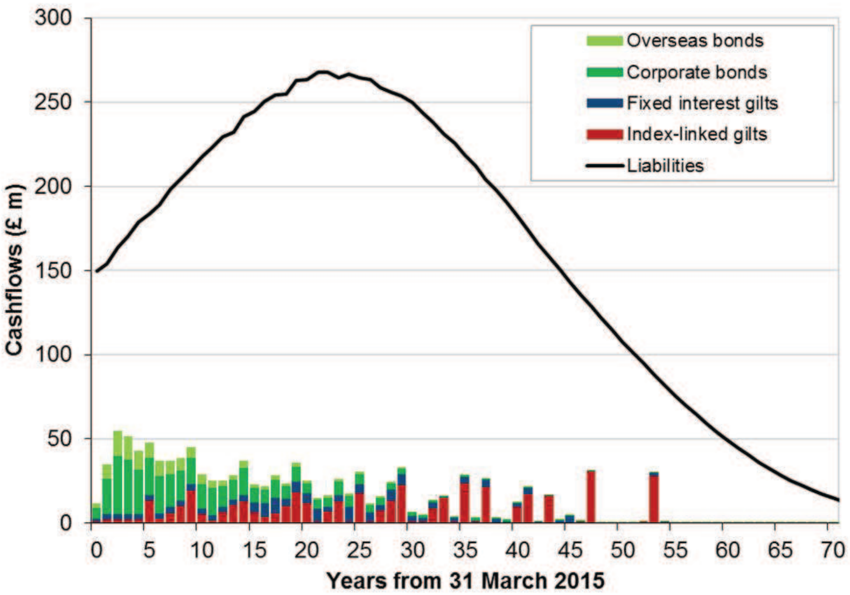
SINCE THE LAST VALUATION
AVON FUNDING LEVEL VOLATILITY



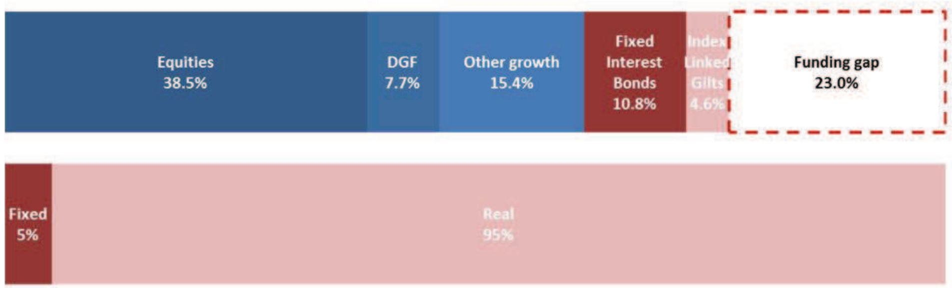
Source: FSM

- Funding level at 30 June 2015 marginally lower than from March 2013 actuarial valuation
- **BUT:** deficit has increased from **£877m** to c. **£1,100m** at 30 June 2015
- Strong returns from Fund's assets and deficit contributions more than offset by impact of falling discount rates.
- Avon's funding level experience in line with the rest of the LGPS
- **Key learning points:**
  - "Investment returns" (i.e. being below expectations) have not been the issue
  - Increase in deficit due a significant asset and liability mis-match
  - Stronger focus needed on liability risk management, combined with achieving strong investment returns

WHY IS THE MISMATCH SO GREAT?



ASSETS: DURATION C. 2 YEARS



LIABILITIES: DURATION C. 18 YEARS

- Value of liabilities linked to changes in expected asset returns / interest rates and inflation.
- Fund does not hold enough index-linked bonds to match the change in value of the liabilities (the “best” matching asset given nature of liabilities).
- Duration is a measure of sensitivity to changes in the value of bonds. The Fund’s liabilities are approximately 8 - 9x more sensitive to changes in interest rates than the Fund’s assets
- This means that on the current funding basis, changes in interest rates and inflation have a significant impact on the funding position and could lead to increased contribution requirements to meet a deficit

INTERACTION WITH 2016 VALUATION

	£m	
	31 March 2013	31 March 2010
Total assets	3,146	2,459
Liabilities:		
Active members	1,528	1,300
Deferred pensioners	749	451
Pensioners	1,745	1,260
Total liabilities	4,023	3,011
Past service surplus / (shortfall)	(876)	(552)
Funding level	78%	82%

Covenant (Affordability)

Funding Strategy

Investment Policy

All three aspects are interlinked

More certainty of outcomes (e.g. around deficit volatility and contributions) can be achieved by investing in a more liability aware manner

DISCOUNT RATES
DECIDE ON LEVEL OF PRUDENCE

Liabilities are calculated using a “prudent” expected return on assets.

Increasing the certainty over returns means a smaller prudent margin is required

In combination this means:

- Lower value placed on liabilities
- Lower deficit
- More certain outcome

RISK MANAGEMENT OPTIONS

THE KEY RISK MANAGEMENT OPTIONS

Make the physical bond holdings more efficient	• Better match assets and liabilities to reduce volatility of the funding position • Use current government bond allocation to do this and retain growth assets (needed to provide returns to meet cost of benefits and remove deficit).
Use of leverage	• Put pragmatic plan in place to move from current level of liability protection to improved position by using leverage (building up over three years, but accelerating if market conditions are attractive) • And then on to longer-term target (suggested at 50%).
Employer specific strategies	• Potentially a longer term development – will be considered at a future meeting • Introduce flexibility for employers to align strategy with covenant and tolerance for volatility • Specific cashflow driven strategy for “orphan” / corporate-bond basis liabilities to minimise volatility

PLAN TO IMPROVE MATCHING ASSETS

Make the bond portfolio more efficient

STABILISING ASSET	BENCHMARK ALLOCATION	ROLE
Index-Linked Gilts	6%	Match for inflation characteristics
Fixed Interest Gilts	3%	Small allocation and limited link to majority of liabilities. No contribution to excess return. Propose moving to index-linked gilts
Overseas Government Bonds	3%	Small allocation and very limited link to majority of liabilities. No contribution to excess return. Propose moving to index-linked gilts
Corporate Bonds	8%	Contributes to asset returns - retain

Proposal:

1. Move Fixed-Interest Gilts and Overseas Government Bonds to Index-Linked gilts to provide more liability protection (exact transfer process to be agreed). No reduction in expected return.
2. Put plan in place to improve protection from these gilts by moving to leveraged version over next three years (with a trigger in place to complete switch if real yield above CPI is at least 1%).

WHAT IS LEVERAGE?

Funded Exposure

- It is said that the position is funded (or unleveraged) if the amount of assets invested in the hedging portfolio is backing an equivalent amount of risk exposure.
- e.g. £100 of collateral is hedging £100 of risk.

Unfunded Exposure

- If the amount of collateral invested in the hedging portfolio is less than the equivalent amount of risk being hedged then the hedging portfolio is said to be geared.
- e.g. £100 of collateral hedging £300 of risk.

Leverage can be used to "free up" assets to use elsewhere in the portfolio while still hedging a greater proportion of the liabilities; it is implemented using derivatives.

NEW RISKS INTRODUCED AS A RESULT OF USING LEVERAGE

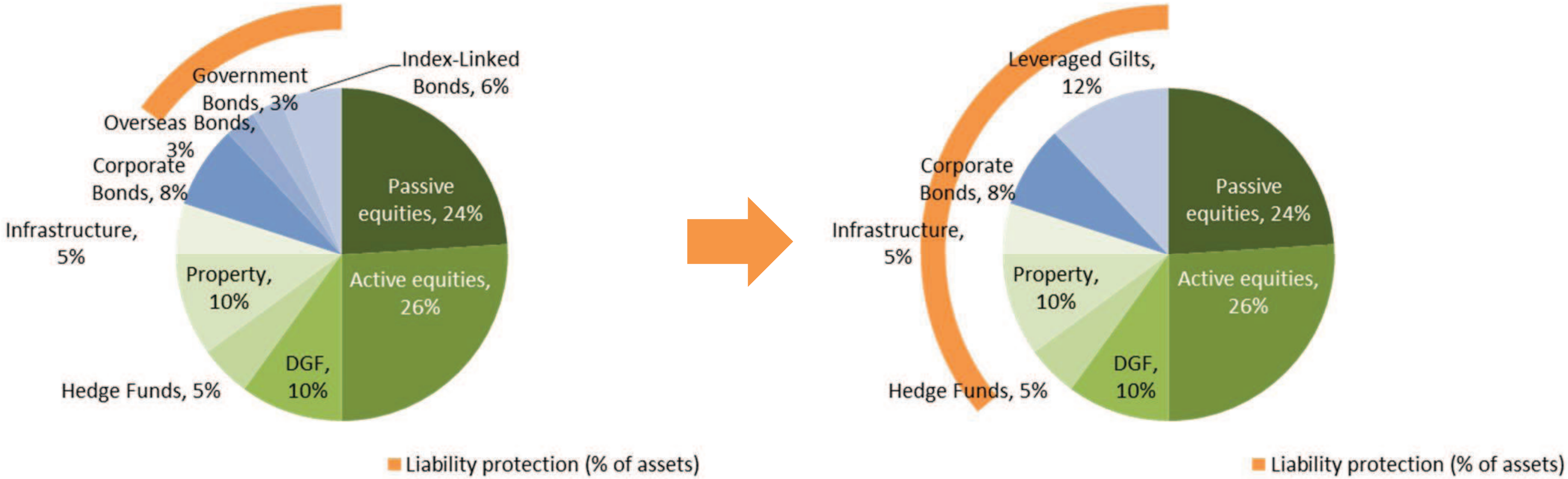
Make the bond portfolio more efficient

Counterparty and manager risk	• Default of counterparty bank may lead to losses • Significantly mitigated through collateralisation, but not eliminated • Process managed by the fund manager
Funding	• Pension schemes obligation to pay a cash (LIBOR) rate with interest rate swaps and repo rate with repurchase agreement • LIBOR cannot be generated without taking risk
Valuation	• Potential for basis risk between assets held by pension scheme (e.g. swaps) and yields used to value the liabilities (i.e. gilts or corporate bonds) • Some level of mismatch vs. the liabilities is inevitable as it may not be possible to find assets that are a perfect match for the liabilities
Liquidity	• Liquidity can be low at times (particularly for inflation swaps) and transaction costs have increased in both physical and synthetic markets
Regret	• Unrealistic to expect sustained and significant increases in long-term gilt yields • Consider trigger mechanisms to hedge at acceptable levels
Leverage	• Profits or losses will vary with changes in interest rates and inflation • May require the transferring of assets from another portfolio to the hedging mandate so that collateral can be posted by the pension scheme to the counterparty banks

Majority of risks can be mitigated through a combination of holding collateral, diversification of counterparty exposure and providing limits on leverage allowed

IMPROVING MATCHING
INITIAL TARGET (NEXT THREE YEARS)

Make the bond portfolio more efficient



Strategy	Current	Initial target
Liability protection (% of assets)	15% of assets* (18.5% when switched to ILG)	36%
Best estimate return (% p.a.)	6.0%	6.0%
Illustrative discount rate (% p.a.)	4.3%	4.5%
One year deficit risk	£1.0bn	£0.9bn

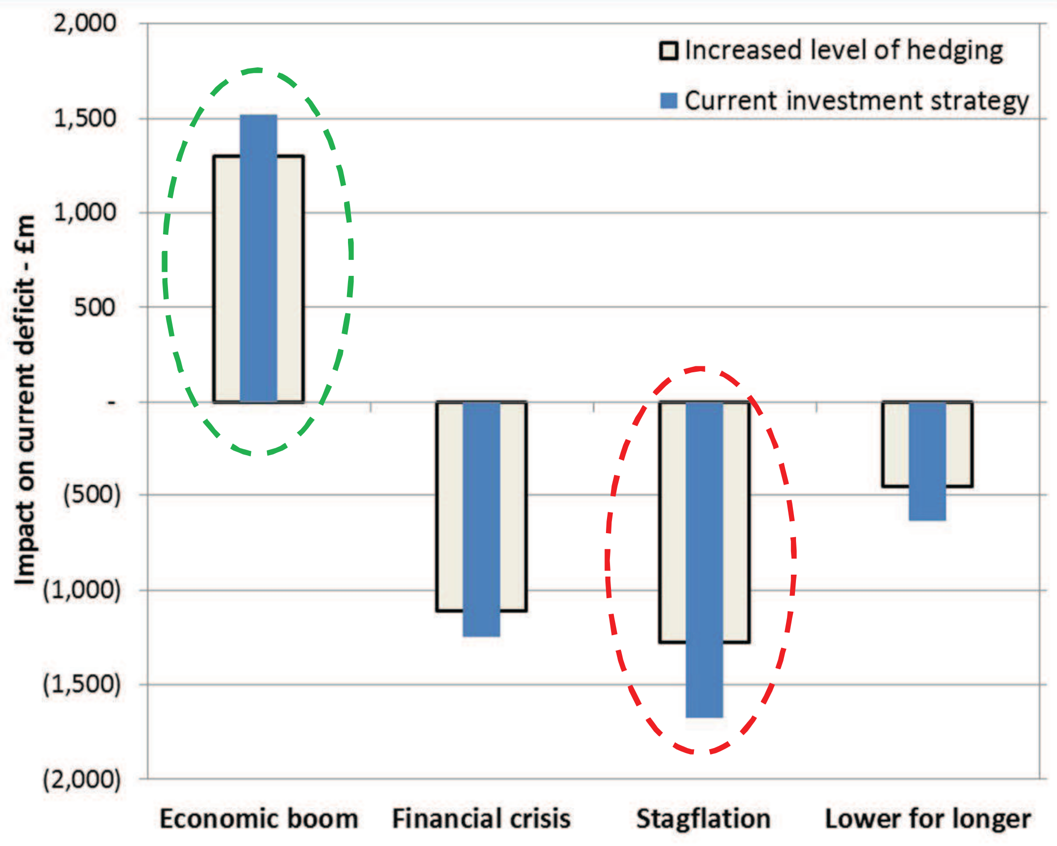
*Higher level of liability protection than bond holding, as bonds held are of slightly longer duration that liabilities

INCREASE IN DISCOUNT RATE POSSIBLE BECAUSE GREATER CERTAINTY ALLOWS PRUDENCE TO BE RELEASED

IMPACT OF IMPROVED PROTECTION

Make the bond portfolio more efficient

Impact on deficit of increase in hedging



Protection in downside scenarios

Some upside given up in "boom" times

More stable position

More certainty of outcomes

In an **economic boom**, the liabilities and (bond) assets are both expected to fall; as the liability protection is not 100%, liabilities fall by more than the assets do and the deficit falls. Improving liability protection limits this upside to c. £1.3bn (the white bar), whilst under the current allocation the upside is c. £1.5bn (the blue bar)

However, in a **stagflation scenario**, liabilities rise more than assets and the deficit rises; this increase in deficit is smaller when better liability protection is in place (and so the impact on contribution requirements is limited).

IMPLEMENT A FLIGHTPATH

1.

- Propose moving Fixed Interest and Overseas Government bonds to Index-Linked gilt holdings (increasing protection from current 15% of assets to c. 18.5%, as index-linked gilts are a better match for liabilities.

2.

- And over a three-year period increase the level of liability protection from 18.5% to 36% by quarterly switches of 1% of total Fund assets from index-linked gilts to leveraged index-linked gilts
- Phased approach helps diversify timing risk of the move and provides certainty that risk reduction will be achieved

3.

- With a trigger that if the Fund can buy liability protection with an expected return of at least 1% p.a. above CPI then implement the switch to 36% liability protection immediately.
- Use of trigger helps takes advantage of potential market opportunity

PROPOSED RISK MANAGEMENT FRAMEWORK

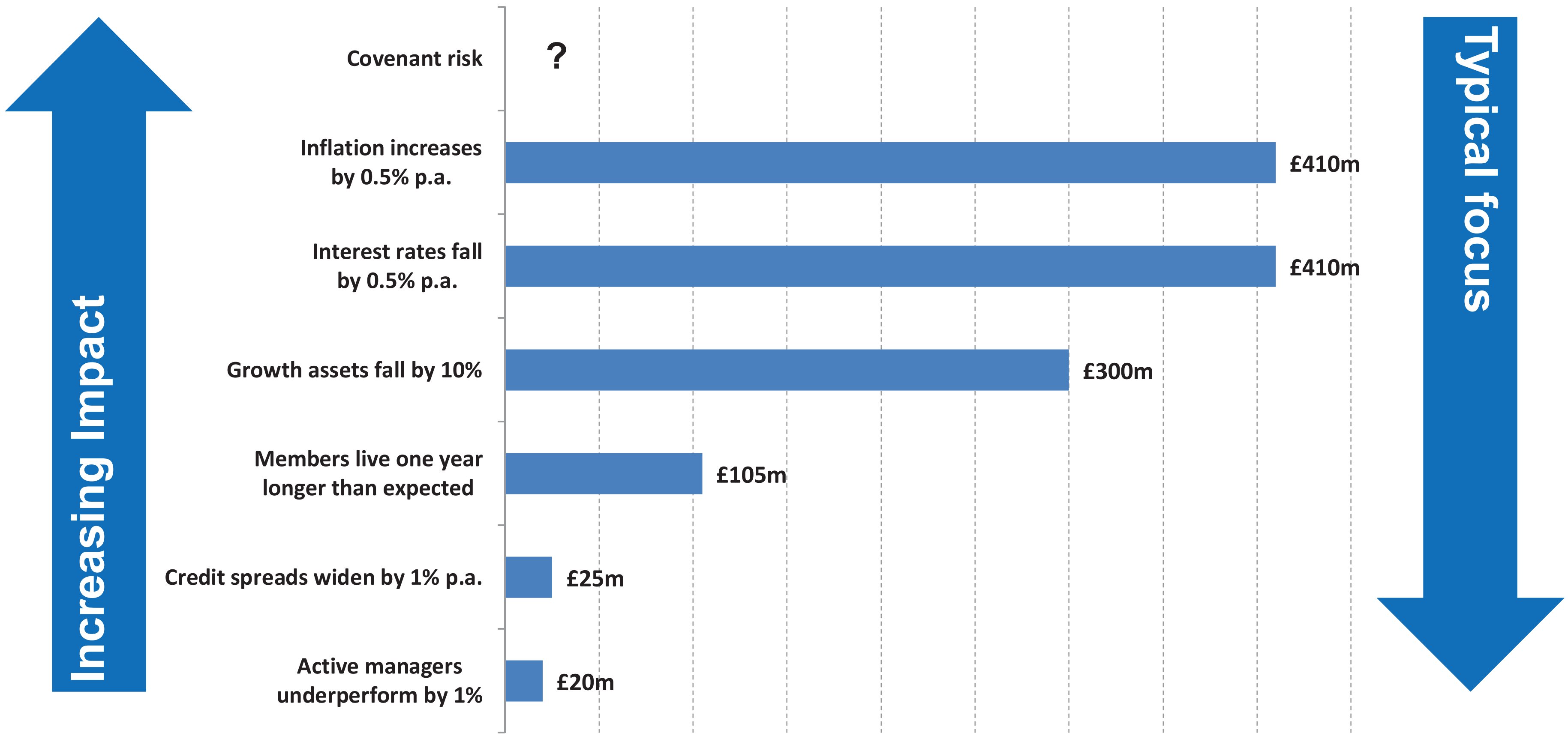
SUMMARY

OBJECTIVE	• Achieve a fully funded position by 2033 (in line with the current deficit recovery plan) or earlier • Increase certainty of outcomes and contributions but maintain sufficient real returns to achieve the objective
HOW TO ACHIEVE THIS	• Make the bond portfolio more efficient • Have a plan to remove risk over time when affordable • Develop alternative strategies for different employers
IMMEDIATE CHANGE	• Use existing government bonds to avoid reducing expected returns • Switch fixed interest and overseas government bonds to index-linked gilts for better liability protection
NEXT THREE YEARS	• Increase liability protection by switching 1% of Fund assets from index-linked gilts into leveraged gilts each quarter (to spread timing) • Accelerate switch if a real yield of CPI + 1% is available.
LONG TERM PLAN	• Funding level based triggers to increase liability protection to 50% when affordable • Cashflow driven strategy for selective employers / liabilities

RISK CONSIDERATIONS

Risk	Manage, reduce or monitor?	How?
Equity and growth asset risk	Monitor (and potentially reduce) We expect to be rewarded for this risk but could reduce if we get ahead of plan	Performance monitoring + de-risking if affordable
Credit risk	Monitor (and potentially reduce) We expect to be rewarded for this risk but could reduce if we get ahead of plan	Performance monitoring
Active manager risk	Monitor We expect to be rewarded for this risk	Performance monitoring
Interest rate risk	Reduce – two of the larger risks facing the Fund, and arguably unrewarded	Use physical index-linked gilts and in time leveraged index-linked gilts
Inflation		
Longevity risk	Monitor	As part of the actuarial valuation
Covenant risk	Manage and monitor	Develop employer specific investment strategies

WHAT REALLY MATTERS?
IMPACT ON DEFICIT – CURRENT BASIS



Approximate figures based on 2013 valuation sensitivities and 30 June 2015 estimated funding position.

WHEN TO HEDGE

- Options for implementing increase in hedging from 12% in conventional index-linked gilts to use leveraged gilts

SIMPLICTY

MARKET AWARE

IMMEDIATE EXECUTION

Immediate switch from the current to the target strategy, irrespective of the price (e.g. yield levels)

PHASED OVER TIME

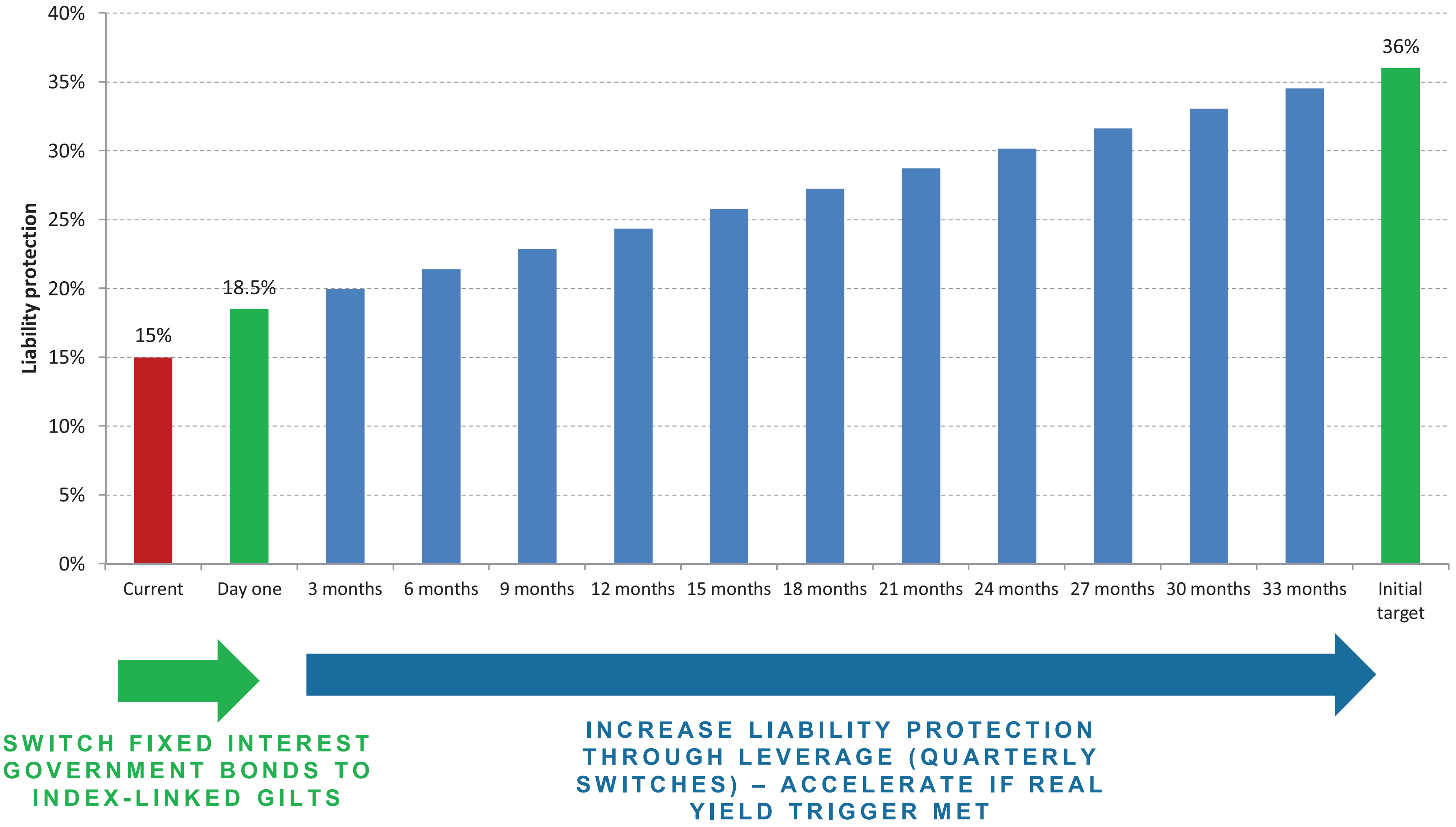
Phase the switching over time by splitting the trade into tranches (e.g. 10 switches of equal sizes). The switches are done irrespective of price.

TRIGGER BASED

Set minimum pricing criteria (e.g. trigger level or levels) which, once satisfied, will action switches towards the target strategy. If implemented on their own, run the risk of inaction due to not hitting triggers.

No single right answer – driven by beliefs and risk tolerance. A combination of approaches often adopted in practice. Suggest phasing in increase in liability protection with 12 quarterly switches of 1% of assets (to spread switch over time) plus a pragmatic yield trigger to capture upside.

WHEN TO HEDGE



Page 41

HOW IMPLEMENT?

Increasingly bespoke

Physical Assets

Synthetic Assets

Client-specific Pooled Fund

- A Fund specific, tailored 'pooled fund for a single investor'.
- Only an IMA is required. Other documentation is done by the manager.
- Typically set up as Dublin registered Qualified Investor Fund ("QIF").

Multi-client Pooled Funds

- LDI providers offer a variety of ranges of pooled funds. These include
  - Gilt-based LDI funds (real and nominal, various durations)
  - Swap-based LDI funds (real and nominal, various durations)
  - Dynamic LDI funds (instrument selection / curve positioning)

Simplicity

Can be comfortably implemented using pooled funds. While liability protection remains at 50% or lower; most straightforward approach.

Not concerned over manager concentration risk at these levels and initially using 12% of assets (currently all held with one manager anyway); re-evaluate this if and when increasing further (and consider if a bespoke pooled fund is more efficient).

Currently use income on segregated bond holdings to pay benefits; this will not be available from pooled leveraged funds, and so disinvestments from elsewhere will be needed.

GOVERNANCE STRUCTURE

Decision making

- Strategic decisions to be confirmed / made by Committee, e.g. level of liability protection to target
- Implementation detail to be agreed by Panel, e.g. broad vehicles to use, use of pooled funds
- Detail on triggers, execution and choice of manager to be delegated to Officers

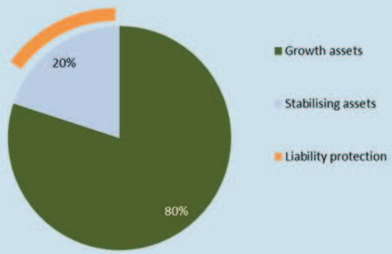
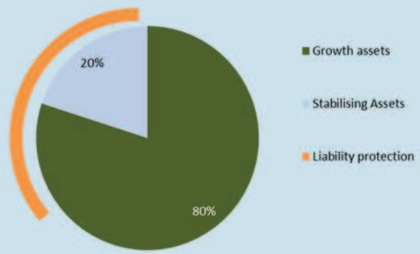
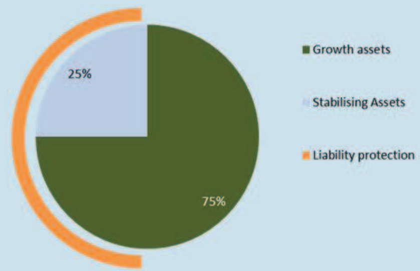
Delegation

- Delegate implementation of agreed triggers and liability protection increases to LDI manager (ensures opportunities captured, and time based triggers implemented to plan)

Monitoring

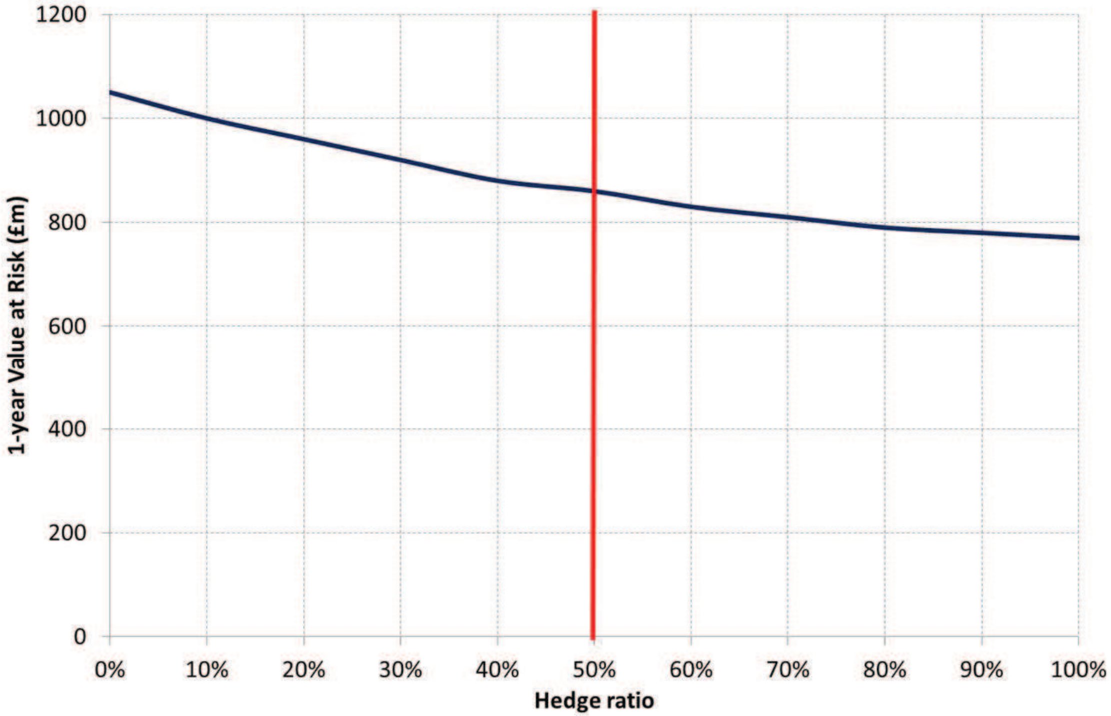
- Limited additional governance requirements once implemented, although reporting likely to be required on the level of hedging in place, and market levels relative to any triggers.

IMPACT ON THE VALUATION

Strategy	Current	Initial target	Long-term (see overleaf)
Asset allocation			
Hedging ratio (of assets)	15% (18.5% when switched to ILG)	36%	50%
Best-estimate return (p.a.)	6.0%	6.0%	5.8%
Illustrative discount rate (p.a.)	4.3%	4.5%	4.5%
One year deficit risk	£1.0bn	£0.9bn	£0.8bn

INCREASE IN HEDGING RATIO THROUGH USE OF LEVERAGE; DISCOUNT RATE INCREASED / RETAINED THROUGH RELEASE OF PRUDENCE

LONG-TERM LIABILITY PROTECTION TARGET



Page 45

Increasing the hedge ratio to 50% has the greatest impact on risk and hence certainty of outcomes. Increasing the hedge ratio above this level has marginal benefits due to the level of growth asset risk.

Further risk reductions may be achieved by selling growth assets and extending the hedge ratio further (but this would be a longer term consideration).

MOVING TO LONG-TERM TARGET

Increasing liability protection from 36% of assets to 50% would require an extra 4.7% of Fund assets to be held in leveraged index-linked gilts (c. £170m)

We would propose assessing the funding position once the interim position has been achieved (i.e. after three years at the latest) and then agreeing a real yield trigger to implement this switch

This would require disinvestment from other assets – potentially those with lower expected returns, e.g. the RLAM corporate bond mandate, or the Fund's Diversified Growth Fund holdings

NEXT STEPS

SUMMARY AND NEXT STEPS

- Significant benefit from "putting a plan in place" to be able to increase the level of liability protection when acceptable to the Fund.
  - Propose switching the current fixed-interest and overseas government bonds (totalling 6% of assets) to index-linked gilts which better match the Fund's liabilities, and using a combination of time and yield based triggers to switch this combined 12% of assets to provide greater liability protection over the next three years…
  - … with a longer-term plan to increase this to 50%

- Next steps
  - Agree proposal to take to Committee
  - Use Fund specific liability cash-flows to identify broad characteristics of hedging portfolio
  - Agree implementation route (pooled funds are most straight-forward)
  - LDI manager selection decision – combine with passive equities / other form of growth assets in order to facility future de-risking opportunities in a timely fashion
  - Identify specific hedging solution with the appointed manager
  - Ongoing training throughout the process

QUESTIONS?

IMPORTANT NOTICES

References to Mercer shall be construed to include Mercer LLC and/or its associated companies.

The findings, ratings and/or opinions expressed in this document are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the investment products, asset classes or capital markets discussed. Past performance does not guarantee future results. Mercer's ratings do not constitute individualised investment advice.

Information contained herein has been obtained from a range of third party sources. While the information is believed to be reliable, Mercer has not sought to verify it. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability, (including for indirect, consequential or incidental damages,) for any error, omission or inaccuracy in the data supplied by any third party.

This does not constitute an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or products or constitute a solicitation on behalf of any of the investment managers, their affiliates, products or strategies that Mercer may evaluate or recommend.

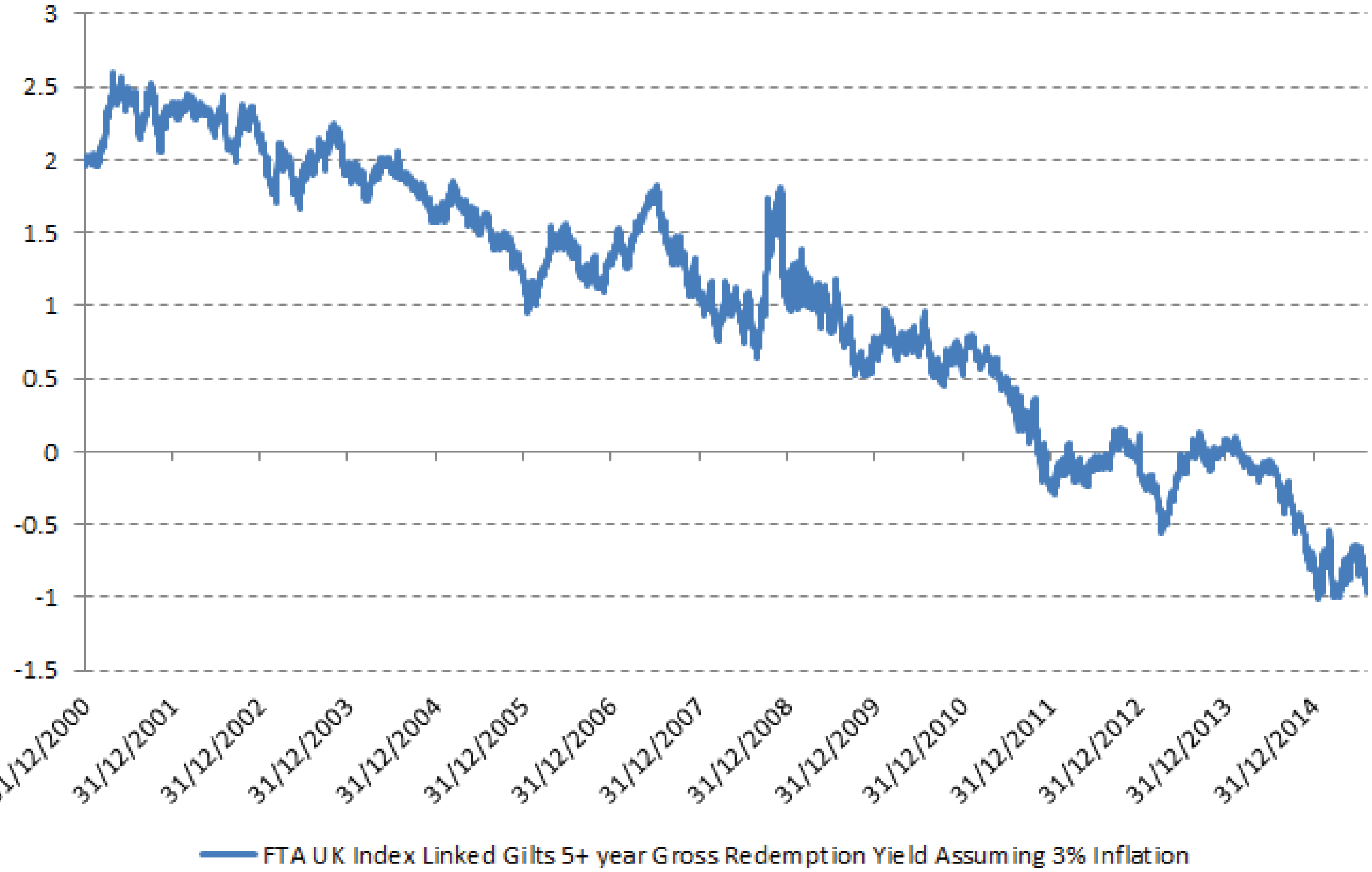
For the most recent approved ratings of an investment strategy, and a fuller explanation of their meanings, contact your Mercer representative.

For Mercer's conflict of interest disclosures, contact your Mercer representative or see www.mercer.com/conflictsofinterest.

Mercer's universes are intended to provide collective samples of strategies that best allow for robust peer group comparisons over a chosen timeframe. Mercer does not assert that the peer groups are wholly representative of and applicable to all strategies available to investors.

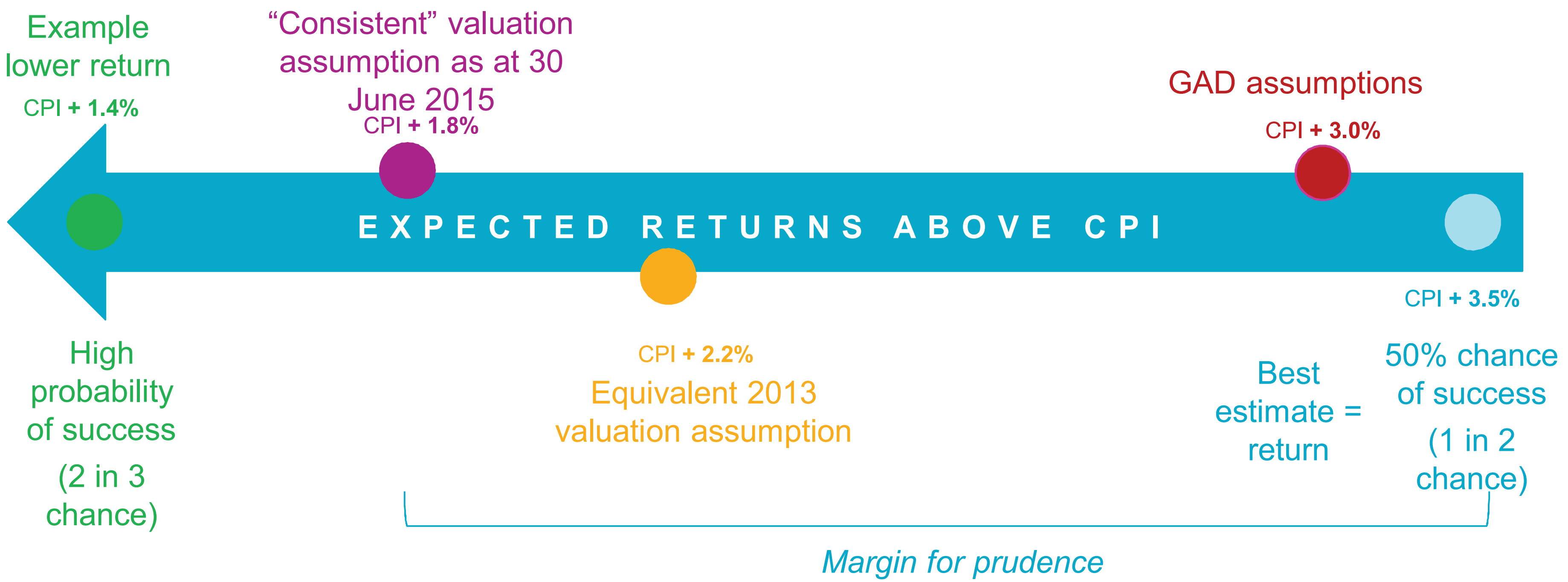
APPENDICES

REAL YIELDS OVER THE LAST 15 YEARS



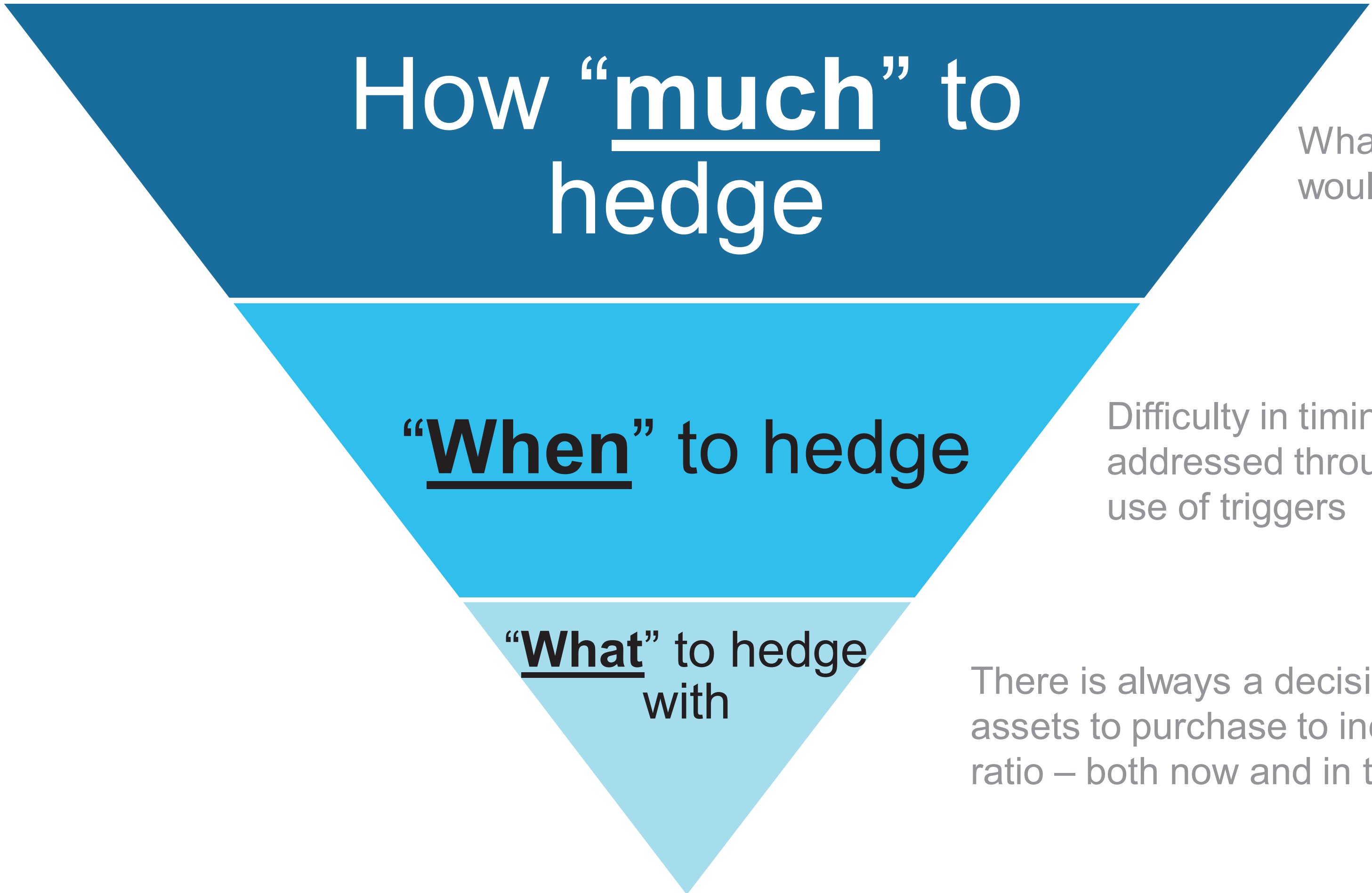
SOURCE: THOMSON REUTERS DATABANK

DISCOUNT RATES
DECIDE ON LEVEL OF PRUDENCE



- Liabilities are calculated using a "prudent" expected return on assets; given the fall in real yields since 2013, a "consistent" approach to defining the discount rate would give a lower expected return relative to CPI inflation.
- Increased certainty over returns means a smaller prudent margin is required
- In combination this means
  - Lower value placed on liabilities
  - Lower deficit
  - More certain outcome

KEY CONSIDERATIONS



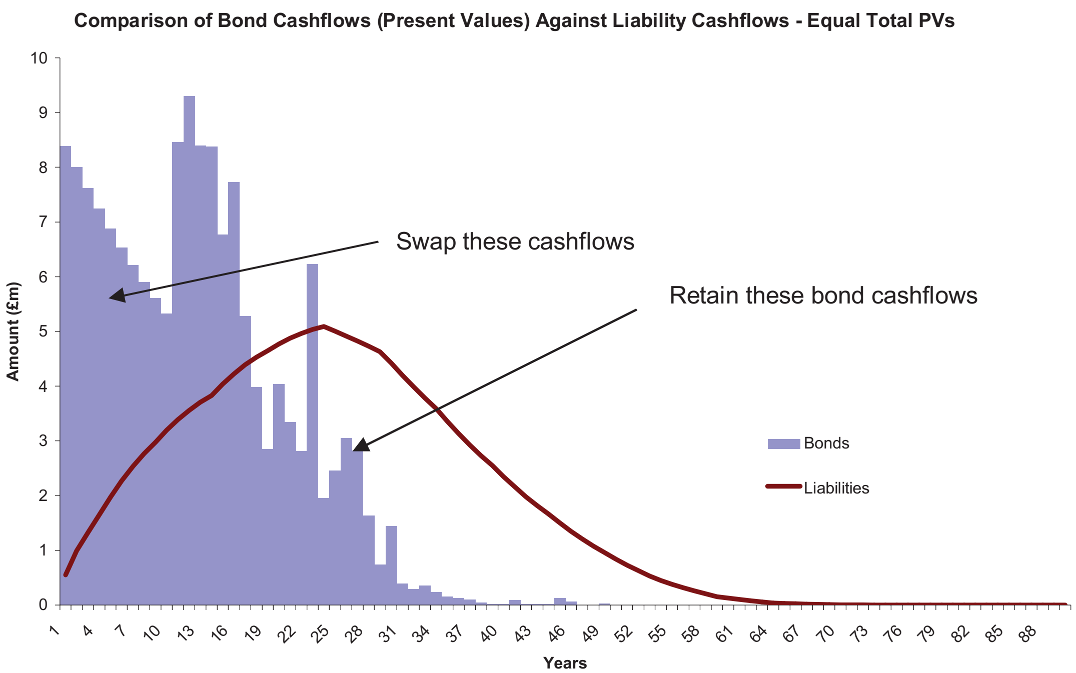
What level of protection would be optimal?

Difficulty in timing decisions can be addressed through phasing and use of triggers

There is always a decision about which assets to purchase to increase the hedge ratio – both now and in the future

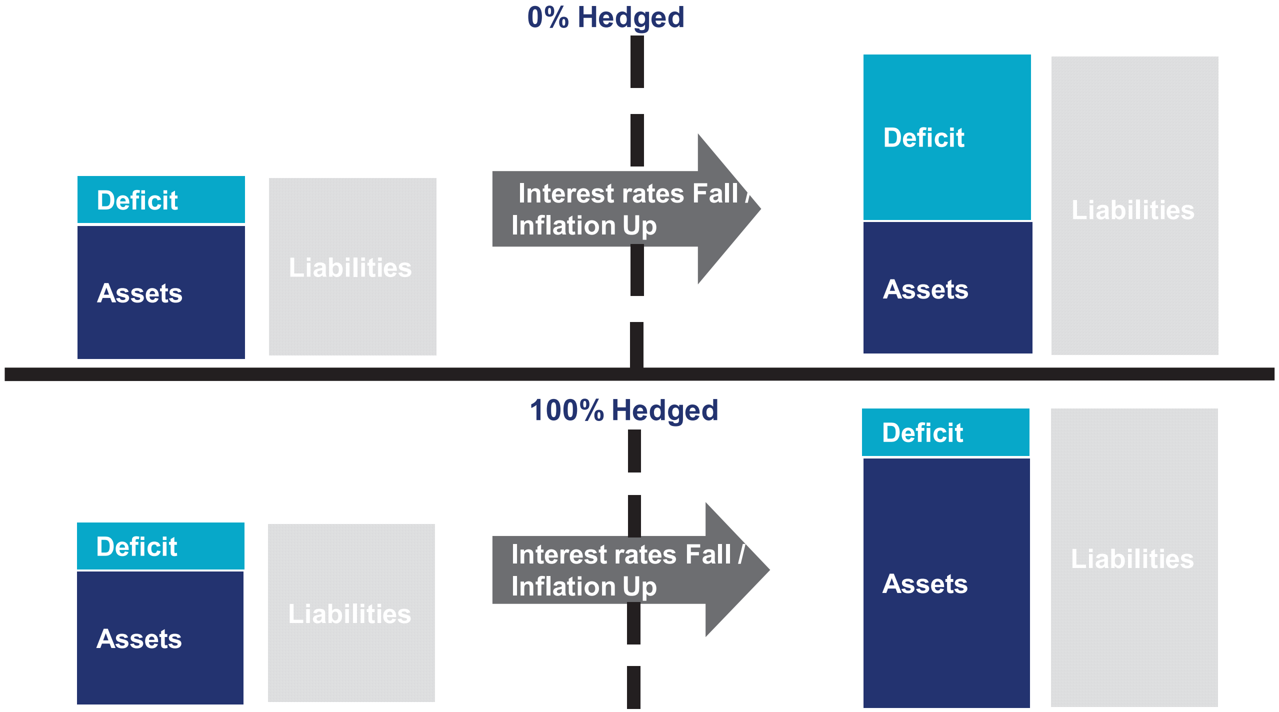
WHY NOT JUST USE BONDS?

- Using only physical bonds does not provide a close match to the Fund's liability cash flows:
  - duration of broad market bonds are not as long as the liabilities, particularly where corporate bonds are used
  - there are 'gaps' in the durations of available bonds
  - the Fund also holds growth assets
- By using derivatives (e.g. swaps or gilt repos – see later) it is possible to efficiently overcome this problem
  - for example, by swapping earlier cash flows for later cash flows



WHAT IS "LIABILITY DRIVEN INVESTMENT"? ONE OPTION TO MANAGE RISKS

Offsetting the impact of movements in interest rates and inflation on the value of the liabilities by holding assets that respond in a similar way



Assets mimic liability movements due to changes in inflation/interest rates by protecting against increases in inflation/falls in interest rates

In practice, the Fund will be limited to buying fixed or RPI-linked assets to hedge the liabilities; whilst it may be possible to buy CPI swaps, liquidity is very poor in these markets.

HOW TO HEDGE

Physical Instruments

- Physical instruments require a capital investment at outset (i.e. funded)
- Liquidity varies by instrument
- Pricing is typically transparent and standard instruments are traded
- Commonly held by pension schemes and generally well understood

Fixed-Interest Gilts | **Corporate Bonds** | **Index-Linked Gilts**

Synthetic / Derivative Instruments

- Can be funded (i.e. capital commitment is made) or unfunded (i.e. geared or leveraged)
- Typically these are Over the Counter ("OTC", i.e. bespoke) although some exchange traded versions also exist
- Liquidity varies by instrument and within each type, some are highly illiquid and could be more illiquid than physicals
- Less transparency on pricing for OTC contracts, although some standard contracts address this
- Can offer more efficient hedging – i.e. more liability hedging per pound invested

Interest Rate Swaps | **Inflation Swaps** | **Gilt repos**

WHAT IS "DURATION"?

"A measure of interest rate sensitivity, with the price of longer duration bonds or liabilities being more sensitive to changes in interest rates"

This therefore explains how a Fund's liabilities will change in response to changes in interest rates

Duration is calculated as:

"The average term (in years) of the payments from a bond/liability taking into account the present value of each payment"

For example, **a 20 year duration means**:

The liabilities will *decrease* in value by 20% if interest rates rise 1%

The liabilities will *increase* in value by 20% if interest rates fall 1%.

IMPORTANT TERMS

- **Interest Rate Swap** – Two parties exchanging two sets of cashflows, usually based on one party paying a "fixed" rate (e.g. 3% p.a.) and the other paying a "floating" rate (e.g. Bank of England Base Rate + 2%)
- **Repurchase Agreement (Repo)** – An agreement to sell a security (usually a bond) to another party with the promise to buy it back at a specified date and price
- **Repo Rate** – The interest rate charged to the seller of the security in a repo
- **Basis Risk** – Risk that arises when an investor aims to hedge a position using an instrument that has an underlying security whose risk is being hedged. For example, a pension fund using bonds to hedge liabilities they do not perfectly match

Page 60

MAKE TOMORROW, TODAY

MERCER

Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-1192/15

Meeting / Decision: AVON PENSION FUND INVESTMENT PANEL
Date: 11 September 2015

Author: Matthew Clapton
Exempt Report Title: REVIEW OF STRATEGIC HEDGING OF CURRENCY EXPOSURE Appendix 1 – Mercer Review of Currency Hedging Policy - EXEMPT

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

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

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

PUBLIC INTEREST TEST

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

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

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

Weighed against this is the fact that the exempt appendices contains the opinions of Council officers and Panel members. It would not be in the public interest if advisors and officers could not express in confidence opinions which are held in good faith and on the basis of the best information available.

The exempt appendices also contain details of the investment processes/strategies of the investment managers. The information to be discussed is commercially sensitive and if disclosed could prejudice the commercial interests of the investment managers.

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

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the Investment Panel Activity has been made available – by way of the main report. Therefore it is recommended that exemption 3 of Schedule 12A stands, that the report be discussed in exempt session and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**	
MEETING DATE:	**11 SEPTEMBER 2015**	**AGENDA ITEM NUMBER**
TITLE:	**Review Of Investment Performance For Periods Ending 30 June 2015**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – Mercer performance monitoring report (shortened version) Exempt Appendix 3 – RAG Monitoring Summary Report Appendix 4 – Partners Overseas Property Mandate – Performance Reporting		

1 THE ISSUE

1.1 This paper reports on the performance of the Fund's investment managers and seeks to update the Panel on routine aspects of the Fund's investments. The report contains performance statistics for periods ending 31 March 2015 and 30 June 2015.

1.2 The report focuses on the performance of the individual investment managers. The full performance report with aggregate investment and funding analysis will be reported to the Committee meeting on 25 September 2015.

2 RECOMMENDATION

That the Investment Panel:

2.1 **Notes the information as set out in the reports.**

2.2 **Identifies any issues to be notified to the Committee.**

FINANCIAL IMPLICATIONS

2.3 The returns achieved by the Fund for the three years commencing 1 April 2013 will impact the next triennial valuation which will be calculated as at 31 March 2016.

3 INVESTMENT PERFORMANCE

A – Fund Performance

3.1 The Fund's assets increased by £187m (return of c. 5.1%) in the quarter ending 31 March 2015 giving a value for the investment Fund of £3,829m. In the quarter ending 30 June 2015 the Fund's assets decreased by £99m (return of c.-2.5%) giving a value for the investment Fund of £3,730m. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.

3.2 All Equity markets produced negative returns over the quarter in Sterling terms. Asia Pacific was the worst performing region (-8%) whilst the UK All Share Index fell by -1.6%. Bond yields rose sharply across all maturities leading to negative returns from Gilts (-6.3%) and Corporate Bonds (-3.9%).

3.3 The Fund's overall performance relative to benchmarks is unavailable at the time of publishing. Full performance data will be reported to the Pensions Committee on 25 September 2015.

B – Investment Manager Performance

3.4 A detailed report on the performance of each investment manager has been produced by Mercer – see pages 25 to 44 of Appendix 2.

3.5 Schroder (Global Equity mandate) and Partners (Global Property mandate) presented to the Panel in March 2015 and there were no issues identified by the Panel. Officers continue to monitor Schroder performance.

3.6 Jupiter, TT, Invesco, SSgA (Europe and Pacific), Genesis, Stenham, Gottex, BlackRock, RLAM and Schroders Property are all outperforming their three year performance targets. Signet and Schroder global equity are underperforming their respective 3 year targets.

3.7 Exempt Appendix 3 summarises the latest Performance Monitoring Report used internally to monitor manager performance. The summary report highlights the managers that are rated Amber or Red, detailing the performance and/or organisational issue(s), how they are being monitored and any actions taken by officers and/or the Panel. This quarter 2 managers remain on an amber rating, Signet and Schroder global equity. There is an update on each of these in Exempt Appendix 3. It should be noted that the Fund has terminated its mandate with Signet.

3.8 During August emerging markets fell substantially in part due to concerns over Chinese growth and the sharp decline in Chinese markets. These concerns also substantially affected developed markets with both market falls and increased volatility. Officers held a conference call with Genesis to discuss their recent performance and outlook for Emerging Markets / China. Genesis remain positive on the longer term outlook for China as it moves away from an export led economy and the recent fall in share prices is beginning to create investment opportunities.

3.9 The reported performance data of the Partners property portfolio as reported by WM continues to be volatile. The performance reported on the internal rate of return (IRR) basis is in line with expectations for the mandate. Officers have reconciled the two different ways of measuring returns providing confidence in returns reported by both WM and Partners. Appendix 4 explains the challenges of measuring such portfolios and the work done by Officers to evaluate performance. It also proposes changes to the way Partners return is measured and reported in the future (as advised by Mercer). The aim is to integrate the various measures to provide a more comprehensive view of performance whilst accepting the challenges of measuring and reporting performance of a mandate comprising of closed ended funds. Mercer and Officers are satisfied that the performance of the Partners portfolio is in line with long term expectations.

4 INVESTMENT STRATEGY AND PORTFOLIO REBALANCING

4.1 Fund of Hedge Funds: JPMorgan was selected to manage the Fund's allocation to Hedge Funds via a bespoke arrangement. The first tranche payment was invested with JPMorgan on 1 August 2015. Further investments will be made as the proceeds from the terminating mandates are realised.

4.2 The Fund has received a full redemption payment from Stenham. The investments in Signet and Gottex are being realised in tranches with the first tranche payment from Signet already received.

4.3 Infrastructure: The Fund's investments in infrastructure are awaiting drawdown by the manager IFM who anticipate the first tranche of funds being drawn down before the end of 2015.

4.4 Rebalancing: Following the initial investment in JPMorgan, the Equity (inc DGFs):Bond allocation is estimated to be 75.2: 24.8. This remains within the acceptable range requiring no action.

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. A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund and through the selection process followed before managers are appointed. This report monitors the performance of the investment managers. The 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.

6 EQUALITIES

6.1 An equalities impact assessment is not necessary as the report is primarily for information only.

7 CONSULTATION

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

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 The issues to consider are contained in the report.

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director – Business Support) 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	

APPENDIX 1

AVON PENSION FUND VALUATION - 30 JUNE 2015

	Passive Multi-Asset	**Active Equities**					**Enhanced Indexation**		**Active Bonds**	**Funds of Hedge Funds**	**DGFs**		**Property**		**In House Cash**	**TOTAL**	**Avon Asset Mix %**
All figures in £m	BlackRock	TT Int'l	Jupiter (SRI)	Genesis	Unigestion	Schroder Global	Invesco	SSgA	Royal London		Pyrford	Standard Life	Schroder - UK	Partners - Overseas	Currency Hedging		
EQUITIES																	
UK	222.1	187.0	168.1			34.6										611.8	16.4%
North America	207.8					114.4										322.2	8.6%
Europe	160.5					38.3		41.5								240.3	6.4%
Japan	48.2					23.7		43.3								115.2	3.1%
Pacific Rim	50.8					7.1		33.2								91.1	2.4%
Emerging Markets				152.1	181.4	20.7										354.2	9.5%
Global ex-UK							273.9									273.9	7.3%
Global inc-UK															23.8	23.8	0.6%
Total Overseas	***467.3***	***0.0***	***0.0***	***152.1***	***181.4***	***204.2***	***273.9***	***118.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***23.8***	***1420.7***	***38.1%***
Total Equities	**689.4**	**187.0**	**168.1**	**152.1**	**181.4**	**238.8**	**273.9**	**118.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**23.8**	**2032.5**	**54.5%**
DGFs											**121.5**	**241.0**				**362.5**	**9.7%**
BONDS																	
Index Linked Gilts	231.2															231.2	6.2%
Conventional Gilts	104.4															104.4	2.8%
Corporate Bonds	20.6								298.7							319.3	8.6%
Overseas Bonds	104.9															104.9	2.8%
Total Bonds	**461.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**298.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**759.8**	**20.4%**
Hedge Funds										163.0						**163.0**	**4.4%**
Property													174.0	140.4		**314.4**	**8.4%**
Cash	5.2	11.5	10.0			4.0							9.8		57.4	**97.9**	**2.6%**
TOTAL	**1155.7**	**198.5**	**178.1**	**152.1**	**181.4**	**242.8**	**273.9**	**118.0**	**298.7**	**163.0**	**121.5**	**241.0**	**183.8**	**140.4**	**81.2**	**3730.1**	**100.0%**

This page is intentionally left blank

HEALTH WEALTH CAREER

AVON PENSION FUND

PANEL INVESTMENT PERFORMANCE REPORT QUARTER TO 31 MARCH 2015

JUNE 2015

MAKE TOMORROW, TODAY

MERCER

IMPORTANT NOTICES

References to Mercer shall be construed to include Mercer LLC and/or its associated companies.

This contains confidential and proprietary information of Mercer and is intended for the exclusive use of the parties to whom it was provided by Mercer. Its content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's prior written permission.

The findings, ratings and/or opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the investment products, asset classes or capital markets discussed. Past performance does not guarantee future results. Mercer's ratings do not constitute individualized investment advice.

Information contained herein has been obtained from a range of third party sources. While the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party.

This does not contain regulated investment advice in respect of actions you should take. No investment decision should be made based on this information without obtaining prior specific, professional advice relating to your own circumstances.

This does not constitute an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or products or constitute a solicitation on behalf of any of the investment managers, their affiliates, products or strategies that Mercer may evaluate or recommend.

For the most recent approved ratings of an investment strategy, and a fuller explanation of their meanings, contact your Mercer representative.

For Mercer's conflict of interest disclosures, contact your Mercer representative or see www.mercer.com/conflictsofinterest.

Mercer's universes are intended to provide collective samples of strategies that best allow for robust peer group comparisons over a chosen timeframe. Mercer does not assert that the peer groups are wholly representative of and applicable to all strategies available to investors.

Please also note:

- The value of investments can go down as well as up and you may not get back the amount you have invested. In addition investments denominated in a foreign currency will fluctuate with the value of the currency.
- The valuation of investments in property based portfolios, including forestry, is generally a matter of a valuer's opinion, rather than fact.
- When there is no (or limited) recognised or secondary market, for example, but not limited to property, hedge funds, private equity, infrastructure, forestry, swap and other derivative based funds or portfolios it may be difficult for you to obtain reliable information about the value of the investments or deal in the investments.
- Where the investment is via a fund of funds the investment manager typically has to rely on the underlying managers for valuations of the interests in their funds.
- Care should be taken when comparing private equity / infrastructure performance (which is generally a money-weighted performance) with quoted investment performance (which is generally a time-weighted performance). Direct comparisons are not always possible.

CONTENTS

- Executive Summary 3
- Market Background 10
- Strategic Assumptions 13
- Fund Valuations 16
- Performance Summary 20
- Manager Performance 24
- Appendices 45

SECTION 1
EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

This report has been prepared for the Investment Panel of the Avon Pension Fund ("the Fund"), to assess the performance and risks of the investment managers of the Fund.

Fund performance

- The value of the Fund's assets increased by £187m over the quarter, to £3,829m at 31 March 2015.

Strategy

- Global (developed) equity returns over the last three years at 14.2% p.a. have been significantly ahead of the assumed strategic return of 8.25% p.a. from the strategic review in March 2013. We are neutral in our medium term outlook for developed market equities (over the next one to three years), and expect returns to be more modest looking ahead over the next three years.

- The three year return from emerging market equities has fallen to 3.7% p.a. from 4.8% p.a., with the Q1 2012 performance (which dropped out of the period) being significantly higher than the Q1 2015 return. The three year return remains below the assumed strategic return (of 8.75% p.a.) as 2013 returns were affected by negative sentiment from slowing growth and the tapering of the US asset purchase programme, together with the negative impact of the strengthening US$ on many emerging economies. Emerging markets have, however, rallied modestly post 31 March 2015 as sentiment gradually improves. As for developed markets, we are neutral in our medium term outlook for emerging market equities over the next one to three years.

- UK government bond returns over the three years to 31 March 2015 remain above the long term strategic assumed returns (with fixed interest gilts returning 10.0% p.a. against an assumed return of 4.5% p.a., and index-linked gilts returning 8.9% p.a. versus an assumed return of 4.25% p.a.) as investor demand for gilts remained insatiable. Whilst from an absolute return perspective, government bonds remain unattractive due to the low yields available, their value in the context of the overall portfolio is important from a liability risk management perspective.

EXECUTIVE SUMMARY

Strategy (continued)

- The strong returns from gilts also means the present value of the Fund's liabilities will have increased significantly over the three year period as a result of the falling bond yields (which will have resulted in a lower discount rate).
- UK Corporate bonds also performed strongly, returning 8.8% p.a. over the three year period against the assumed return of 5.5% p.a., while property returns of 11.4% continue to be above the assumed strategic return of 7% p.a., driven by the economic recovery in the US and the UK.
- Looking forward, our medium term view for the prospects for corporate bonds remains unattractive, and we are encouraging clients to consider ways of expanding credit mandates (potentially via multi-asset credit).
- We have moved our rating for UK property from attractive to neutral over the year given the drop in yields and signs that the market is potentially moving beyond fair value in some parts (with ultra-prime central London assets in particular aggressively priced and rents back to pre-financial crisis levels).
- Hedge fund returns remain below long term averages and the strategic return of 6% p.a., as they are affected by low cash rates. With most listed assets looking close to fully valued if not fully valued, we would expect 'alpha' driven investments such as Hedge Funds and DGF to play an increasingly important role in return generation over the coming three years, particularly if 'beta' (i.e. market-driven) returns are lower looking forward.

EXECUTIVE SUMMARY

Managers

- Absolute returns over the quarter were all positive, with strong overseas equity returns across the board meaning that performance from the SSgA Pacific ex Japan and Europe ex-UK Equity funds was particularly strong (returning 12.8% and 11.1%, respectively). The lowest absolute returns were from the Signet fund of hedge funds portfolio, at 0.6%.

- Absolute returns over the year were mixed, but generally positive in light of buoyant markets. The Fund's global equity mandates in particular fared well, with Invesco returning 21.6% (1.3% above benchmark), and SSgA's enhanced indexation Pacific Rim mandate returning 21.3% (against a benchmark of 19.4%). Weakest performance over the year was from the Fund of Hedge Fund mandates, with Signet returning -4.1% in a challenging environment for hedge funds.

- Over three years, all funds produced positive returns (with the exception of Signet), with Partners and Signet both failing to beat their benchmarks (although see comments on the measurement of Partner's performance later). In addition, despite producing returns at least in line with benchmark, Schroder (Global Equity), and TT International (UK Equity) failed to achieve their three-year performance objectives (with the remainder of the active managers achieving their objectives).

EXECUTIVE SUMMARY

Key points for consideration

- Over the last year, the Fund disinvested from the Barings Dynamic Asset Allocation Fund, following the departure of the leading portfolio managers (Percival Stanion, Andrew Cole and Shaniel Ramjee) to join Pictet.
  - Proceeds from the disinvestment were invested in the BlackRock multi-asset portfolio in such a way as to broadly replicate the underlying asset allocation of the DAAF.
  - In February 2015, the proceeds were invested in a new Diversified Growth mandate with Standard Life.
- The Fund has also reviewed its hedge fund allocations, and is in the process of confirming the appointment of one manager (JPMorgan) to replace the existing three mandates.
- Despite strong performance in Q1, since inception of their mandate the Schroder Global Equity mandate continues to underperform its performance objective and also its benchmark. Performance should continue to be monitored to assess the impact of the changes implemented following the departure of Virginnie Maisonneuve (former portfolio manager and head of Global Equity). The portfolio's performance has begun to improve (outperforming its benchmark by 1% over the last quarter), and Mercer have upgraded their rating of the strategy from B to B+ (see page 28 for more detail, and Appendix 4 for a guide to Mercer's ratings.
- Disappointing performance from TT over the quarter and year (although ahead of benchmark over the three year period). Keep under review.
- The absolute performance of the Partners Property investment may be misleading given the significant cashflows, and the net internal rate of return (9.3% p.a. since inception) is a more meaningful measure.

EXECUTIVE SUMMARY
MANAGER INFORMATION

Manager	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	Page
BlackRock	Passive Multi-Asset	✓	✓	✓	25
Jupiter	UK Equities	-	✓	✓	26
TT International	UK Equities	-	✕	-	27
Schroder	Global Equities	✓	-	-	28
Genesis	Emerging Market Equities	✓	✕	✓	29
Unigestion	Emerging Market Equities	-	✓	N/A	30
Invesco	Global ex-UK Equities	✓	✓	✓	31
SSgA	Europe ex-UK	-	✓	✓	32
SSgA	Pacific inc. Japan Equities	-	✓	✓	33
Record Currency Management	Dynamic Currency Hedging	-	N/A	N/A	34
Pyrford	DGF	-	✓	N/A	35
Standard Life	DGF	✓	N/A	N/A	36
Signet	Fund of Hedge Funds	-	✕	✕	38
Stenham	Fund of Hedge Funds	-	✓	✓	39

Meets criteria	✓	A or B+ rating; achieved performance target
Partially meets criteria	-	B, N or R rating; achieved benchmark return but not performance target
Does not meet criteria	✕	C rating; did not achieve benchmark

Focus Points

- The CEO of SSgA retired during the quarter – no ratings changes are proposed. See pages 32 and 33 for detail.
- Schroder Global Equity was upgraded from B to B+ over the quarter – see page 28 for more details.
- There were no changes to any of the other ratings over the quarter.

EXECUTIVE SUMMARY
MANAGER INFORMATION CONTINUED

Manager	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	Page
Gottex	Fund of Hedge Funds	-	✕	✓	*40*
Schroder	UK Property	✓	-	✓	*42*
Partners	Global Property	✓	✕	✕	*43*
RLAM	Bonds	✓	-	✓	*44*

Meets criteria	✓	A or B+ rating; achieved performance target
Partially meets criteria	-	B, N or R rating; achieved benchmark return but not performance target
Does not meet criteria	✕	C rating; did not achieve benchmark

Focus Points

- Partners' performance relative to benchmark is explained in more detail on page 43.
- At RLAM, senior fund manager Sajiv Vain resigned to pursue a role at Fidelity – we are not proposing a ratings change. More detail is provided on page 44.
- There were no changes to any of the other ratings over the quarter.

SECTION 2
MARKET BACKGROUND

MARKET BACKGROUND
INDEX PERFORMANCE

Equity Market Review

Global equity markets continued to post positive performance over the quarter, returning 7.7% in sterling and 5.0% in local currency terms. Small cap stocks, as measured by the FTSE World Small Cap Index, returned 9.7% in sterling terms, outperforming the wider market.

US Equities generally lagged the broader market, largely driven by lower expected corporate earnings due to the stronger US dollar. While UK Equities also underperformed, they participated in the global rally and managed to break out to new all-time highs over the quarter. Japanese equities performed strongly, returning 16.4% in sterling terms and 10.8% in local currency terms, driven by some initial signs of economic recovery following a technical recession triggered by the value-added tax hike in 2014. European equities returned 10.6% in sterling and 14.6% in local euro terms. The long awaited announcement regarding quantitative easing surpassed market expectations, which caused the euro to depreciate.

Within emerging markets, Chinese equities benefited from an interest rate cut in March and reduction of the required reserve ratio by 50 basis points. In India, two interest rates cuts helped support equity markets as did the budget announcements which were viewed as pro-business. Russia rebounded as oil prices stabilised whilst Brazil posted the largest negative returns as ongoing corruption allegations in relation to Petrobras continued to surface.

Bond Market Review

Bond market yields fell further over the quarter, particularly at the longer end of the yield curve. Nominal 10 year gilt yields fell from 1.8% to 1.7% over the first three months of the year. As a result, UK bond markets posted positive returns, with over 15 year gilts returning 4.1% over the period.

Global credit returned 4.1% in sterling terms and -0.9% in local currency terms, whilst Eurozone government bonds returned 4.3% in local currency terms, which translates to -2.7% in sterling due to the weakening euro. Over the quarter, the real yield curve fell across most of the tenors resulting in over 5 year index-linked gilts posting a return of 3.3%.

In a broader risk-on environment, credit spreads tightened over the quarter, which in combination with falling gilt yields resulted in a total return of 3.3% for the UK corporate bonds.

Currency Market Review

In spite of occasional pullbacks, the US dollar continued to rally against most currencies over the quarter, while the euro remained on its downward trajectory. Sterling fell by 4.8% against both the US dollar and the Japanese yen over the quarter.

Commodity Market Review

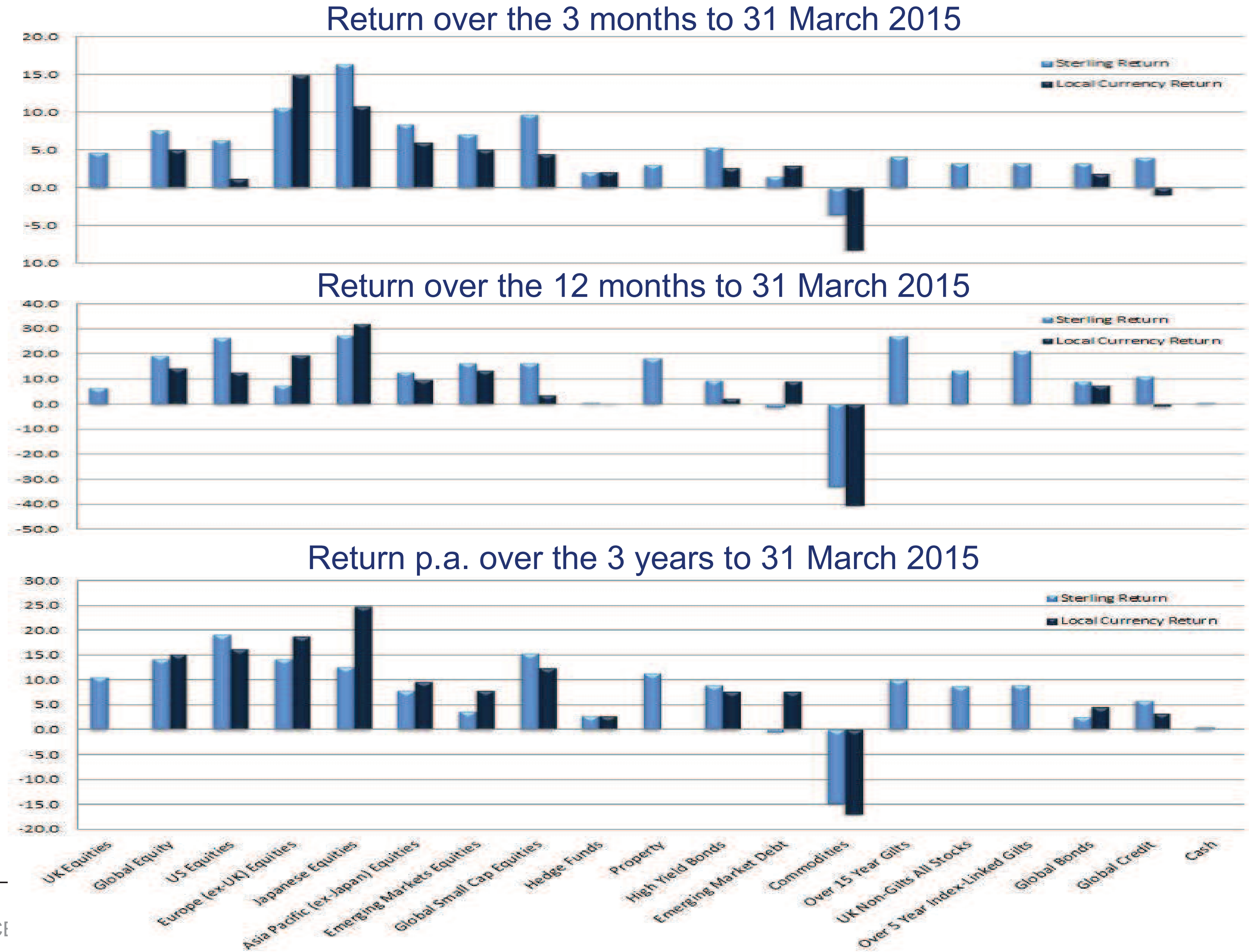
Agriculture led the quarter's fall in the commodity index, with coffee, sugar and wheat all falling in value.

Geopolitical events such as the Yemen bombing had some impact on energy prices, but they continue to be dominated by US supply, available storage, and global demand projections.

Gold prices rose in January but fell back over February and March ending the quarter at relatively similar levels to the start of the quarter at c. $1,188 per ounce.

Source: Thomson Reuters Datastream.

MARKET BACKGROUND
INDEX PERFORMANCE



Source: Thomson Reuters Datastream.

SECTION 3
STRATEGIC ASSUMPTIONS

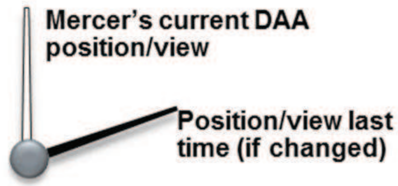
MARKET BACKGROUND
INDEX PERFORMANCE VERSUS STRATEGY

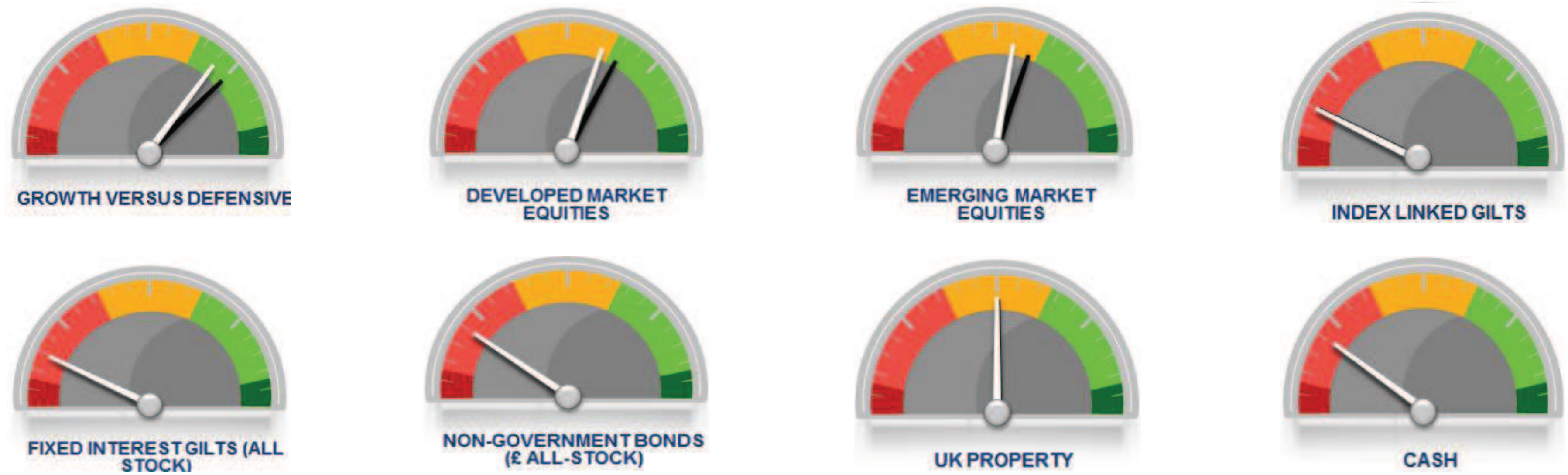
Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.25	15.4	*Significantly ahead of the assumed strategic return.* *This has decreased from 17.5% p.a. last quarter as the relatively strong equity returns of Q1 2012 are no longer part of the 3 year return.*
Emerging Market Equities (FTSE AW Emerging)	8.75	3.7	*The 3-year return from emerging market equities has fallen significantly from 7.2% p.a. last quarter with the Q1 2012 performance (which dropped out of the index) being higher than the Q1 2015 return. The 3 year return remains below the assumed strategic return as 2013 returns were affected by negative sentiment from slowing growth and the tapering of the US asset purchase programme.*
Diversified Growth	Libor + 4% / RPI + 5%	4.6 / 7.2	*DGFs are expected to produce an equity like return over the long term but with lower volatility – this is the basis for the Libor and RPI based benchmarks. Low cash rates means that the Libor based benchmark has significantly underperformed the inflation (RPI) based benchmark and the long term expected return from equity. During periods of very strong equity returns, such as the recent three year period, we would expect DGF to underperform equities.*
UK Gilts (FTSE Actuaries Over 15 Year Gilts)	4.5	10.0	*Bond returns remain above the long term strategic assumed return as the fragile nature of the global markets has encouraged investors to overweight fixed income.*
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	4.25	8.9	
UK Corporate Bonds (BofAML Sterling Non Gilts)	5.5	8.8	
Overseas Fixed Interest (JP Morgan Global Government Bonds ex UK)	5.5	1.0	*Well behind the assumed strategic return (but three-year performance has moved into positive territory this quarter as result of the fall in global yields).*
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	6.0	2.9	*Hedge fund returns remain below long term averages and the strategic return, as they are affected by low cash rates. Volatility remains low but recent returns have improved slightly as hedge funds increase equity exposure.*
Property (IPD UK Monthly)	7.0	11.4	*Property returns continue to be above the expected returns, driven by the economic recovery in the US and the UK.*

Page 126

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q1 2015

- Extremely Unattractive
- Unattractive
- Neutral
- Attractive
- Extremely Attractive





These charts summarise Mercer’s views on the medium term outlook for returns from the key asset classes; by medium term we mean one to three years. These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect investors to make frequent tactical changes to their asset allocation based upon these views. These are also based from the view of an absolute return investor, and so do not take into account pension scheme liabilities.

SECTION 4
FUND VALUATIONS

FUND VALUATIONS
VALUATION BY ASSET CLASS

Asset Allocation

Asset Class	Start of Quarter (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)	Target Strategic Benchmark (%)	Ranges (%)			Difference (%)
Developed Market Equities	1,806,517	1,769,396	49.6	46.2	40.0	35	-	45	+6.2
Emerging Market Equities	332,124	351,961	9.1	9.2	10.0	5	-	15	-0.8
Diversified Growth Funds	121,263	368,177	3.3	9.6	10.0	5	-	15	-0.4
Fund of Hedge Funds	160,243	162,792	4.4	4.3	5.0	0	-	7.5	-0.7
Property	304,782	306,177	8.4	8.0	10.0	5	-	15	-2.0
Infrastructure	-	-	-	-	5.0	0	-	7.5	-5.0
Bonds	829,133	798,547	22.8	20.9	20.0	15	-	35	+0.9
Cash (including currency instruments)	87,515	71,606	2.4	1.9	-	0	-	5	+1.9
Total	**3,641,647**	**3,828,656**	**100.0**	**100.0**	**100.0**				**0.0**

Source: WM Performance Services. Green numbers indicate the allocation is within tolerance ranges, whilst red numbers indicate the allocation is outside of tolerance ranges.

Invested assets increased over the quarter by £187m. Over the quarter, the developed market equity allocation has been reduced but remains over weight and outside of tolerance ranges; this overweight will be used to fund drawdowns for the infrastructure allocation over the coming year. The investment in Standard Life GARS has brought the DGF allocation back close to the target weight.

FUND VALUATIONS
VALUATION BY MANAGER

Manager Allocation						
Manager	**Asset Class**	**Start of Quarter (£'000)**	**Cashflows (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**
BlackRock	Passive Multi-Asset	1,350,008	-205,613	1,216,557	37.1	31.8
Jupiter	UK Equities	166,170	1,082	175,562	4.6	4.6
TT International	UK Equities	187,070	1,517	194,929	5.1	5.1
Schroder	Global Equities	235,975	579	256,314	6.5	6.7
Genesis	Emerging Market Equities	152,336	-	160,236	4.2	4.2
Unigestion	Emerging Market Equities	179,789	360	191,725	4.9	5.0
Invesco	Global ex-UK Equities	269,440	-	291,423	7.4	7.6
SSgA	Europe ex UK & Pacific inc. Japan Equities	110,939	-	124,517	3.0	3.3
Record Currency Management	Dynamic Currency Hedging	353	-1,732	0	0.0	0.0
Record Currency Management	Overseas Equities (to fund currency hedge)	32,369	-14,772	20,608	0.9	0.5
Pyrford	DGF	121,263	-	124,700	3.3	3.3

Source: WM Services, Avon. Totals may not sum due to rounding.

FUND VALUATIONS
VALUATION BY MANAGER

Manager Allocation						
Manager	**Asset Class**	**Start of Quarter (£'000)**	**Cashflows (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**
Standard Life	DGF	-	240,000	243,477	0.0	6.4
MAN	Fund of Hedge Funds	587	-	549	0.0	0.0
Signet	Fund of Hedge Funds	63,082	-	63,441	1.8	1.7
Stenham	Fund of Hedge Funds	38,225	-	39,661	1.0	1.0
Gottex	Fund of Hedge Funds	58,349	7	59,141	1.6	1.5
Schroder	UK Property	173,341	1,788	177,723	4.8	4.6
Partners	Property	137,559	5,613	136,985	3.8	3.6
RLAM	Bonds	299,072	59	308,883	8.2	8.1
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	15,728	-16,322	0	0.4	0.0
Internal Cash	Cash	49,992	-7,767	42,224	1.4	1.1
Total		**3,641,647**	**4,799**	**3,828,656**	**100.0**	**100.0**

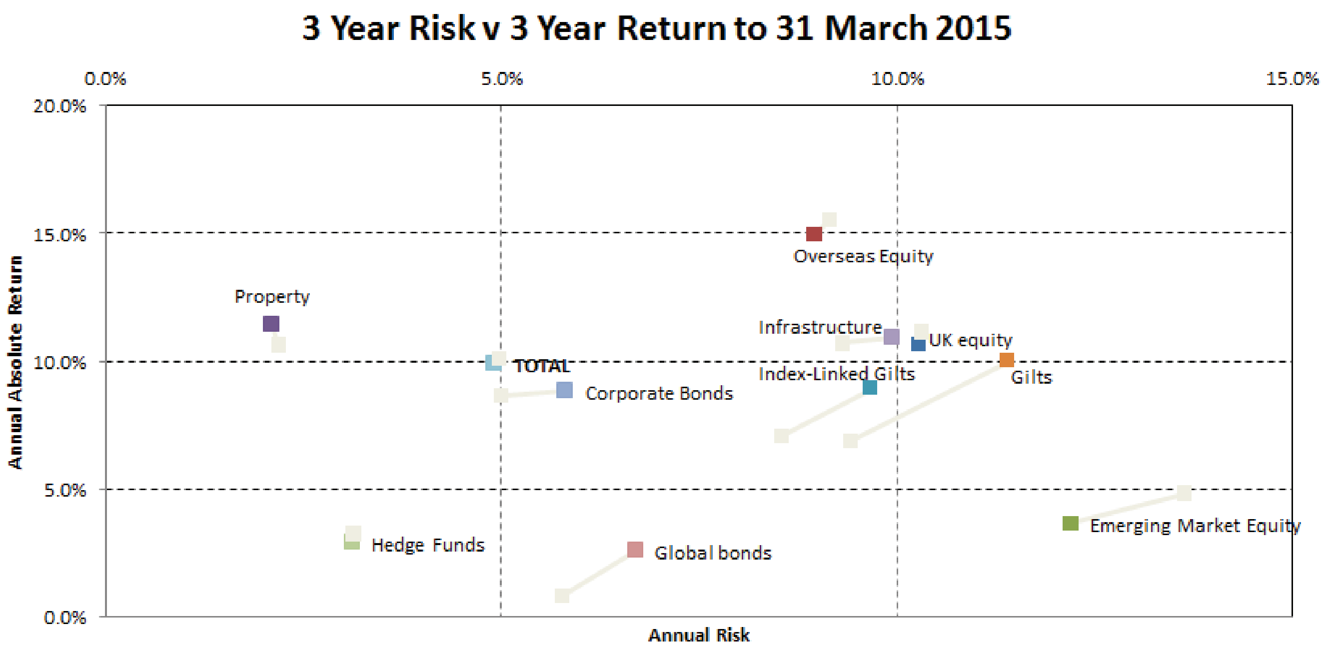
Source: WM Services, Avon. Totals may not sum due to rounding..

Page 131

SECTION 5
PERFORMANCE SUMMARY

MANAGER MONITORING
RISK RETURN ANALYSIS

Page 132



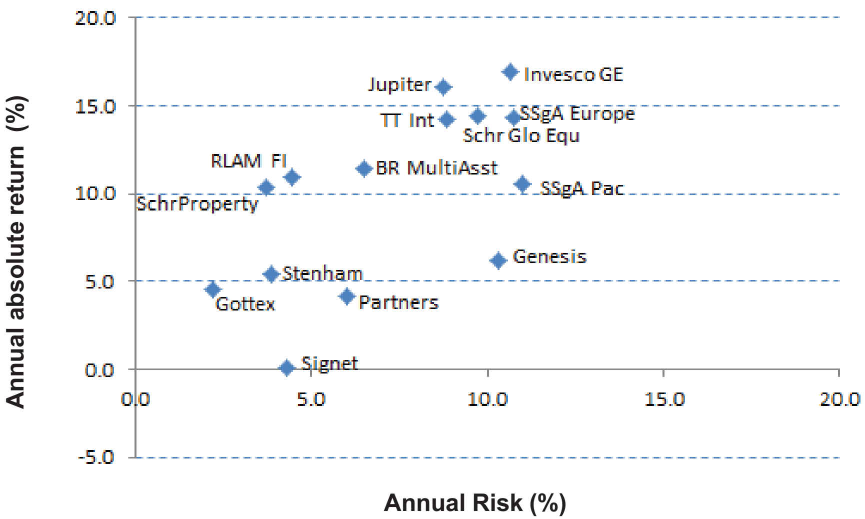
This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of March 2015, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark indices and allocations from WM Services). We also show the positions as at last quarter, in grey.

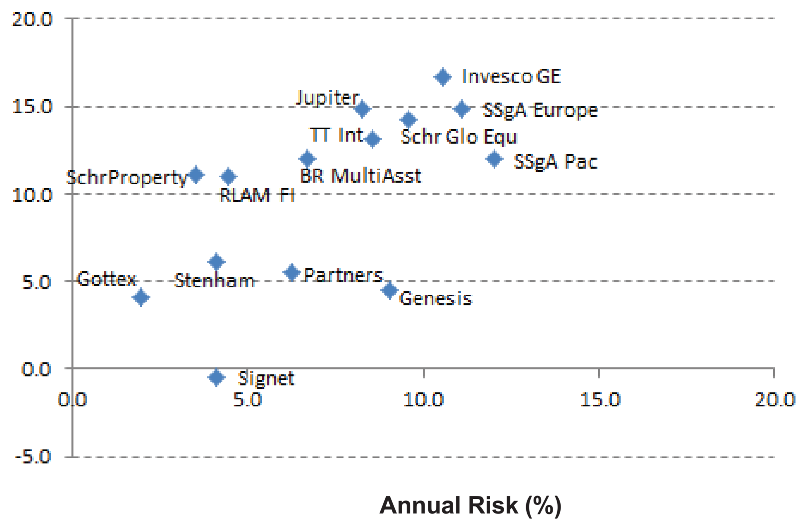
Comments

- *The most significant asset class change over the quarter was fixed interest gilts, which saw a significant increase in both backward looking return and risk. Index-Linked Gilts and global bonds moved in a similar fashion but to a lesser extent.*
- *UK and Overseas Equity were broadly unmoved, however Emerging Market Equity saw a reduction in both backward looking return and risk.*

MANAGER MONITORING
RISK RETURN ANALYSIS

Page 133





Comments

In general there was not a significant change in the three year risk and return profile of the funds over the quarter, although Genesis's risk and return both dropped noticeably with the strong performance of Q1 2012 dropping out of the three year figures.

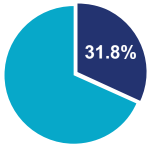
MANAGER MONITORING
MANAGER PERFORMANCE – RELATIVE RETURNS TO BENCHMARK (TO 31 MARCH 2015)

Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)	3 year versus performance target
BlackRock Multi - Asset	-0.1	0.0	0.1	Target met
Jupiter	0.8	2.0	4.1	Target met
TT International	-0.6	-1.6	2.5	Target not met
Schroder Equity	1.0	0.0	0.0	Target not met
Genesis	-2.2	-2.8	1.2	Target met
Unigestion	-0.8	2.2	NA	NA
Invesco	0.4	1.2	1.2	Target met
SSgA Europe	0.4	0.6	1.5	Target met
SsgA Pacific	-0.1	1.9	1.6	Target met
Pyrford	1.8	1.2	NA	NA
Signet	-0.3	-7.7	-4.1	Target not met
Stenham	2.9	1.7	2.4	Target met
Gottex	0.4	-1.8	0.2	Target met
Schroder Property	-0.3	0.7	1.6	Target met
Partners Property	-0.3	-10.1	-3.1	Target not met
RLAM	0.1	0.2	2.2	Target met
Internal Cash	0.0	0.1	0.1	NA

Source: WM Services, Avon.

Page 135

SECTION 6
MANAGER PERFORMANCE



BLACKROCK – PASSIVE MULTI-ASSET (POOLED EQUITIES, SEGREGATED BONDS)
£1,216.6M END VALUE (£1,350.0M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	Preferred Provider (no change over period under review)
Performance Objective *In line with the benchmark*	●	Outperformed by 0.1% p.a. over three years (12.0% p.a. versus a benchmark of 11.9% p.a.- the difference is rounding)

Manager Research and Developments

- Returns have been in line with benchmark over the quarter, as expected for a passive mandate with a benchmark based on monthly mean fund weights.
- Returns over the quarter and year have been particularly strong as a result of strong returns from both equities and bonds.
- The exposure to the international equity fund was sold down by mid 2014 in order to fund the emerging market equity allocation managed by Unigestion (see page 30), but then subsequently increased with the proceeds of the disinvestment from Barings (and since sold down again to fund the investment in Standard Life GARS – see page 36).

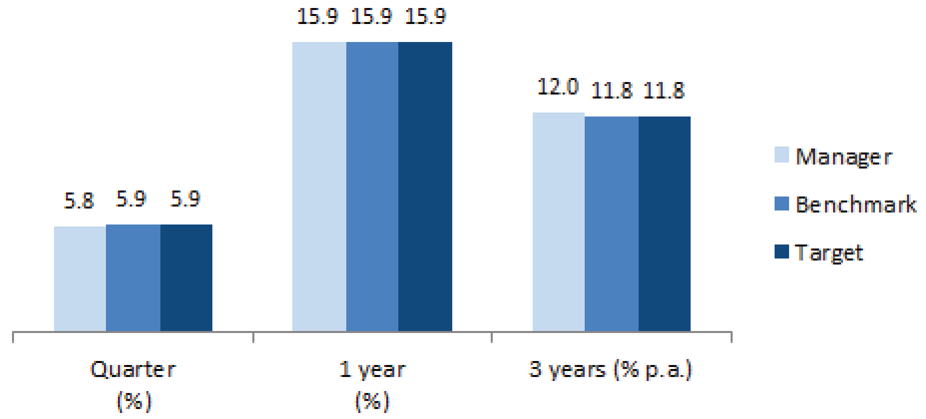
Reason for investment

To provide asset growth as part of diversified portfolio

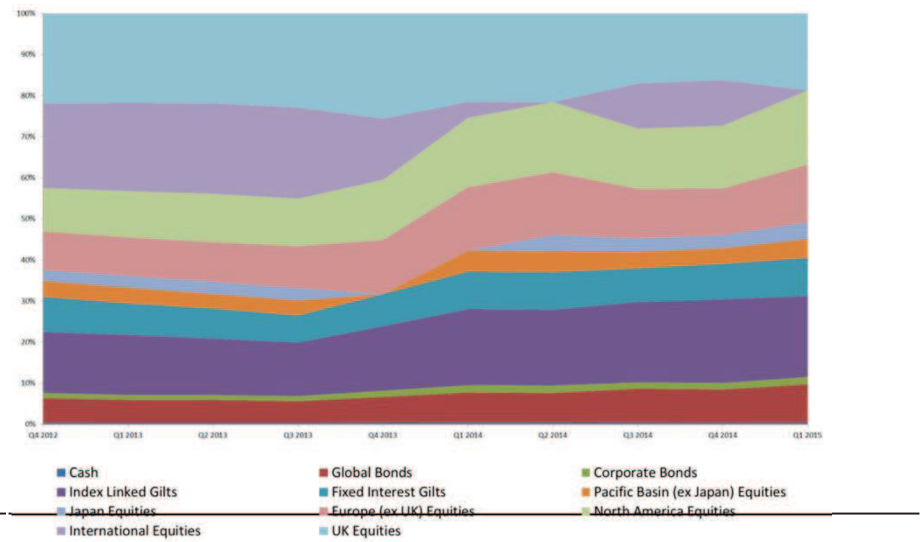
Reason for manager

- To provide low cost market exposure across multi asset classes
- Provide efficient way for rebalancing between bonds and equities within a single portfolio

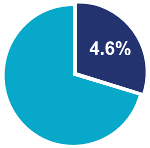
Performance



Asset Allocation



Page 136



JUPITER ASSET MANAGEMENT – UK EQUITIES (SRI) (SEGREGATED)
£175.6M END VALUE *(£166.2M START VALUE)*

Item Monitored		Outcome
Mercer Rating	● (orange)	B (no change over period under review)
Performance Objective *Benchmark +2% p.a.*	● (green)	Outperformed benchmark by 4.1% p.a. over three years
Tracking error was 3.6% p.a. (Q4: 3.6%) – *source: Jupiter*		Number of stocks: 58

Manager Research and Developments

- The strategy has no holdings in oil stocks, and this contributed heavily to outperformance as shares in Shell (who make up almost 7% of the index) fell by 10%.
- Cash holdings remain relatively high at 5.4% (as a result of accumulated dividends).
- Tracking error remains reasonably high as a result of the fund's concentration and divergence from the index (in particular, its underweight position to large cap stocks and overweight holdings in mid cap).

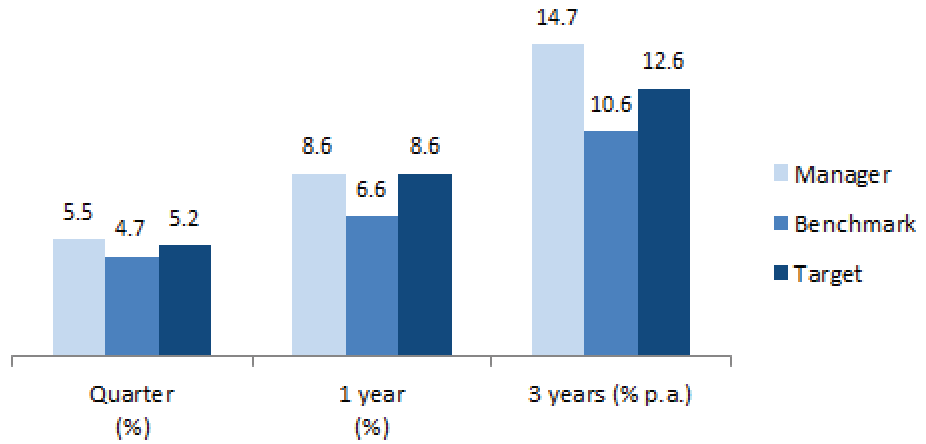
Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

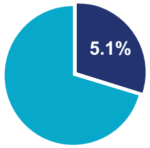
- Clear and robust approach to evaluating SRI factors within the investment process
- Dedicated team of SRI analysts to research SRI issues and lead engagement and voting activities
- Corporate commitment to SRI investment approach within a more mainstream investment team

Performance



Rolling relative returns

Page 137



TT INTERNATIONAL – UK EQUITIES (UNCONSTRAINED) (SEGREGATED) £194.9M END VALUE (£187.0M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	B (no change over period under review)
Performance Objective *Benchmark +3-4% p.a.*	●	Outperformed benchmark by 2.5% p.a. over three years, but lagged target
Historic tracking error was 3.5% p.a. (Source: Mercer)		Number of stocks: 56

Manager Research and Developments

- TT underperformed their benchmark by 0.6% over the quarter, and 1.6% over the year to 31 March 2015.
- This underperformance over the quarter was largely due to stock selection decisions, in particular in the telecoms and heath care sectors.
- The holding in cash (4.4% at the start of the quarter) also detracted from performance in rising markets.
- Turnover increased significantly from 24.9% in Q4 to 44.7% in Q1 2015 (179% annualised), while the three year tracking error (a proxy for risk relative to benchmark) rose from 2.9% to 3.5%.
- Three-year Information ratios have decreased over the quarter, partly as a result of rising tracking error.
- Assets under management in TT's UK equity strategies increased slightly over the quarter, at c. £496m at the end of the quarter (compared to £477m in December 2014, £491m in March 2014 and £667m in March 2012). This is still a significant decrease over the three year period and should be kept under review.

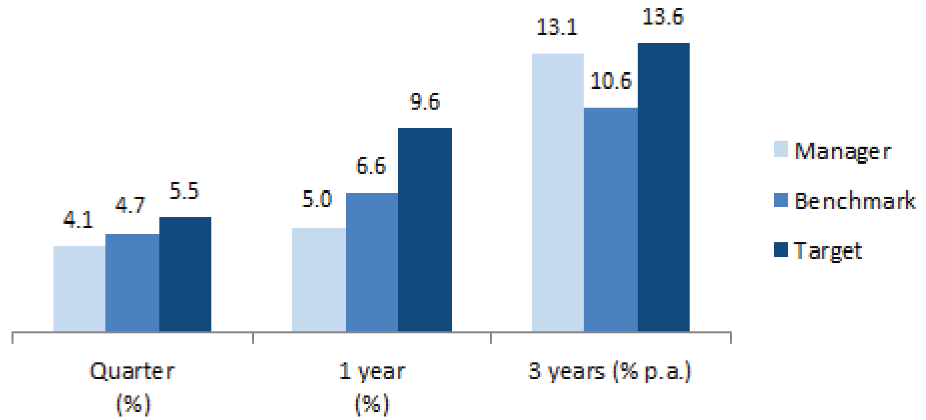
Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

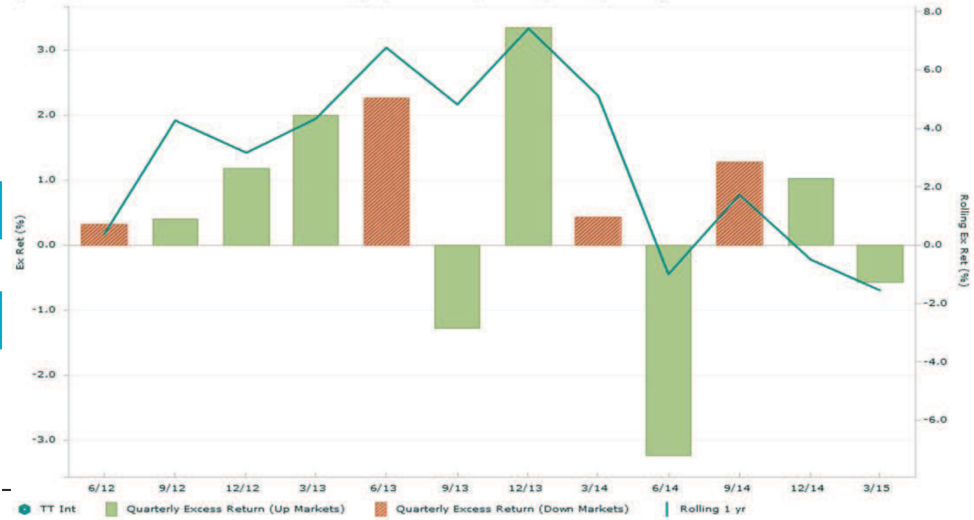
- Favoured the partnership structure that aligns manager's and Fund's interests
- Focussed investment activity and manages its capacity
- Clear, robust stock selection and portfolio construction

Performance

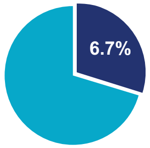


Rolling relative returns

Quarterly Excess Return vs. FTSE All Share with rolling 1 yr line in GBP (after fees) over 3 yrs ending March-15



Page 138



SCHRODER – GLOBAL EQUITY PORTFOLIO (SEGREGATED)
£256.3M END VALUE *(£236.0M START VALUE)*

Item Monitored		Outcome
Mercer Rating	●	B+ (upgraded from B)
Performance Objective *Benchmark +4% p.a.*	●	Performed in line with benchmark over three years, but lagged target

Historic tracking error was 1.9% p.a (Source: Mercer)

Manager Research and Developments

- The fund outperformed the benchmark over the quarter, largely through stock selection, especially in North America and the UK (and particularly in the technology sector).
- On a sector basis, underweight allocations to energy and healthcare, and overweight holdings in consumer discretionary all contributed positively to performance.
- Schroder's active share (the percentage of stock holdings in a manager's portfolio that differ from the benchmark index) remains high at around 90%, but while performance from stock selection and asset allocation has been positive over the last few months, longer term performance remains relatively disappointing.
- Over the quarter our researchers met with Schroders and improved the strategy's rating from B to B+, in light of Alex Tedder's introduction of changes to the strategy to emphasise top-down themes, and explicit opportunistic holdings.

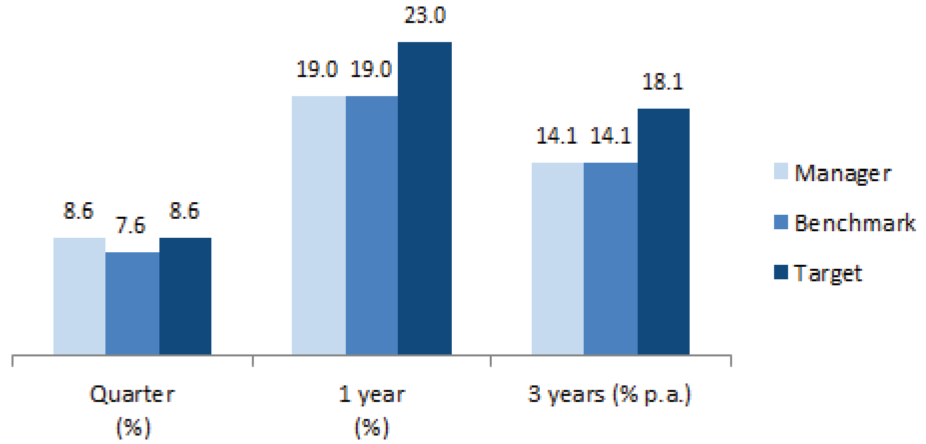
Reason for investment

To provide asset growth as part of diversified equity portfolio

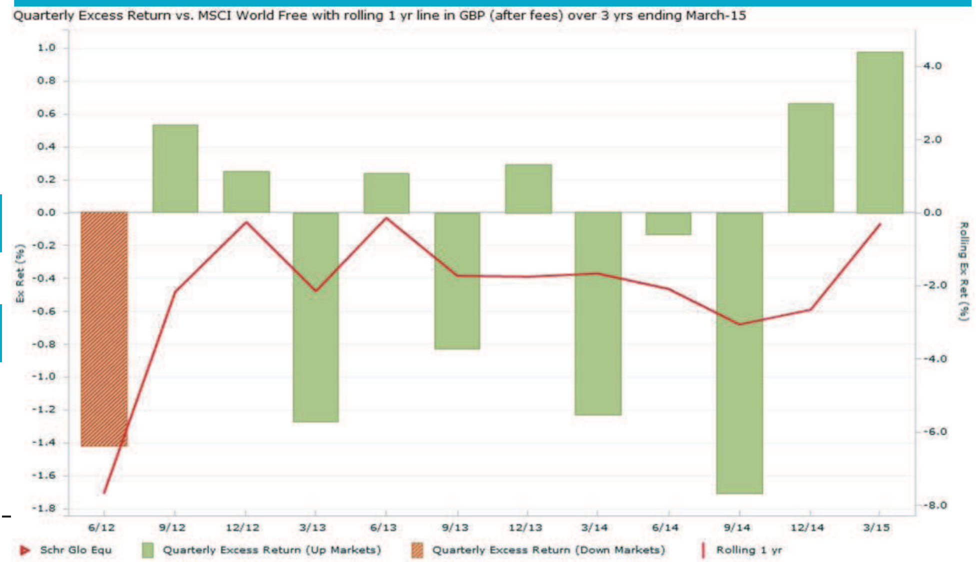
Reason for manager

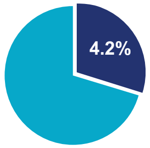
- Clear philosophy and approach
- Long term philosophy aligned with Fund's goals, commitment to incorporating ESG principles throughout the investment process
- Evidence of ability to achieve the Fund's performance target

Performance



Rolling relative returns

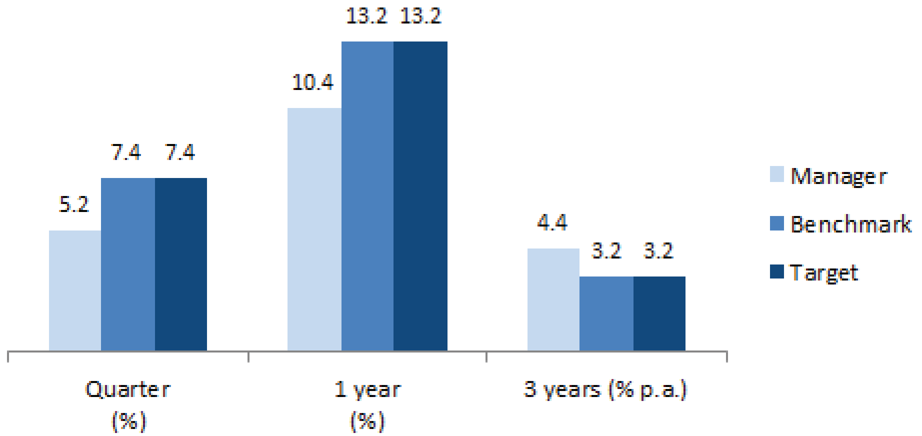




GENESIS ASSET MANAGERS – EMERGING MARKET EQUITIES (POOLED)
£160.2M END VALUE (£152.3M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	A (no change over period under review)
Performance Objective *Benchmark*	●	Outperformed benchmark by 1.2% p.a. over three years
Three year tracking error was 3.3% p.a. (Q4: 3.3%) – *source: Genesis*		Number of stocks: 155

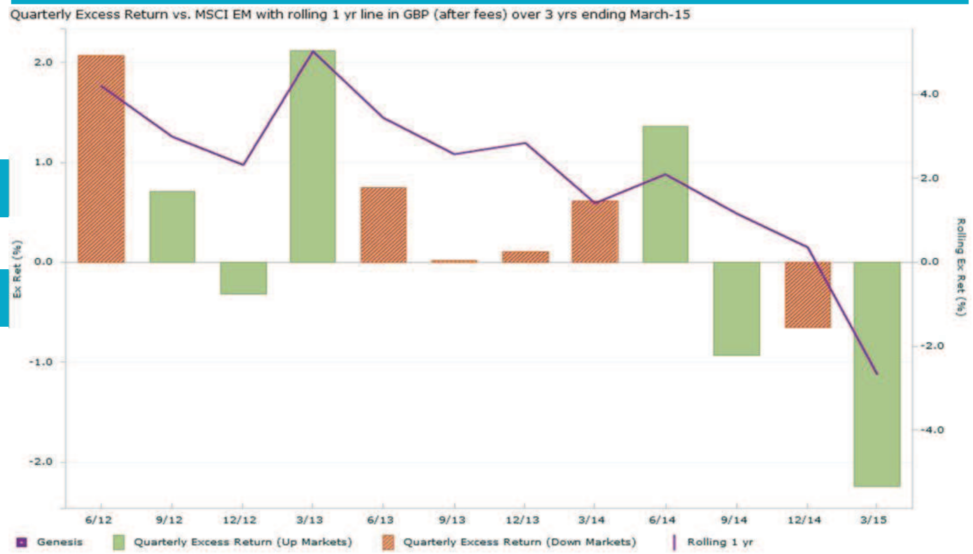
Performance



Manager Research and Developments

- Despite strong returns from Indian stocks over the quarter, the fund underperformed its benchmark by 2.2% over the quarter (the three biggest detractors came from the commodity sector – Anglo American and First Quantum Minerals each fell by around 15% while Tullow Oil lost 35%, and in part reflect Genesis' long-term overweight position in South Africa. (As the process is "bottom up", any country positions relative to benchmark are as a result of the underlying stock picks rather than a position on the country).
- The impact of this underperformance is to bring one-year returns below benchmark, although three year returns are still ahead of target. Some short-term volatility relative to benchmark is to be expected given their long-term approach of identifying under-priced companies and investing with a five year time horizon.

Rolling relative returns



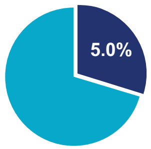
Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

- Long term investment approach which takes advantage of evolving growth opportunities
- Niche and focussed expertise in emerging markets
- Partnership structure aligned to delivering performance rather than growing assets under management

Page 140



UNIGESTION – EMERGING MARKET EQUITIES
(POOLED – SUB-FUND)
£191.7M END VALUE *(£179.8M START VALUE)*

Item Monitored		Outcome
Mercer Rating	● (orange)	R (no change over period under review)
Performance Objective *Benchmark +2-4% p.a.*	● (green)	Outperformed benchmark by 2.2% over the year
Historic tracking error since inception was 4.2% p.a (Source: Unigestion)		Number of stocks: 86

Manager Research and Developments

- The Fund underperformed by 0.8% over the quarter, but strong performance in mid 2014 has meant that performance over the year to 31 March 2015 is 2.2% p.a. above benchmark.
- This underperformance largely occurred in February, where the fund returned -0.7% against a benchmark return of 0.2% in very volatile markets (in particular, with the Minsk summit and subsequent Ukraine ceasefire in the middle of the month.
- Volatility since inception is 11.0%, lower than the index (at 12.6%) and consistent with their objectives (and the strategy's bias towards quality and large- or mega-cap stocks).

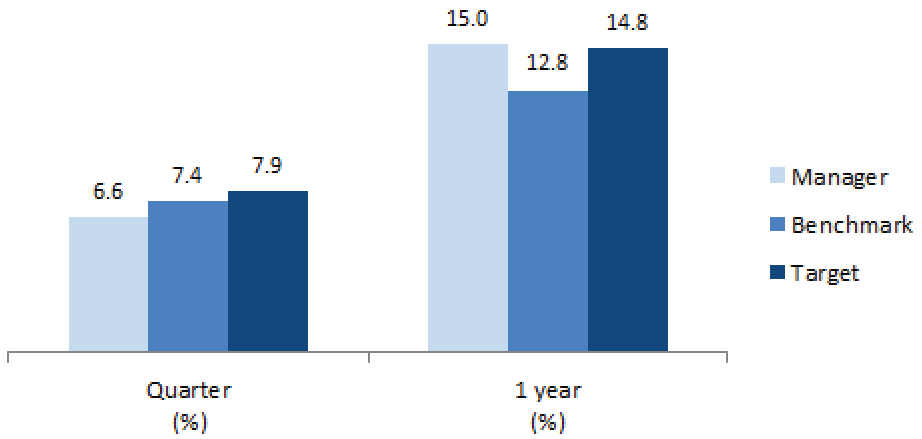
Reason for investment

To provide asset growth as part of diversified equity portfolio

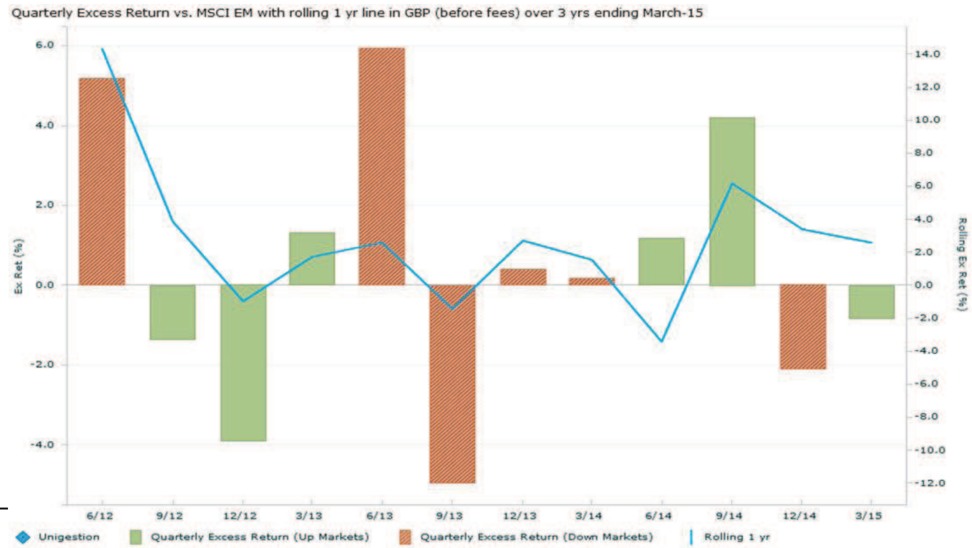
Reason for manager

- Risk-based active management approach
- Aim for lower volatility than the MSCI Emerging Markets Index
- Combine fundamental and quantitative analysis

Performance

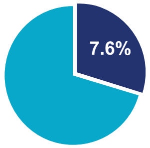


Rolling relative returns



Note: Chart includes pooled fund performance history prior to inception

Page 141



INVESCO – GLOBAL EX-UK EQUITIES (ENHANCED INDEXATION) (POOLED)
£291.4M END VALUE (£269.4M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	B+ (no change over period under review)
Performance Objective *Benchmark +0.5% p.a.*	●	Outperformed benchmark by 1.2% p.a. over three years
Tracking error since inception was 1.5% p.a - *source: Invesco*		Number of stocks: 392

Manager Research and Developments

- The fund outperformed its benchmark by 0.4% over the last quarter, and is ahead of its outperformance target over 3 years.
- The outperformance over the quarter was generated through stock selection, with Invesco's highest rated stocks slightly outperforming the market, while the less attractive stocks underperformed the market.
- The industry allocation is relatively in line with the benchmark industry allocations. All industry allocations were broadly within +/- 1.2% of benchmark weightings, as would be expected for an enhanced indexation product.
- Karl Georg Bayer, Global Head of Research for Invesco Quantitative Strategies, is transitioning to a new role supporting Invesco's global investment platform in an advisory capacity. Mr. Bayer will hand over his research responsibilities to Michael Fraikin during an interim period; Michael remains the named fund manager alongside Alex Uhlmann for the enhanced indexation strategy Avon is invested in (which is run on a team based approach).

Reason for investment

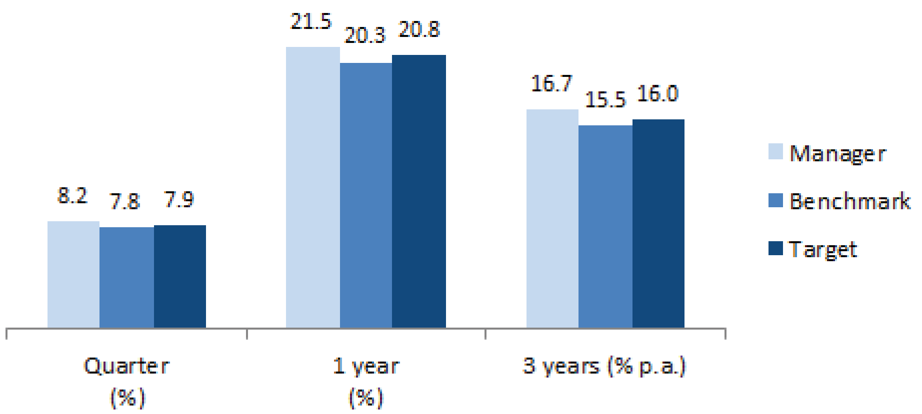
To provide asset growth as part of diversified equity portfolio

Reason for manager

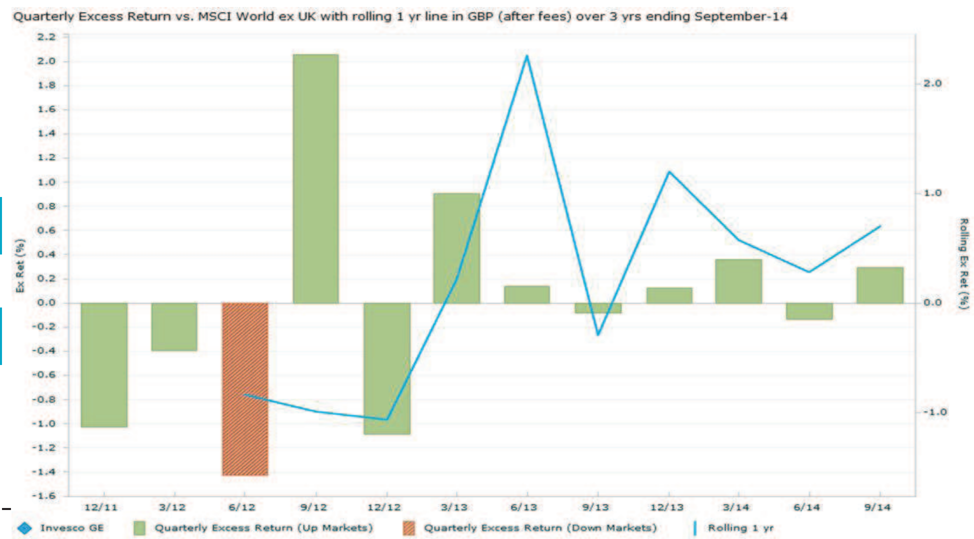
- Robust investment process supported by historical performance record, providing a high level of assurance that the process could generate the outperformance target on a consistent basis
- One of few to offer a Global ex UK pooled fund

Page 142

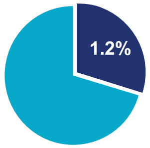
Performance



Rolling relative returns



Note: MSCI World NDR ex UK index not currently available.



SSGA – EUROPE EX-UK EQUITIES (ENHANCED INDEXATION) (POOLED)
£44.3M END VALUE (£39.9M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	R (no change over period under review)
Performance Objective *Benchmark +0.5% p.a.*	●	Outperformed benchmark by 1.5% p.a. over three years
Historic tracking error was 0.9% p.a (Source: Mercer)		Number of stocks: 211

Manager Research and Developments

- The Fund's return has met its performance target over 3 years.
- The total pooled fund size on 31 March 2015 was £44.4m. This means that the Fund is practically the only investor, although the Panel has previously concluded that the Fund could be sustained even if the Avon Pension Fund was the only investor.
- The CEO of State Street Global Advsors retired over the quarter and was replaced by Ronald O'Hanley in April. O'Hanley has over 30 years of leadership experience in the industry and most recently was President of Asset Management & Corporate Services at Fidelity.
- No ratings change has been proposed as a result of this change. O'Hanley has good experience and we would not expect this senior role change to materially impact SSgA investment strategies.

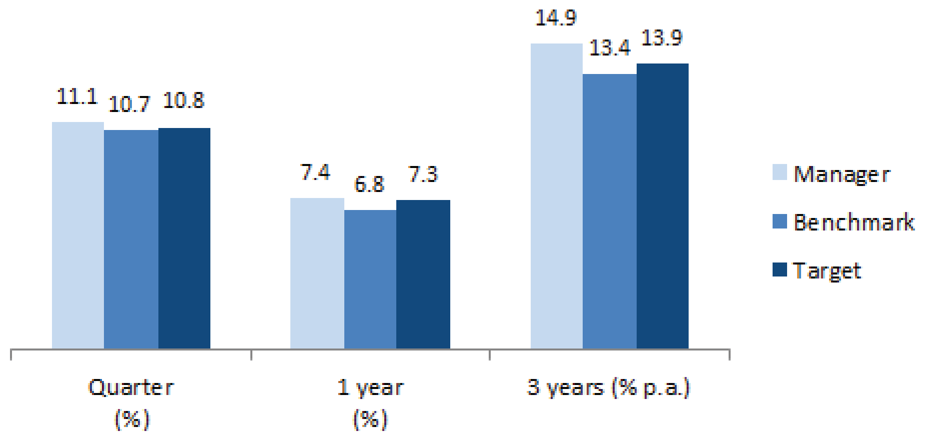
Reason for investment

To provide asset growth as part of diversified equity portfolio

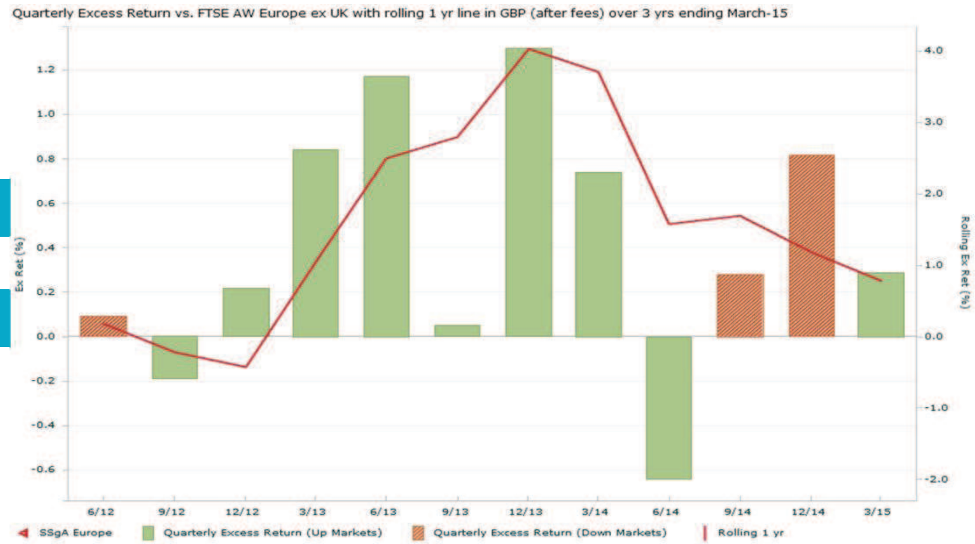
Reason for manager

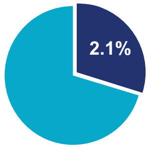
- Strength of their quantitative model and process, and ongoing research to develop the model
- Historic performance met the risk return parameters the Fund was seeking
- Two Funds (European and Pacific) to achieve the Fund's customised asset allocation within overseas equities

Performance



Rolling relative returns





SSGA – PACIFIC INCL. JAPAN EQUITIES (ENHANCED INDEXATION) (POOLED)
£80.3M END VALUE *(£71.1M START VALUE)*

Item Monitored		Outcome
Mercer Rating	●	N (no change over period under review)
Performance Objective *Benchmark +0.5% p.a.*	●	Outperformed benchmark by 1.6% p.a. over three years
Historic tracking error was 0.8% p.a (Source: Mercer)		Number of stocks: 394

Manager Research and Developments

- The Fund's return has met its performance target over 3 years.
- The pooled fund size is £80.3m. As with the European fund, the conclusion has been that the Fund could be sustained even with the Avon Pension Fund as the only investor

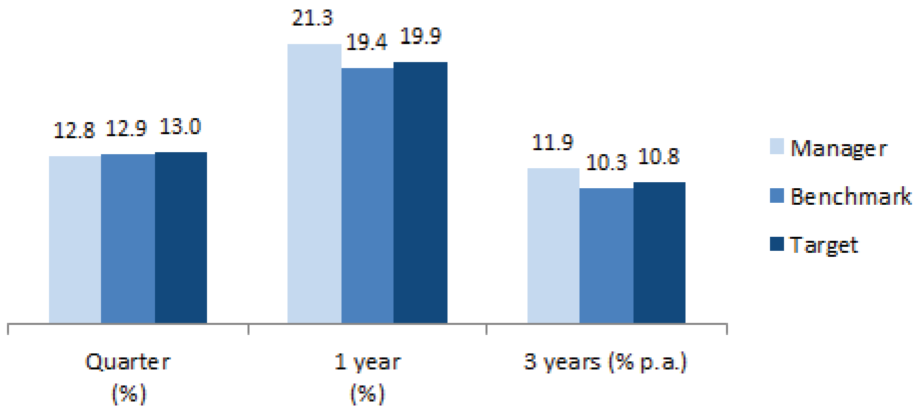
Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

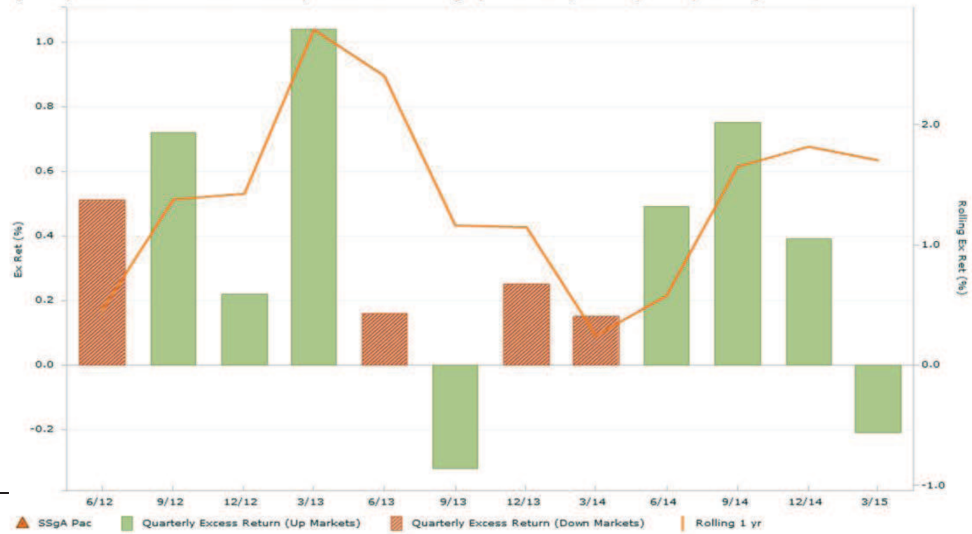
- Strength of their quantitative model and process, and ongoing research to develop the model
- Historic performance met the risk return parameters the Fund was seeking
- Two Funds (European and Pacific) to achieve the Fund's customised asset allocation within overseas equities

Performance

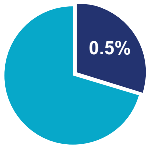


Rolling relative returns

Quarterly Excess Return vs. FTSE AW Developed Asia Pac with rolling 1 yr line in GBP (after fees) over 3 yrs ending March-15



Page 144



RECORD – ACTIVE CURRENCY HEDGING (SEGREGATED)
£20.6M END VALUE *(£32.4M START VALUE)*

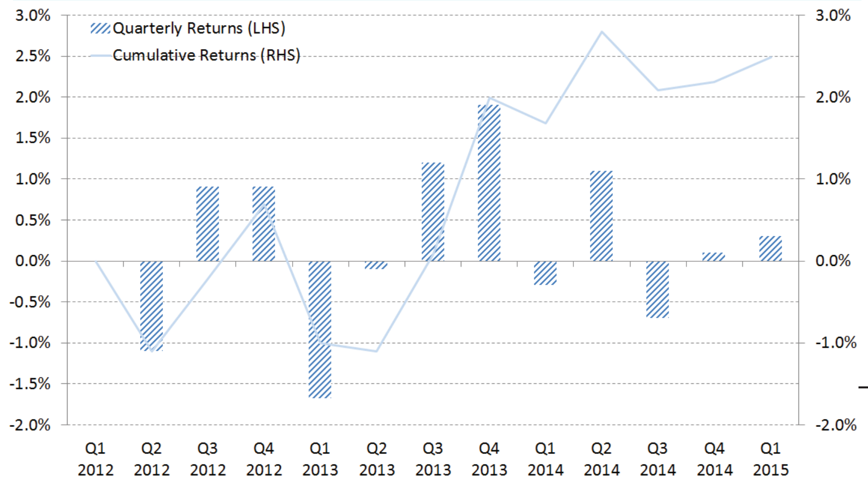
Item Monitored		Outcome
Mercer Rating	●	N (no change over period under review)
Performance Objective *N/A*	●	Outperformed benchmark by 0.4% p.a. over three years

Manager Research and Developments

Over the quarter, the US dollar and the Yen strengthened significantly against Sterling whereas the Euro weakened.

A 50% hedge on each currency would have had an overall negative return because the positive effect of the US Dollar and Yen movements would be offset. However, Record maintained a low Dollar hedge ratio which meant that they outperformed against a 50% hedge.

Hedging Return



Performance (Total Hedging Portfolio)

	3 months (%)	1 year (%)	3 years (%)
Record Hedge	0.31	0.80	0.84
50% Illustrative Hedge	-1.22	-1.80	0.48
Relative	**+1.53**	**+2.60**	**+0.36**

Currency Hedging 3 Month Performance (£ terms)

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Hedge Return (%)	Record Hedge Return (%)	Net Return (%)
USD	608,836,010	559,047,385	5.04%	-2.54%	-0.59%	4.44%
EUR	200,594,821	207,358,854	(6.78%)	3.57%	6.23%	-0.83%
JPY	138,935,384	147,838,770	5.01%	-2.59%	-4.46%	0.78%
Total	**948,366,215**	**914,245,009**	**2.38%**	**-1.22%**	**0.31%**	**2.74%**

Reason for investment

To manage the volatility arising from overseas currency exposure, whilst attempting to minimise negative cashflows that can arise from currency hedging

Reason for manager

- Straightforward technical (i.e. based on price information) process
- Does not reply on human intervention
- Strong IT infrastructure and currency specialists

PYRFORD – DGF (POOLED)
£124.7M END VALUE (£121.3M START VALUE)

3.3%

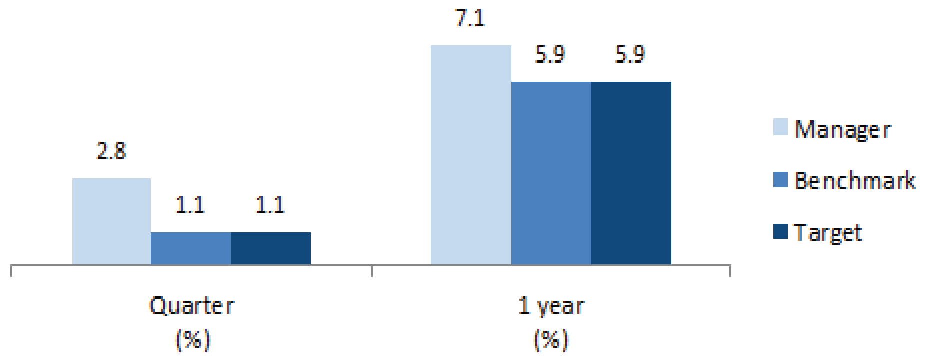
Page 146

Item Monitored		Outcome
Mercer Rating	●	R (no change over period under review)
Performance Objective *RPI +5% p.a.*	●	Outperformed benchmark by 1.2% p.a. over one year

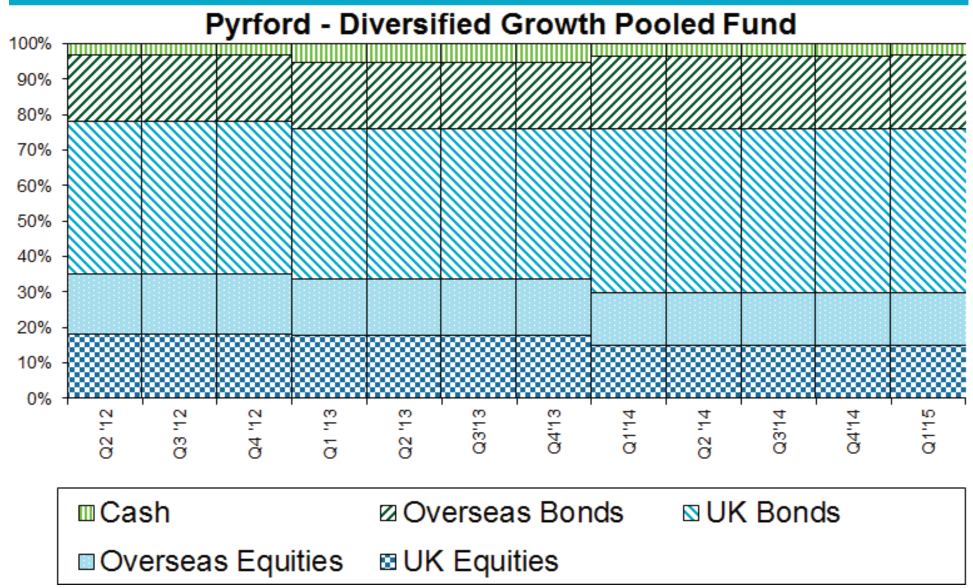
Manager Research and Developments

- The fund has outperformed the benchmark over the quarter (+1.7%) and year (+1.2%)
- The asset allocation of the fund remained the same over the quarter at 30% equities, 67% bonds and 3% cash.
- The equity country allocation has remained the same, with no allocation to UK and European banks. The portfolio focusses on balance sheet strength, profitability, earnings visibility and value.
- Pyrford continues to adopt a defensive stance by owning short duration securities in order to protect the capital value of the portfolio from expected rises in yields. At the end of the quarter the modified duration of the fixed income portfolio was 2.2 years.

Performance



Asset Allocation/Risk Exposure

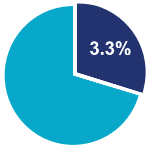


Reason for investment

To provide equity like return over the long term but with a lower level of volatility

Reason for manager

- Asset allocation skill between equities, bonds and cash
- Fundamental approach to stock selection



STANDARD LIFE – DGF (POOLED)
£243.5M END VALUE (£0.0M START VALUE)

Item Monitored	Outcome
Mercer Rating	● B+ (no change over period under review)
Performance Objective *Cash +5% p.a.*	● Not invested for full quarter

Manager Research and Developments

- The Fund invested £240m in Standard Life GARS during the quarter.
- The charts to the right (and overleaf) provide analysis of the performance of the pooled fund (net of fees) over the three years to 31 March 2015, illustrating that while returns have slightly lagged the median DGF manager, the risk taken to produce these returns has been significantly lower and as a result risk adjusted returns are attractive.
- More in depth analysis will be provided in future reports when there is a longer track record
- Over the quarter, our researchers met with Standard Life and retained their B+ rating . Although we have no major concerns at this point, we believe that capacity management is a key issue for Standard Life's multi-asset business, and as a result in particular of the growth of the strategy assets under management, we conclude this strategy does not merit our highest rating.

Page 147

Reason for investment

To provide equity like return over the long term but with a lower level of volatility

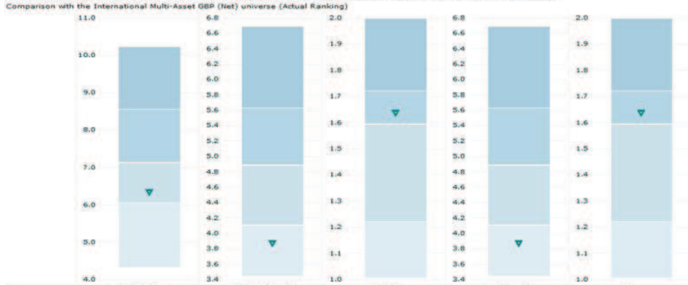
Reason for manager

- Diversification from equities
- Exposure to market-neutral trades, and different approach to Pyford's asset allocation approach.

Performance

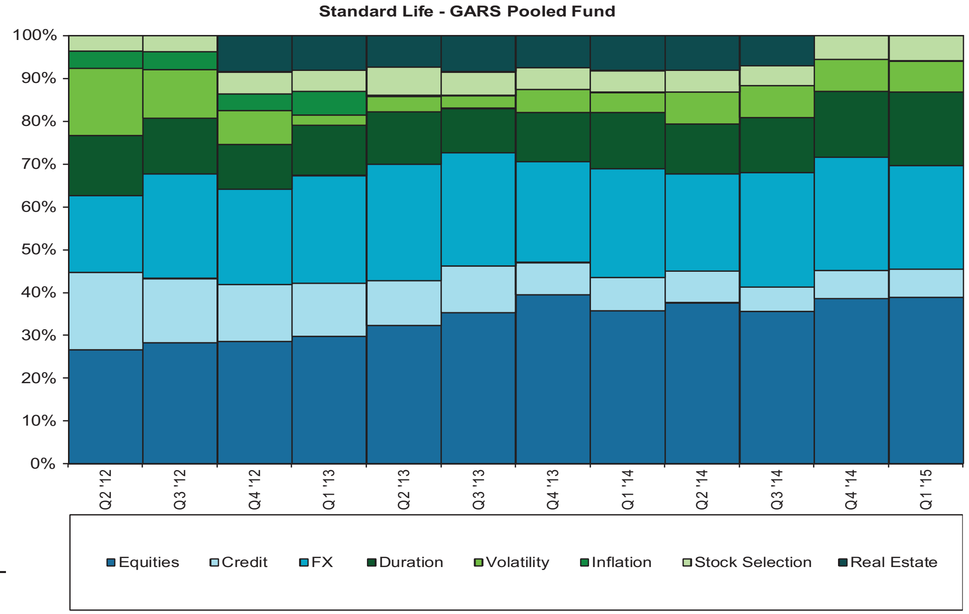
Performance characteristics vs. Zero Benchmark in GBP (after fees) over 3 yrs ending March-15 (quarterly calculations)

Comparison with the International Multi-Asset GBP (Net) universe (Actual Ranking)



	Ret (%pa)	Std Dev (%pa)	Ret/SD	TE (%pa)	IR
▼ SLI GARS	6.4 *(22)*	3.9 *(26)*	1.6 *(15)*	3.9 *(26)*	1.6 *(15)*
95th Percentile	10.2	6.7	2.0	6.7	2.0
Upper Quartile	8.6	5.6	1.7	5.6	1.7
Median	7.1	4.9	1.6	4.9	1.6
Lower Quartile	6.1	4.1	1.2	4.1	1.2
5th Percentile	4.3	3.4	1.0	3.4	1.0
Number	31	31	31	31	31

Asset Allocation/Risk Exposure



DGF MANDATES

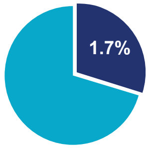
Performance characteristics vs. BofAML LIBOR 3 month average UK in GBP (after fees) over 1 yr ending March-15 (quarterly calculations)

Comparison with the International Multi-Asset GBP (Net) universe (Actual Ranking)

	Ret (%)	Std Dev (%)	IR
▲ Pyrford DGF	7.1 *(31)*	1.9 *(36)*	3.5 *(13)*
▼ SLI GARS	10.0 *(18)*	3.1 *(24)*	3.1 *(17)*
95th Percentile	15.0	5.5	4.2
Upper Quartile	12.3	4.0	3.6
Median	9.9	3.3	2.9
Lower Quartile	7.5	2.4	2.0
5th Percentile	2.8	1.0	1.0
Number	39	39	39

Commentary

- Over the year to 31 March 2015, the Standard Life GARS pooled fund outperformed Pyrford by 2.9%.
- This placed Standard Life above the median International Multi-Asset manager for performance, whilst Pyrford were in the bottom quartile. It should be noted that this universe is very diverse in styles.
- This however was achieved whilst taking significantly more risk, with Standard Life's standard deviation standing at 3.1% against Pyrford's 1.9%.
- Pyrford were in the bottom quartile for risk and Standard Life were just below the median, meaning they both took less risk than the average manager in the universe.
- Both managers' information ratios over this period were above the median manager for the universe.
- Note that this is a short time-frame over which to measure risk, and reflects the limited period the Fund has been invested for. More telling analysis will emerge as the track record grows.



SIGNET – FUND OF HEDGE FUNDS
£63.4M END VALUE *(£63.1M START VALUE)*

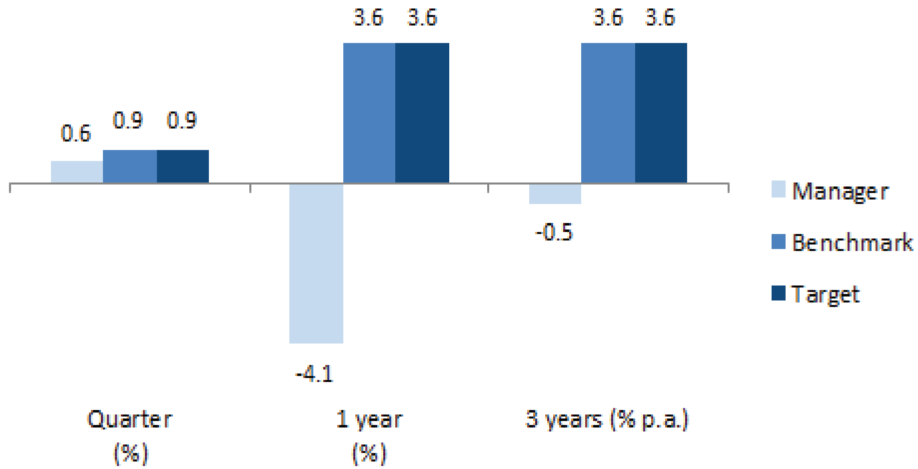
Item Monitored		Outcome
Mercer Rating	●	N (no change over period under review)
Performance Objective *Cash +3% p.a.*	●	Underperformed benchmark by 4.1% p.a. over three years

Item	
Number of funds	31

Strategy	Approximate Contribution over to Performance over the Quarter (%)
Long-Biased Credit	+0.60
Long-Short Credit	+0.37
Long Only Credit	+0.39
Recovery Plays	+0.36
Global Rates and FX	-0.11
Mortgaged Backed Securities	+0.07
Event Driven and Special Situations Fund	-0.73

Source: Signet, Mercer. Approximate calculations based on largest holdings.

Performance



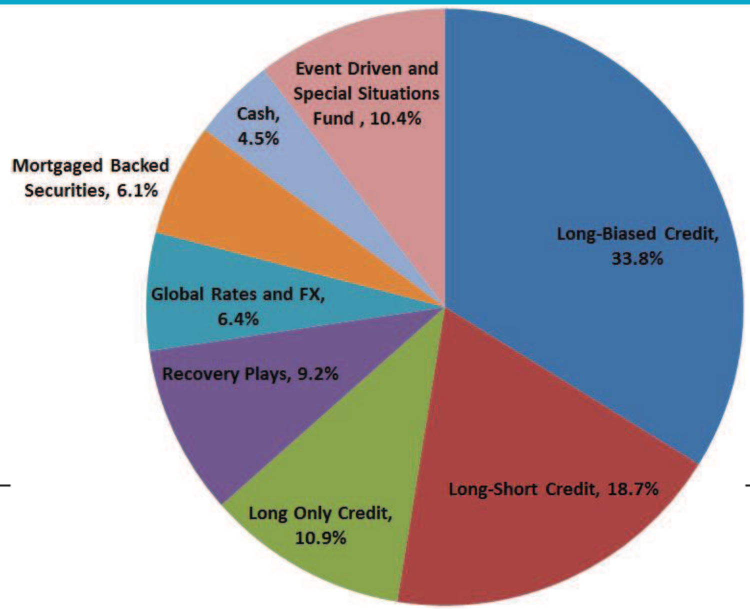
Reason for investment

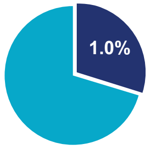
To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Niche fixed income strategy focus
- Established team with strong track record
- Complemented other funds in the portfolio

Allocation





STENHAM – FUND OF HEDGE FUNDS
£39.7M END VALUE *(£38.2M START VALUE)*

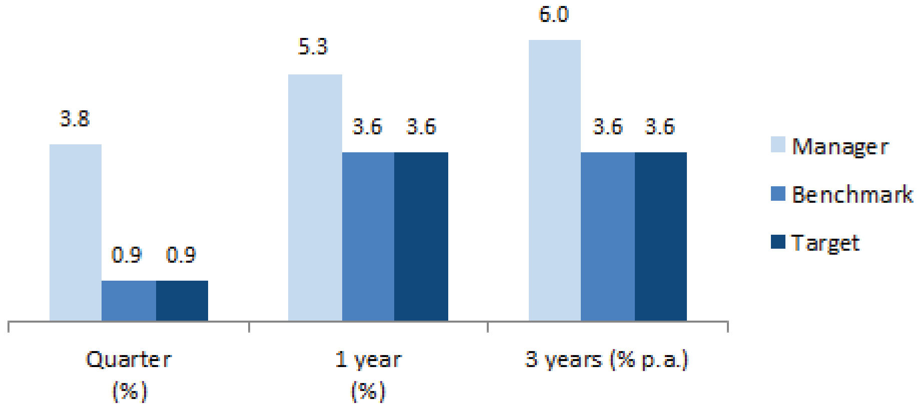
Page 150

Item Monitored		Outcome
Mercer Rating	●	N (no change over period under review)
Performance Objective *Cash +3% p.a.*	●	Outperformed benchmark by 2.4% p.a. over three years

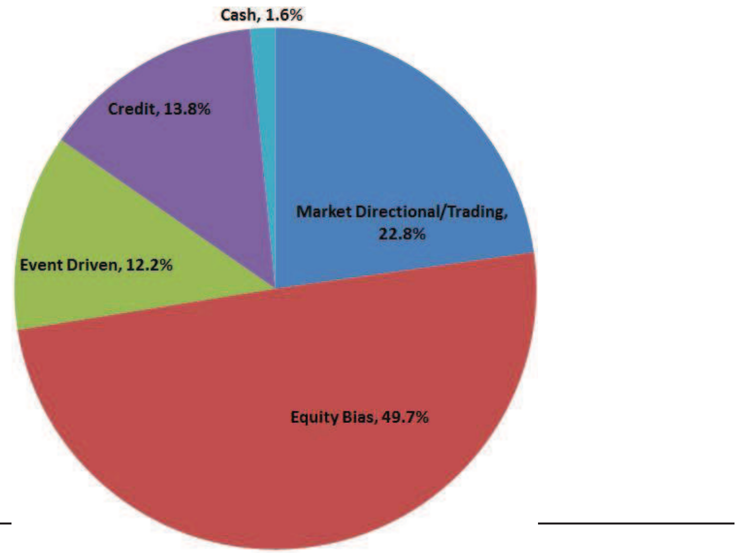
Item	
Number of funds	20

Strategy	Gross Contribution over to Performance over the Quarter (%)
Market Directional/Trading	1.1
Equity Bias	2.4
Event Driven	0.7
Credit	0.0

Performance



Allocation

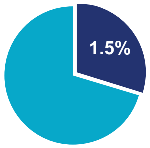


Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Focussed multi-strategy approach, concentrating on long / short equity, global macro and event driven strategies
- Established team, strong track record at selecting managers
- Complemented other funds in the portfolio



GOTTEX– FUND OF HEDGE FUNDS
£59.1M END VALUE *(£58.3M START VALUE)*

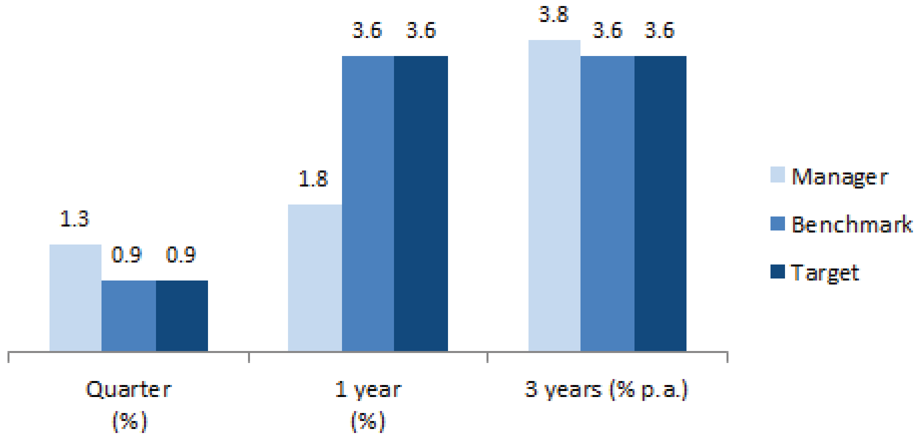
Page 151

Item Monitored		Outcome
Mercer Rating	●	R (no change over period under review)
Performance Objective *Cash +3% p.a.*	●	Outperformed benchmark by 0.2% p.a. over three years

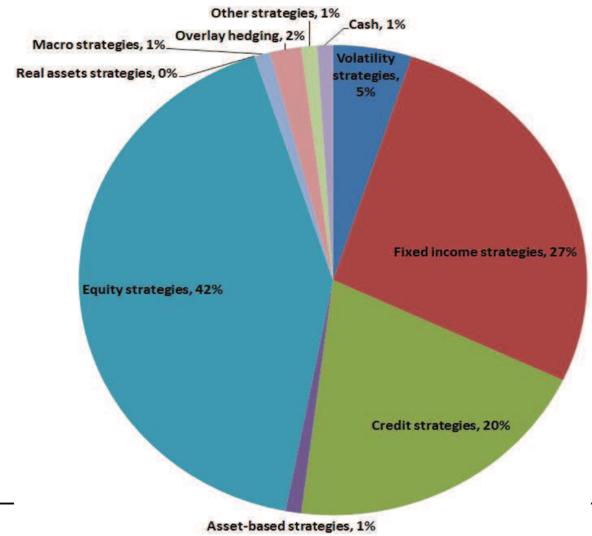
Item	
Number of funds	Not Available

Top 5 most significant contributing strategies	Gross Contribution over to Performance over the Quarter (%)
Fundamental MN Equity	+0.45
Quantitative MN Equity	+0.42
Asset-Backed Securities	+0.31
Event Driven Equity	+0.24
MBS Strategies	+0.19

Performance



Allocation



Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

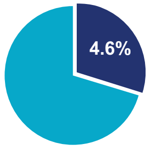
Reason for manager

- Niche market neutral investment strategy
- Established team with strong track record
- Complemented other funds in the portfolio

FUND OF HEDGE FUND MANDATES

The Fund is in the process of divesting from all three managers listed above, with the allocation to be managed by JPMorgan in a bespoke fund of funds vehicle.

Manager	31 March 2015 holding	Comments
Signet	£63.4m	Signet saw significant underperformance over the year, which led to a negative overall contribution to relative performance. This stemmed from the underperformance of their illiquid holdings in the Event Driven & Special Situations Fund (with the main holdings in the Global Fixed Income strategy returning +0.1% over the twelve month period).
Stenham	£39.7m	Stenham's long/short equity and global macro approach fared well over the year, outperforming its benchmark by 1.7% (outperforming their benchmark by 2.9% in Q1 2015 alone, as a result of strong equity returns across most markets and the US in particular).
Gottex	£59.1m	Gottex's market neutral approach underperformed over the year with poor returns in Q4 2014, but generated positive performance over the three-years to 31 March 2015.



SCHRODER – UK PROPERTY FUND OF FUNDS £177.7M END VALUE *(£173.3M START VALUE)*

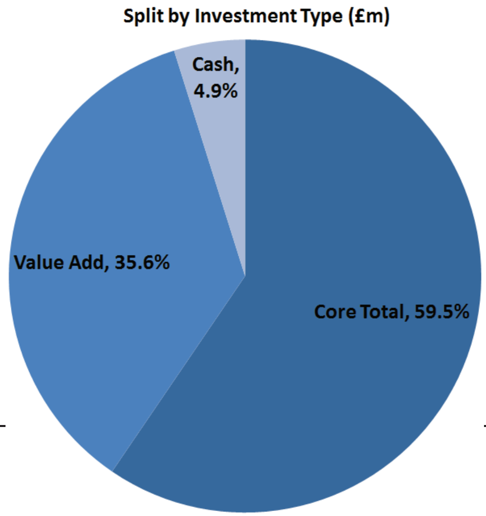
Item Monitored		Outcome
Mercer Rating	● (red)	B (no change over quarter)
Performance Objective *Benchmark +1% p.a.*	● (green)	Outperformed benchmark by 1.6% p.a. over three years

Manager Research and Developments

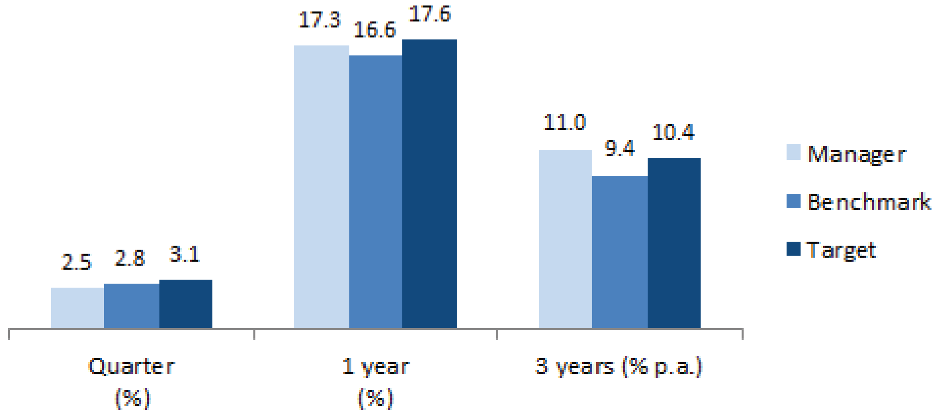
- The fund underperformed the benchmark over the quarter by 0.3%, as the Core strategy detracted from relative performance.
- Over the three year period, the fund has outperformed its target by 0.6% p.a., largely due to strong performance from Value Add strategies (i.e. alternative or less mainstream assets (with low industrial and central London exposure).
- The fund purchased c. £6.0m of units over the quarter; £4.0m in the L&G Managed Property Fund and £2.0m in the Industrial Property Investment Fund. £6.2m in proceeds were received from the West End of London Property Trust and £0.7m from the Threadneedle Strategic Property Fund IV Trust.

Manager and Investment type splits

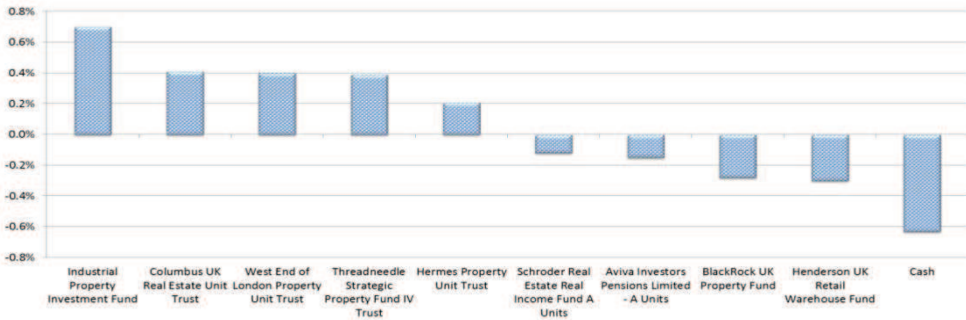
Top 5 Holdings	Proportion of Total Fund (%)
BlackRock UK Property Fund	13.3
L&G Managed Property Fund	13.0
Standard Life Pooled Pension Property Fund	10.0
Aviva Investors Pensions	9.5
Industrial Property Investment Fund	9.4



Performance



Top 5 Contributing and Detracting Funds

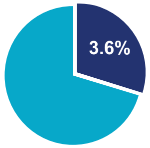


Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Demonstrable track record of delivering consistent above average performance
- Team though small is exclusively dedicated to UK multi-manager property management but can draw on extensive resources of Schroder's direct property team
- Well structured and research orientated investment process



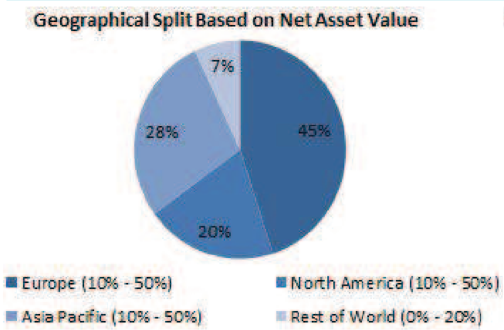
PARTNERS – OVERSEAS PROPERTY
£137.0M END VALUE *(£137.6M START VALUE)*

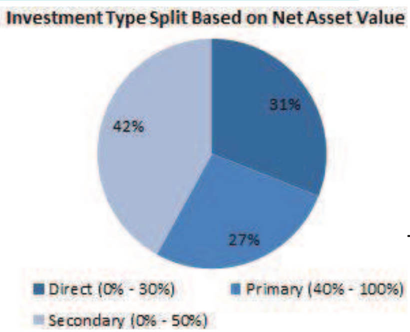
Item Monitored		Outcome
Mercer Rating	● (green)	B+ (no change over period under review)
Performance Objective *Benchmark +2% p.a.*	● (red)	Underperformed benchmark by 3.1% p.a. over three years (see note below).

Manager Research and Developments

- Over the quarter, the fund has underperformed the benchmark by 0.3% , and 3.1% over the three year period.
- **Partners' drawdowns are made gradually over time, and the Fund is not yet fully invested. As a result of the volatile timing of cash flows for such investments, for example the initial costs of purchasing and developing properties, focus should be on longer term performance. Their IRR from inception to 31 March 2015 at 10.1% p.a. is in line with their target of 10% p.a.**
- Over Q1, the allocation to Europe has increased (from 41% to 45%) while Asia Pacific and North America both fell slightly (from 30% to 28%, and 22% to 20% respectively. These remain within the guidelines.
- The exposure to Secondary has fallen this quarter (from 46% to 42%), with Direct increasing by 4% and Primary unchanged at 27%. Primary exposure continues to be below the guidelines. Short-term deviation from the guidelines are expected whilst the amount drawn-down is below target.
- Note that Partners are rated B+ for global real estate, but A for secondary global real estate (as a result of their private equity skill set).

Geographical and Investment type splits





Portfolio update

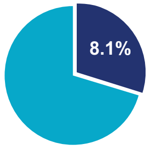
Partners Fund	Total Drawn Down (£m)	Total Distributions (£m)	Net Asset Value (31 Mar 2015) (£m)	Since Inception Net IRR
Global Real Estate 2008	31.66	14.04	24.85	9.2
Real Estate Secondary 2009	19.01	3.42	20.03	14.6
Asia Pacific and Emerging Market Real Estate 2009	14.48	4.66	14.18	6.8
Distressed US Real Estate 2009	14.75	11.16	10.00	9.8
Global Real Estate 2011	24.70	4.01	24.49	13.0
Direct Real Estate 2011	10.80	1.07	13.25	9.4
Real Estate Secondary 2013	3.90	0.00	4.71	27.7
Global Real Estate 2013	29.29	0.00	27.44	5.1
Real Estate Income 2014	7.85	0.00	7.24	1.6
Total	**156.46**	**38.35**	**146.82**	**10.1**

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Depth of experience in global property investment and the resources they committed globally to the asset class
- The preferred structure for the portfolio was via a bespoke fund of funds (or private account) so the investment could be more tailored to the Fund's requirements



ROYAL LONDON ASSET MANAGEMENT – FIXED INTEREST (POOLED)

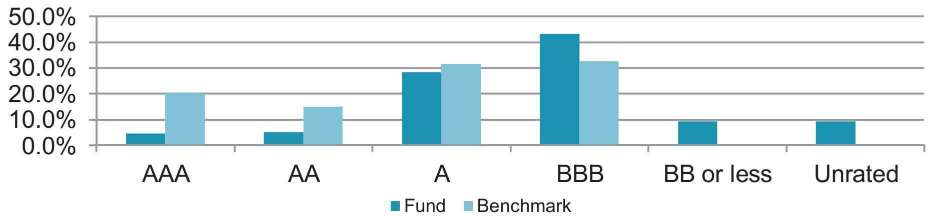
£308.9M END VALUE *(£299.1M START VALUE)*

Item Monitored		Outcome
Mercer Rating	●	A (no change over period under review)
Performance Objective *Benchmark +0.8% p.a.*	●	Outperformed benchmark by 2.2% p.a. over three years

Manager Research and Developments

- Royal London remain underweight AAA-A bonds, and overweight BBB-unrated, a strategy which has performed strongly over the three year period.
- Over the quarter, Sajiv Vaid (Senior Fund Manager) resigned to pursue a new role at Fidelity. Co-portfolio manager and Head of Fixed Interest Jonathan Platt will assume full portfolio management responsibility for the strategies until a replacement is found.
- We do not see it as any reflection on the team at RLAM, which we continue to view as highly skilled and collegiate, rather the opportunity was too good to turn down. We are not proposing any changes to ratings as a result of this news.

Credit Rating Allocation



Weighted Duration	Start of Quarter	End of Quarter
Fund	7.8	7.6

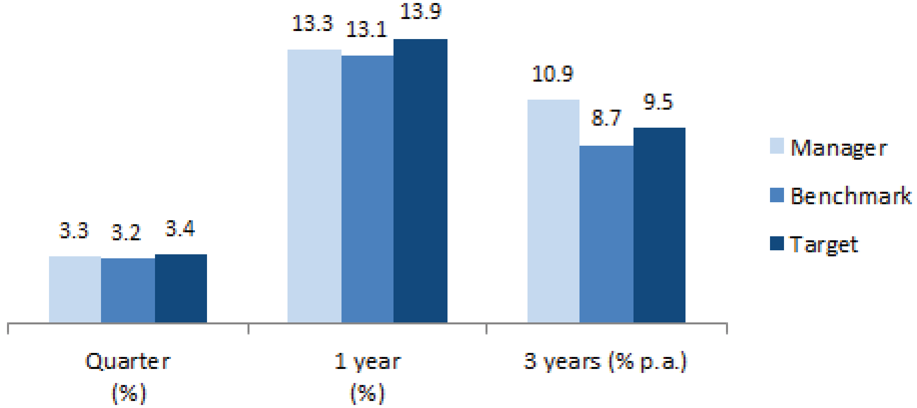
Reason for investment

To maintain stability in the Fund as part of a diversified fixed income portfolio

Reason for manager

- Focussed research strategy to generate added value
- Focus on unrated bonds provided a "niche" where price inefficiencies are more prevalent. Product size means can be flexible within market

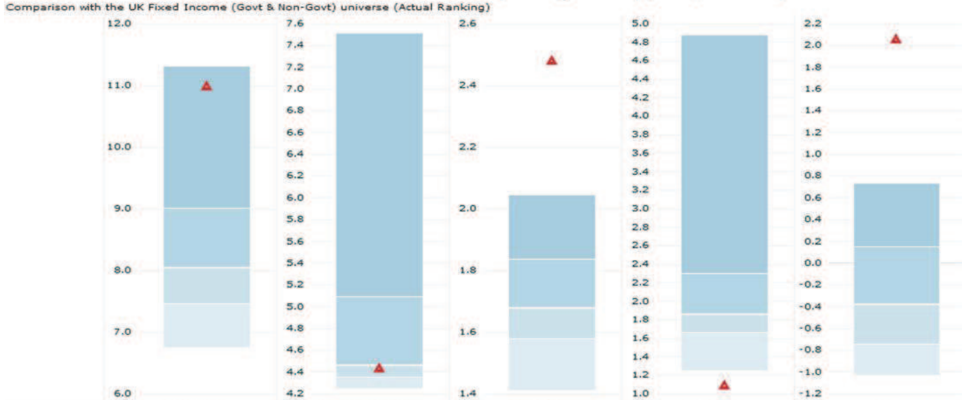
Performance



Risk and Return relative to benchmark

Performance characteristics vs. Markit iBoxx Non Gilts Overall in GBP over 3 yrs ending March-15 (quarterly calculations)

Comparison with the UK Fixed Income (Govt & Non-Govt) universe (Actual Ranking)



	Ret (%pa)	Std Dev (%pa)	Ret/SD	TE (%pa)	IR
▲ RLAM FI	11.0 *(3)*	4.4 *(19)*	2.5 *(1)*	1.1 *(32)*	2.1 *(1)*
95th Percentile	11.3	7.5	2.0	4.9	0.7
Upper Quartile	9.0	5.1	1.8	2.3	0.2
Median	8.0	4.5	1.7	1.9	-0.4
Lower Quartile	7.5	4.4	1.6	1.7	-0.7
5th Percentile	6.7	4.2	1.4	1.2	-1.0
Number	32	32	32	32	32

Page 155

APPENDIX 1
SUMMARY OF MANDATES

SUMMARY OF MANDATES

Manager	Mandate	Benchmark	Outperformance target (p.a.)
Jupiter Asset Management	UK Equities (Socially Responsible Investing)	FTSE All Share	+2%
TT International	UK Equities (Unconstrained)	FTSE All Share	+3-4%
Schroder	Global Equities (Unconstrained)	MSCI AC World Index Free	+4%
Genesis	Emerging Market Equities	MSCI EM IMI TR	-
Unigestion	Emerging Market Equities	MSCI EM NET TR	+2-4%
Invesco	Global ex-UK Equities (Enhanced Indexation)	MSCI World ex UK NDR	+0.5%
SSgA	Europe ex-UK Equities (Enhanced Indexation)	FTSE AW Europe ex UK	+0.5%
SSgA	Pacific inc. Japan Equities (Enhanced Indexation)	FTSE AW Dev Asia Pacific	+0.5%
Record	Active Currency Hedging	N/A	-
Pyrford	Diversified Growth Fund	RPI + 5% p.a.	-
Standard Life	Diversified Growth Fund	3 Month LIBOR +5% p.a.	-
Signet	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Stenham	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Gottex	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Schroder	UK Property	IPD UK Pooled	+1%
Partners	Overseas Property	IPD Global Pooled	+2%
Royal London Asset Management	UK Corporate Bonds	iBoxx £ Non-Gilts All Maturities	+0.8%
BlackRock	Passive Multi-Asset	In line with customised benchmarks using monthly mean fund weights	-
BlackRock	Overseas Property Account	Customised benchmarks using monthly mean fund weights	-
Cash	Internally Managed	7 Day LIBID	-

Page 158

APPENDIX 2

MARKET STATISTICS INDICES

MARKET STATISTICS INDICES

Asset Class	Index
UK Equities	FTSE All-Share
Global Equity	FTSE All-World
Overseas Equities	FTSE World ex UK
US Equities	FTSE USA
Europe (ex-UK) Equities	FTSE W Europe ex UK
Japanese Equities	FTSE Japan
Asia Pacific (ex-Japan) Equities	FTSE W Asia Pacific ex Japan
Emerging Markets Equities	FTSE AW Emerging
Global Small Cap Equities	FTSE World Small Cap
Hedge Funds	HFRX Global Hedge Fund
High Yield Bonds	BofA Merrill Lynch Global High Yield
Emerging Market Debt	JP Morgan GBI EM Diversified Composite
Property	IPD UK Monthly Total Return: All Property
Commodities	S&P GSCI
Over 15 Year Gilts	FTA UK Gilts 15+ year
Sterling Non Gilts	BofA Merrill Lynch Sterling Non Gilts All Stocks
Over 5 Year Index-Linked Gilts	FTA UK Index Linked Gilts 5+ year
Global Bonds	BofA Merrill Lynch Global Broad Market
Global Credit	Barclays Capital Global Credit
Eurozone Government Bonds	BofA Merrill Lynch EMU Direct Government
Cash	BofA Merrill Lynch United Kingdom Sterling LIBOR 3 month constant maturity

These are the indices used in this report for market commentary; individual strategy returns are shown against their specific benchmarks.

APPENDIX 3
CHANGES IN YIELDS

CHANGES IN YIELDS

Asset Class Yields (% p.a.)	31 March 2015	31 December 2014	31 March 2014	31 March 2013
UK Equities	3.33	3.37	3.41	3.35
Over 15 Year Gilts	2.23	2.42	3.43	3.02
Over 5 Year Index-Linked Gilts	-0.91	-0.75	-0.08	-0.41
Sterling Non Gilts	2.65	2.99	3.69	3.28

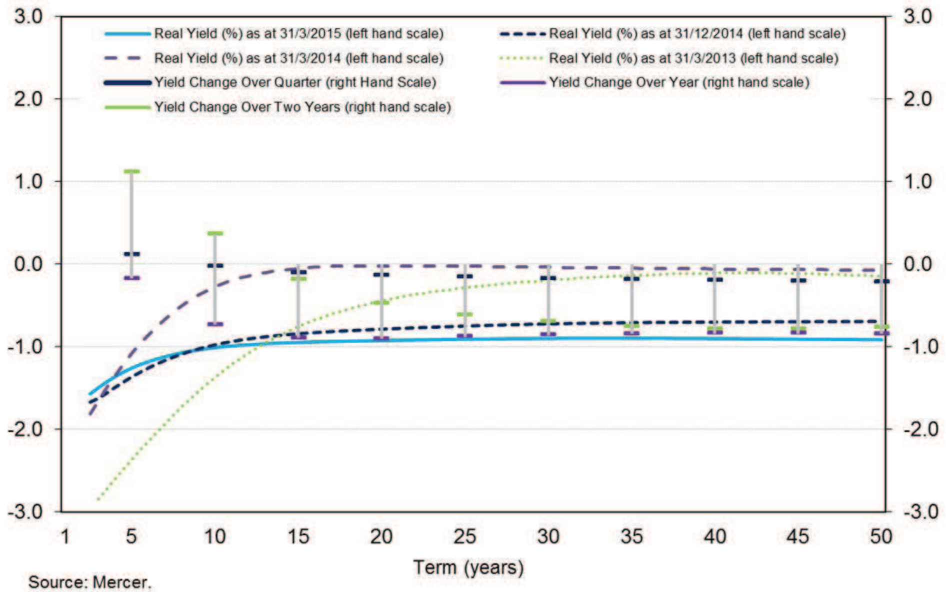
- Bond market yields fell further over the quarter, particularly at the longer end of the yield curve. Nominal 10 year gilt yields fell from 1.8% to 1.7% over the first three months of the year. As a result, UK bond markets posted positive returns.

- Over the quarter, the real yield curve also fell across most durations, resulting in over 5 year index-linked gilts posting a return of 3.3%.

- Credit spreads also tightened over the quarter, which in combination with falling gilt yields resulted in a total return of 3.3% for the UK corporate bonds.

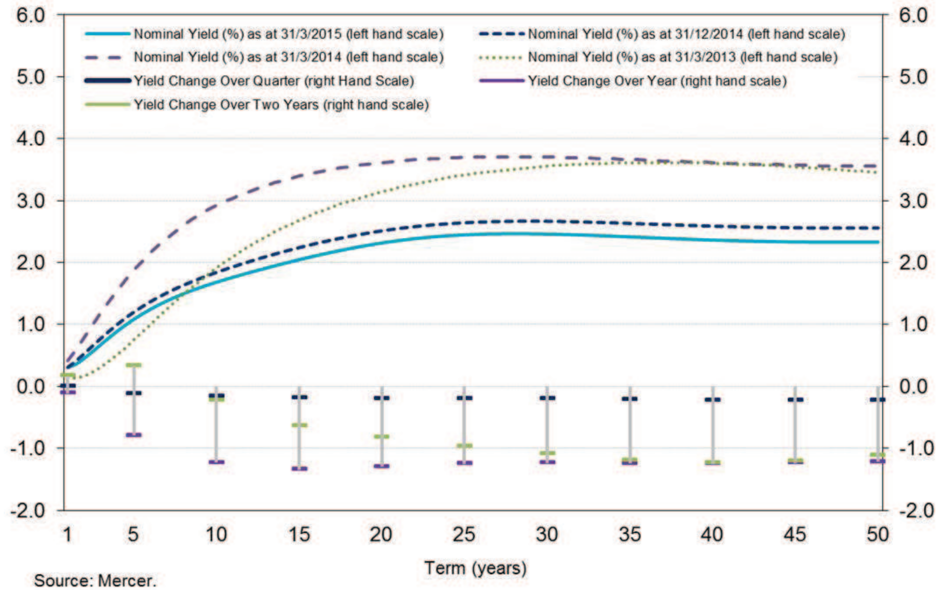
Page 161

Nominal yield curves.



Source: Mercer.

Real yield curves.



Source: Mercer.

HEALTH WEALTH CAREER

AVON PENSION FUND

PANEL INVESTMENT PERFORMANCE REPORT QUARTER TO 30 JUNE 2015

AUGUST 2015

MAKE TOMORROW, TODAY

MERCER

IMPORTANT NOTICES

The findings, ratings and/or opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the investment products, asset classes or capital markets discussed. Past performance does not guarantee future results. Mercer's ratings do not constitute individualized investment advice.

Information contained herein has been obtained from a range of third party sources. While the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party.

This does not contain regulated investment advice in respect of actions you should take. No investment decision should be made based on this information without obtaining prior specific, professional advice relating to your own circumstances.

This does not constitute an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or products or constitute a solicitation on behalf of any of the investment managers, their affiliates, products or strategies that Mercer may evaluate or recommend.

For the most recent approved ratings of an investment strategy, and a fuller explanation of their meanings, contact your Mercer representative.

For Mercer's conflict of interest disclosures, contact your Mercer representative or see www.mercer.com/conflictsofinterest.

Mercer's universes are intended to provide collective samples of strategies that best allow for robust peer group comparisons over a chosen timeframe. Mercer does not assert that the peer groups are wholly representative of and applicable to all strategies available to investors.

Please also note:

- The value of investments can go down as well as up and you may not get back the amount you have invested. In addition investments denominated in a foreign currency will fluctuate with the value of the currency.
- The valuation of investments in property based portfolios, including forestry, is generally a matter of a valuer's opinion, rather than fact.
- When there is no (or limited) recognised or secondary market, for example, but not limited to property, hedge funds, private equity, infrastructure, forestry, swap and other derivative based funds or portfolios it may be difficult for you to obtain reliable information about the value of the investments or deal in the investments.
- Where the investment is via a fund of funds the investment manager typically has to rely on the underlying managers for valuations of the interests in their funds.
- Care should be taken when comparing private equity / infrastructure performance (which is generally a money-weighted performance) with quoted investment performance (which is generally a time-weighted performance). Direct comparisons are not always possible.

CONTENTS

- Executive Summary 54
- Market Background 61
- Strategic Assumptions 64
- Fund Valuations 67
- Performance Summary 71
- Manager Performance 75
- Appendices 96

SECTION 1
EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

This report has been prepared for the Investment Panel of the Avon Pension Fund ("the Fund"), to assess the performance and risks of the investment managers of the Fund.

Fund performance

- The value of the Fund's assets decreased by £99m over the quarter, to £3,730m at 30 June 2015.

Strategy

- Global (developed) equity returns over the last three years at 14.6% p.a. have been significantly ahead of the assumed strategic return of 8.25% p.a. from the strategic review in March 2013. We remain neutral in our medium term outlook for developed market equities (over the next one to three years), and expect returns to be more modest over the next three years.

- The three year return from emerging market equities has risen to 5.0% p.a. from 3.7% p.a. last quarter. The three year return remains below the assumed strategic return (of 8.75% p.a.) as 2013 returns were affected by negative sentiment from slowing growth and the tapering of the US asset purchase programme, together with the negative impact of the strengthening US$ on many emerging economies. As for developed markets, we are neutral in our medium term outlook for emerging market equities over the next one to three years.

- UK government bond returns over the three years to 30 June 2015 remain above the long term strategic assumed returns (with fixed interest gilts returning 5.3% p.a. against an assumed return of 4.5% p.a., and index-linked gilts returning 7.4% p.a. versus an assumed return of 4.25% p.a.) as investor demand for gilts remains high. Whilst from an absolute return perspective government bonds remain unattractive due to the low yields available, we continue to believe that their value in the context of the overall portfolio is important from a liability risk management perspective.

Strategy (continued)

- UK Corporate bonds also performed strongly, returning 6.6% p.a. over the three year period against the assumed return of 5.5% p.a., while property returns of 12.6% continue to be above the assumed strategic return of 7% p.a., driven by the economic recovery in the US and the UK.
- Looking forward, our medium term view for the prospects for corporate bonds remains unattractive. Given the fall in liquidity in bond markets in recent years, as a result of increased regulation, subdued lending and central bank quantitative easing, bond markets in the short term are likely to be volatile. We believe this presents opportunities for more active "absolute return" or multi-asset credit managers.
- Hedge fund returns remain below long term averages and the strategic return of 6% p.a., as they are affected by low cash rates. With most listed assets looking close to fully valued if not fully valued, we would expect 'alpha' driven investments such as hedge funds and dynamic multi-asset strategies to play an increasingly important role in return generation over the coming three years, particularly if 'beta' (i.e. market-driven) returns are lower looking forward.

EXECUTIVE SUMMARY

Managers

- Absolute returns over the quarter were mixed but generally negative as equities and bonds both produced negative returns over the quarter, although both Jupiter and TT International generated positive returns in the face of the falling UK equity market. The Schroder UK Property fund's return for the quarter was strong as the property market continued to improve. The lowest absolute returns were from the SSgA Europe ex-UK Enhanced Indexation fund, at -6.3%.
- Returns over the year were more positive. The Fund's global equity mandates in particular fared well, with Invesco returning 11.8% (0.5% above benchmark), and Schroder returning 10.0% (0.1% below benchmark). Schroder UK Property produced the highest absolute return at 15.2% over the year, whilst the weakest performance was from the Genesis Emerging Market Equities mandate which returned -0.1%.
- Over three years, all funds produced positive returns (with the exception of Signet), with Partners Group and Signet failing to beat their benchmarks (although see comments on the measurement of Partners Group's performance later). In addition, Schroder (Global Equity) failed to achieve its three-year performance objective despite beating their benchmark. The remainder of the active managers achieved their objectives.

EXECUTIVE SUMMARY

Key points for consideration

- The Schroder Global Equity mandate continues to underperform its performance objective over three years, and over three months and one year has lagged its benchmark. Performance should continue to be monitored to assess the impact of the changes implemented following the departure of Virginnie Maisonneuve (former portfolio manager and head of Global Equity).

- The absolute performance of the Partners Group global property investment may be misleading given the long-term, value-add and opportunistic approach they take, and the up front costs incurred from investments of this nature - the net internal rate of return (which is in line with expectations) is a more meaningful measure.

- Pyrford's performance since inception has lagged its return objective. This is due to the manager's very defensive positioning (see page 35).

EXECUTIVE SUMMARY
MANAGER INFORMATION

Page 170

Manager	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	Page
BlackRock	Passive Multi-Asset	✓	✓	✓	25
Jupiter	UK Equities	-	✓	✓	26
TT International	UK Equities	-	✓	✓	27
Schroder	Global Equities	✓	✕	-	28
Genesis	Emerging Market Equities	✓	✕	✓	29
Unigestion	Emerging Market Equities	-	-	N/A	30
Invesco	Global ex-UK Equities	✓	✓	✓	31
SSgA	Europe ex-UK	-	-	✓	32
SSgA	Pacific inc. Japan Equities	-	✓	✓	33
Record Currency Management	Dynamic Currency Hedging	-	N/A	N/A	34
Pyrford	DGF	-	✕	N/A	35
Standard Life	DGF	✓	N/A	N/A	36

Meets criteria	✓	A or B+ rating; achieved performance target
Partially meets criteria	-	B, N or R rating; achieved benchmark return but not performance target
Does not meet criteria	✕	C rating; did not achieve benchmark

Focus Points

- Bruce Campbell, founder and Investment Chairman of Pyrford has decided to retire. His responsibilities will be assumed by Tony Cousins, CIO and CEO of Pyrford – we are not proposing a ratings change. More detail is provided on page 35.
- David Nish will be stepping down from the role of Chief Executive of Standard Life Group. Keith Skeoch, currently Chief Executive of Standard Life Investments (SLI), will succeed Nish. In addition, SLI has announced that Gerry Fowler has joined their Multi-Asset investing team as Investment Director for Idea Generation – no ratings changes are proposed. See page 36 for detail.
- There were no changes to any ratings over the quarter.

EXECUTIVE SUMMARY
MANAGER INFORMATION CONTINUED

Manager	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	Page
Signet	Fund of Hedge Funds	-	✗	✗	38
Stenham	Fund of Hedge Funds	-	✓	✓	39
Gottex	Fund of Hedge Funds	-	✗	✓	40
Schroder	UK Property	✓	✗	✓	42
Partners	Global Property	✓	✗	✗	43
RLAM	Bonds	✓	-	✓	44
Meets criteria	✓	A or B+ rating; achieved performance target			
Partially meets criteria	-	B, N or R rating; achieved benchmark return but not performance target			
Does not meet criteria	✗	C rating; did not achieve benchmark			

Page 171

Focus Points

- Partners' performance relative to benchmark is explained in more detail on page 43.
- There were no changes to any ratings over the quarter.

Page 172

SECTION 2
MARKET BACKGROUND

MARKET BACKGROUND
INDEX PERFORMANCE

Equity Market Review

Global equities were roughly flat, returning -0.2% in local currency terms. However, for unhedged sterling investors, the outcome was a negative return of -5%, driven by the sharp appreciation of sterling. Global small cap stocks, as measured by the FTSE World Small Cap Index, posted a local currency return of 1.3% with a corresponding fall of 4.4% in sterling terms, outperforming the broader market over the quarter.

Asia Pacific was the worst performing region, delivering a loss of 8% in sterling terms and 2.7% in local currency terms. European equities detracted by almost 6% in sterling terms (-3.8% in local currency), a fall that has mostly been attributed to investors' concern about Greece and potential spillovers. Compared to the other key regions, the Japanese market continued to deliver the highest returns over the year to date. In the second quarter it posted a return of 5.6% in yen terms (a 2.3% fall in sterling terms), against the backdrop of continued extraordinary monetary stimulus, government pension fund rebalancing into equities, and government's commitment to structural reforms.

In the UK, the FTSE All-Share index fell by 1.6% over the quarter, dragged down by the FTSE 100 index which fell by 2.8%. The underperformance of large cap stocks was offset by the FTSE 250 and FTSE Small Cap indices, which delivered positive total returns of 3.6% and 2.6%, respectively.

Bond Market Review

After reaching extremely low levels earlier this year, bond yields rose sharply across all maturities, resulting in negative returns for investors.

UK government bonds did not escape the global sell-off in the fixed income market. Nominal gilt yields jumped across all maturities during the second quarter, resulting in a return of -6.3% for Over 15 Year Gilts Index.

The real yield curve also shifted up, although by less than the nominal curve, resulting in a degree of normalisation of previously depressed breakeven inflation rates. Index-linked gilts posted a quarterly loss of 3.3%, as measured by the Over 5 Year Index-Linked Gilts index.

Total returns from global credit were -6.4% in the second quarter in sterling terms, with a moderate loss of 0.9% in local currency terms. Credit spreads rose slightly in the UK, resulting in a -3.9% total return on All Stocks UK corporate bonds.

Currency Market Review

The European Central Bank continued to inject money into the financial system, while the Bank of Japan remained dedicated to its Quantitative Easing program. This caused sterling to appreciate over the quarter against the yen and the euro by 8.1% and 2.1%, respectively. Sterling appreciated against the US dollar by 5.9%, fuelled by weaker than expected economic data in the US.

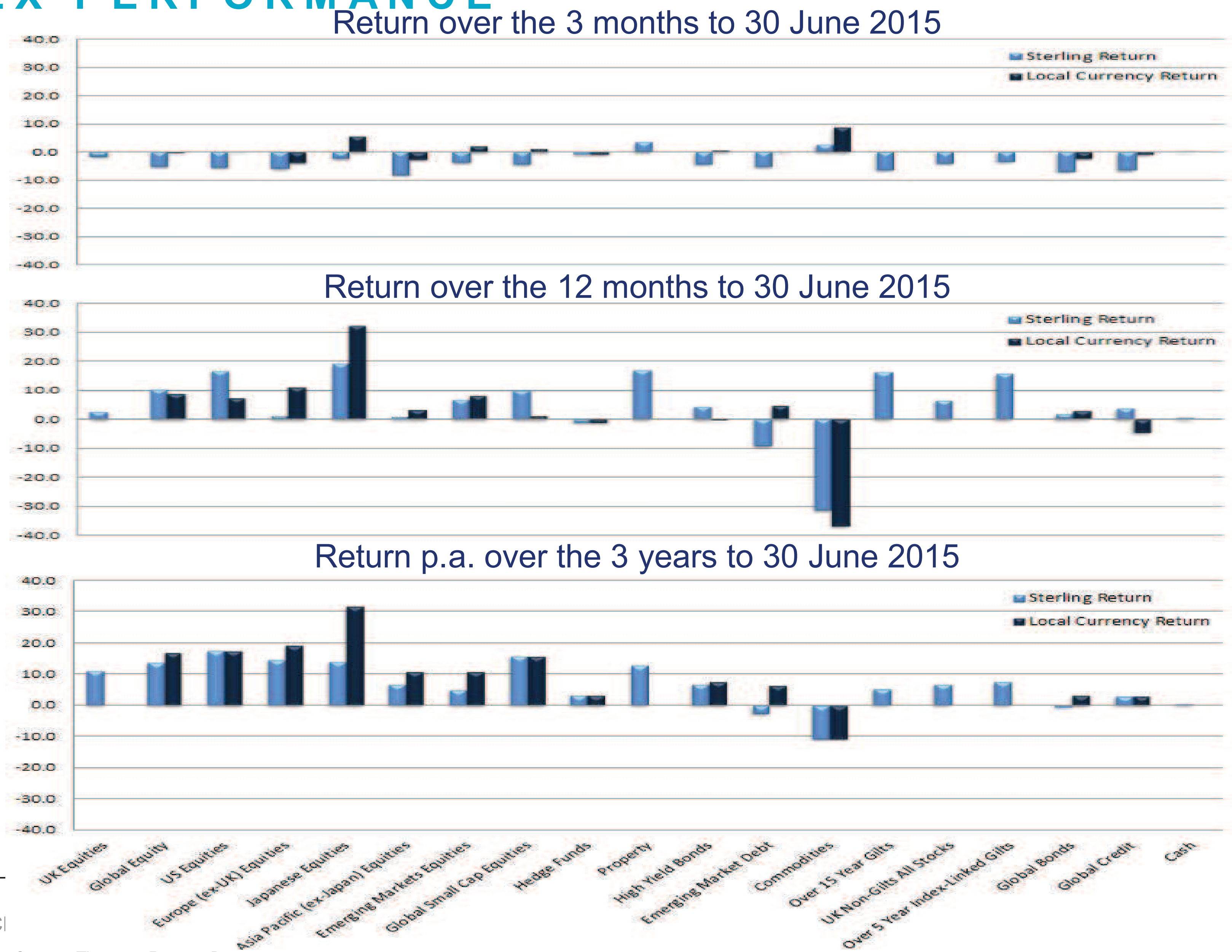
Commodity Market Review

The energy sector (followed by agriculture) led the quarter's rebound in commodities, which posted a return of 8.7%. Total returns from Industrial & Precious Metals returned -5.5% and -1.7% respectively.

Gold prices fell marginally during each of the three months in the second quarter. After a sharp sell-off in the second half of 2014 and early 2015, oil prices stabilised and traded around the $60 mark per barrel for most of the second quarter of this year.

Source: Thomson Reuters Datastream.

MARKET BACKGROUND
INDEX PERFORMANCE



Source: Thomson Reuters Datastream.

Page 174

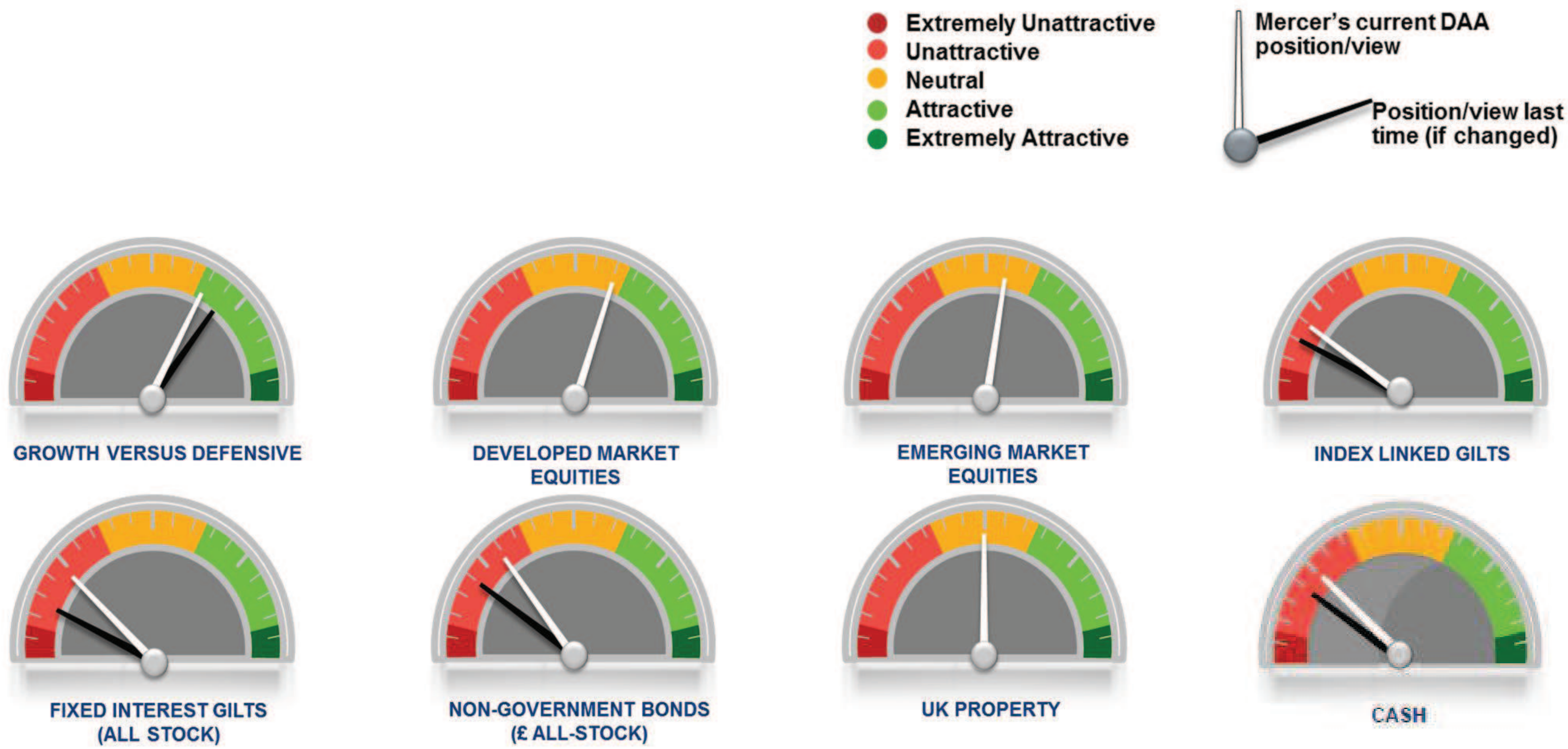
Page 175

SECTION 3
STRATEGIC ASSUMPTIONS

MARKET BACKGROUND
INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) **(FTSE All-World Developed)**	8.25	14.6	*Remains significantly ahead of the assumed strategic return.* *This has decreased from 15.4% p.a. last quarter as the latest quarter's return of -5.2% was lower than the -3.1% return of Q2 2012, which fell out of the 3 year return.*
Emerging Market Equities **(FTSE AW Emerging)**	8.75	5.0	*The 3-year return from emerging market equities has risen from 3.7% p.a. last quarter with the Q2 2012 performance (which dropped out of the index) being -7.3%, significantly lower than the Q2 2015 return. The 3 year return remains below the assumed strategic return as 2013 returns were affected by negative sentiment from slowing growth and the tapering of the US asset purchase programme.*
Diversified Growth	Libor + 4% / RPI + 5%	4.6 / 7.3	*DGFs are expected to produce an equity like return over the long term but with lower volatility – this is the basis for the Libor and RPI based benchmarks. Low cash rates means that the Libor based benchmark has significantly underperformed the inflation (RPI) based benchmark and the long term expected return from equity. During periods of very strong equity returns, such as the recent three year period, we would expect DGF to underperform equities.*
UK Gilts **(FTSE Actuaries Over 15 Year Gilts)**	4.5	5.3	*Bond returns remain above the long term strategic assumed return as yields remain depressed relative to historic averages. Returns have reduced compared to the previous quarter as a result of the rise in yields (and hence negative total returns) experienced in the last quarter.*
Index Linked Gilts **(FTSE Actuaries Over 5 Year Index-Linked Gilts)**	4.25	7.4	
UK Corporate Bonds **(BofAML Sterling Non Gilts)**	5.5	6.6	
Overseas Fixed Interest **(JP Morgan Global Government Bonds ex UK)**	5.5	-2.6	*Well behind the assumed strategic return and three-year performance has moved back into negative territory this quarter as result of the rise in global bond yields.*
Fund of Hedge Funds **(HFRX Global Hedge Fund Index)**	6.0	3.3	*Hedge fund returns remain below long term averages and the strategic return, as they are affected by low cash rates. Volatility remains low but recent returns have improved slightly given signs of volatility emerging.*
Property **(IPD UK Monthly)**	7.0	12.6	*Property returns continue to be above the expected returns, driven by the economic recovery in the US and the UK.*

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q3 2015



These charts summarise Mercer's views on the medium term outlook for returns from the key asset classes; by medium term we mean one to three years. These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect investors to make frequent tactical changes to their asset allocation based upon these views. These are also based from the view of an absolute return investor, and so do not take into account pension scheme liabilities.

SECTION 4
FUND VALUATIONS

FUND VALUATIONS
VALUATION BY ASSET CLASS

Asset Allocation									
Asset Class	**Start of Quarter (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**	**Target Strategic Benchmark (%)**	**Ranges (%)**			**Difference (%)**
Developed Market Equities	1,769,396	1,700,572	46.2	45.6	40.0	35	-	45	+5.6
Emerging Market Equities	351,961	333,534	9.2	8.9	10.0	5	-	15	-1.1
Diversified Growth Funds	368,177	362,564	9.6	9.7	10.0	5	-	15	-0.3
Fund of Hedge Funds	162,792	162,952	4.3	4.4	5.0	0	-	7.5	-0.6
Property	306,177	314,626	8.0	8.4	10.0	5	-	15	-1.6
Infrastructure	-	-	-	-	5.0	0	-	7.5	-5.0
Bonds	798,547	759,781	20.9	20.4	20.0	15	-	35	+0.4
Cash (including currency instruments)	71,606	96,070	1.9	2.6	-	0	-	5	+2.6
Total	**3,828,656**	**3,730,099**	**100.0**	**100.0**	**100.0**				**0.0**

Source: WM Performance Services, Mercer. Green numbers indicate the allocation is within tolerance ranges, whilst red numbers indicate the allocation is outside of tolerance ranges.

Invested assets decreased over the quarter by £98m due to negative returns across many major asset classes. Developed equities remain overweight relative to benchmark, although this overweight position reduced slightly over the quarter. This will be used to fund draw downs for the infrastructure allocation over the coming year.

FUND VALUATIONS
VALUATION BY MANAGER

Manager Allocation						
Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
BlackRock	Passive Multi-Asset	1,216,557	-	1,155,704	31.8	31.0
Jupiter	UK Equities	175,562	-	178,108	4.6	4.8
TT International	UK Equities	194,929	-	198,482	5.1	5.3
Schroder	Global Equities	256,314	-	242,720	6.7	6.5
Genesis	Emerging Market Equities	160,236	-	152,092	4.2	4.1
Unigestion	Emerging Market Equities	191,725	-	181,442	5.0	4.9
Invesco	Global ex-UK Equities	291,423	-	273,939	7.6	7.3
SSgA	Europe ex UK & Pacific inc. Japan Equities	124,517	-	118,061	3.3	3.2
Record Currency Management	Overseas Equities (to fund currency hedge)	20,608	-	34,093	0.5	0.9
Pyrford	DGF	124,700	-	121,530	3.3	3.3

Source: WM Services, Avon. Totals may not sum due to rounding.

FUND VALUATIONS
VALUATION BY MANAGER

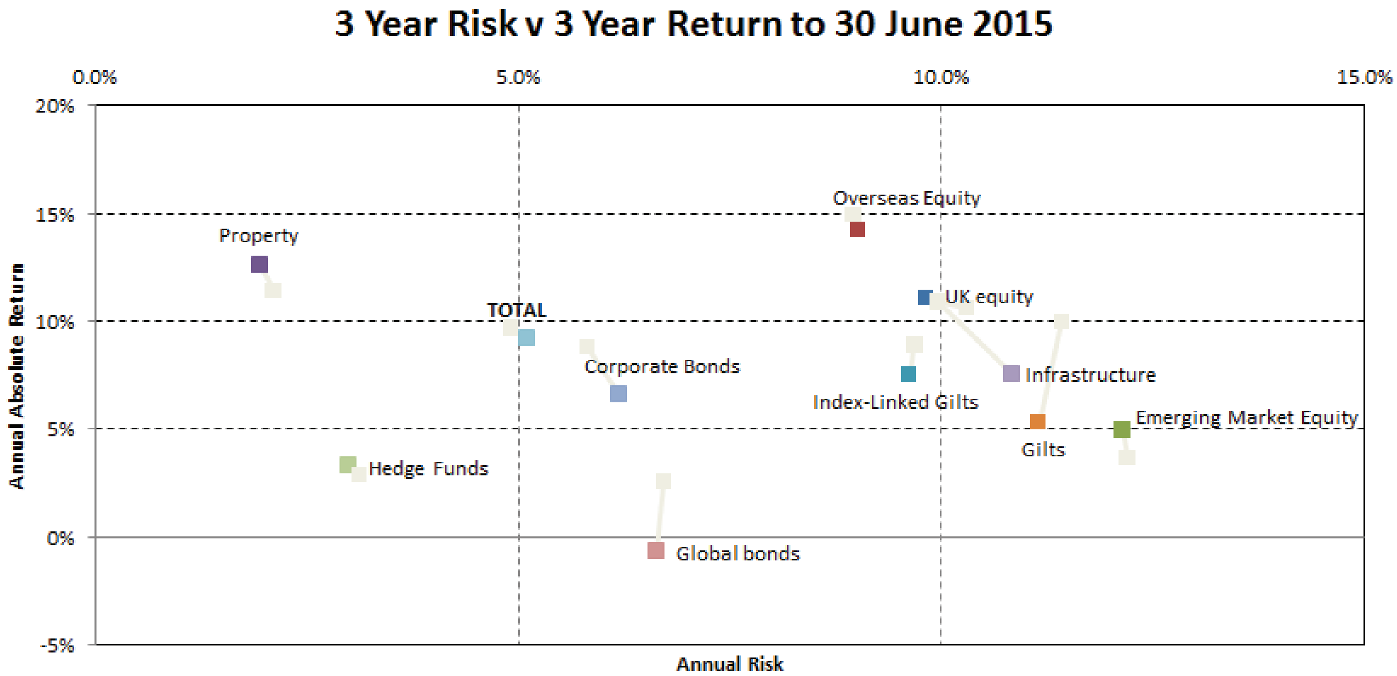
Manager Allocation						
Manager	**Asset Class**	**Start of Quarter (£'000)**	**Cashflows (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**
Standard Life	DGF	243,477	-	241,035	6.4	6.5
MAN	Fund of Hedge Funds	549	-	549	0.0	0.0
Signet	Fund of Hedge Funds	63,441	-	63,153	1.7	1.7
Stenham	Fund of Hedge Funds	39,661	-	39,745	1.0	1.1
Gottex	Fund of Hedge Funds	59,141	-	59,505	1.5	1.6
Schroder	UK Property	177,723	-	183,792	4.6	4.9
Partners	Property	136,985	-	140,391	3.6	3.8
RLAM	Bonds	308,883	-	298,655	8.1	8.0
Internal Cash	Cash	42,224	-*	47,103	1.1	1.3
Total		**3,828,656**	**-***	**3,730,099**	**100.0**	**100.0**

Source: WM Services, Avon. Totals may not sum due to rounding.
* Income payments into the Fund are not included as cashflows.

SECTION 5
PERFORMANCE SUMMARY

MANAGER MONITORING
RISK RETURN ANALYSIS

Page 183

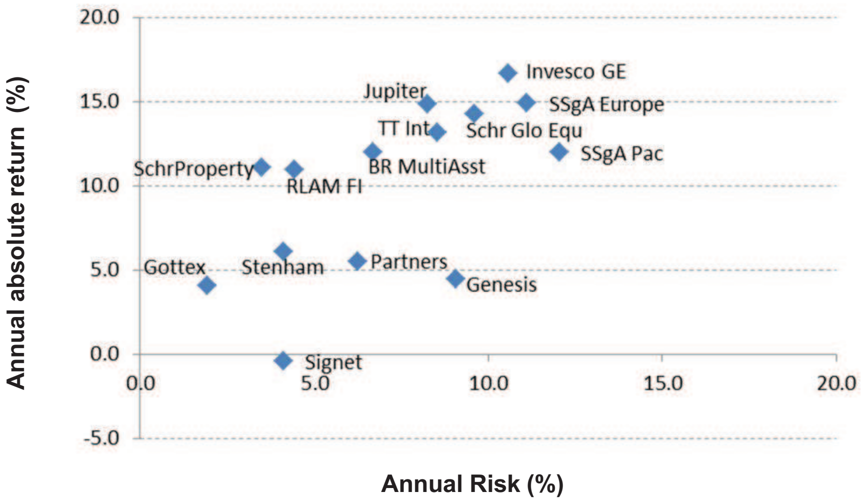


This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of June 2015, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark indices and allocations from WM Services). We also show the positions as at last quarter, in grey.

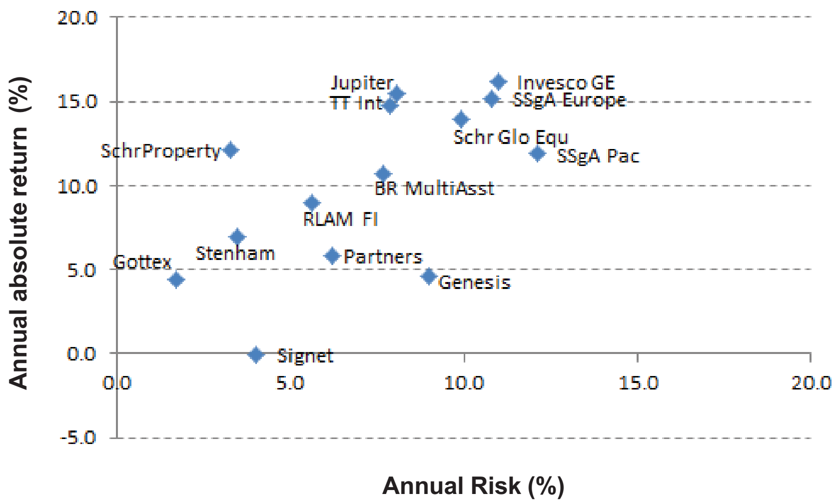
Comments

- *The most significant movement seen over the quarter was Fixed Interest Gilts, which saw a significant decrease in three-year trailing return given the rise in yields experienced over the quarter (with similar movements seen for index-linked gilts and corporate bonds).*
- *Sterling returns for infrastructure also fell, as a result of negative returns experienced in June 2015.*

3 year Risk vs 3 year Return to 31 March 2015



3 year Risk vs 3 year Return to 30 June 2015



Comments

In general there was not a significant change in the three year risk and return profile of the funds over the quarter, although the absolute returns for both Jupiter and TT rose in light of positive returns in Q2 2015 (while volatility also rose).

MANAGER MONITORING

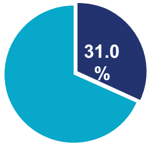
MANAGER PERFORMANCE – RELATIVE RETURNS TO BENCHMARK (TO 30 JUNE 2015)

Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)	3 year versus performance target
BlackRock Multi - Asset	0.0	-0.1	0.1	Target met
Jupiter	2.9	5.7	4.6	Target met
TT International	3.4	5.5	3.8	Target met
Schroder Equity	-0.3	-0.1	0.3	Target not met
Genesis	0.1	-3.6	0.6	Target met
Unigestion	-0.7	0.5	NA	NA
Invesco	-0.5	0.6	1.3	Target met
SSgA Europe	0.1	0.4	0.6	Target met
SsgA Pacific	0.2	1.4	1.4	Target met
Pyrford	-4.5	-2.9	NA	NA
Standard Life	-2.3	NA	NA	NA
Signet	-2.0	-9.4	-3.8	Target not met
Stenham	-0.8	0.8	3.2	Target met
Gottex	-0.3	-2.1	0.6	Target met
Schroder Property	0.1	-0.3	1.5	Target met
Partners Property	-1.8	-13.4	-3.5	Target not met
RLAM	0.6	0.4	2.6	Target met
Internal Cash	0.0	0.0	0.1	NA

Source: WM Services, Avon.
Returns in blue text exceeded their respective benchmarks, those in red underperformed, and black text shows performance in line with benchmark.

Page 186

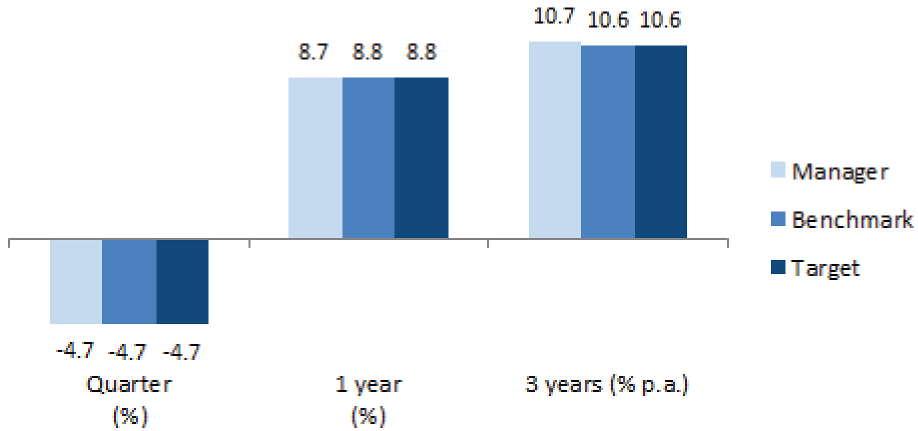
SECTION 6
MANAGER PERFORMANCE



BLACKROCK – PASSIVE MULTI-ASSET (POOLED EQUITIES, SEGREGATED BONDS)
£1,155.7M END VALUE (£1,216.6M START VALUE)

Item Monitored	Outcome	
Mercer Rating	●	Preferred Provider (no change over period under review)
Performance Objective *In line with the benchmark*	●	Outperformed benchmark by 0.1% p.a. over three years

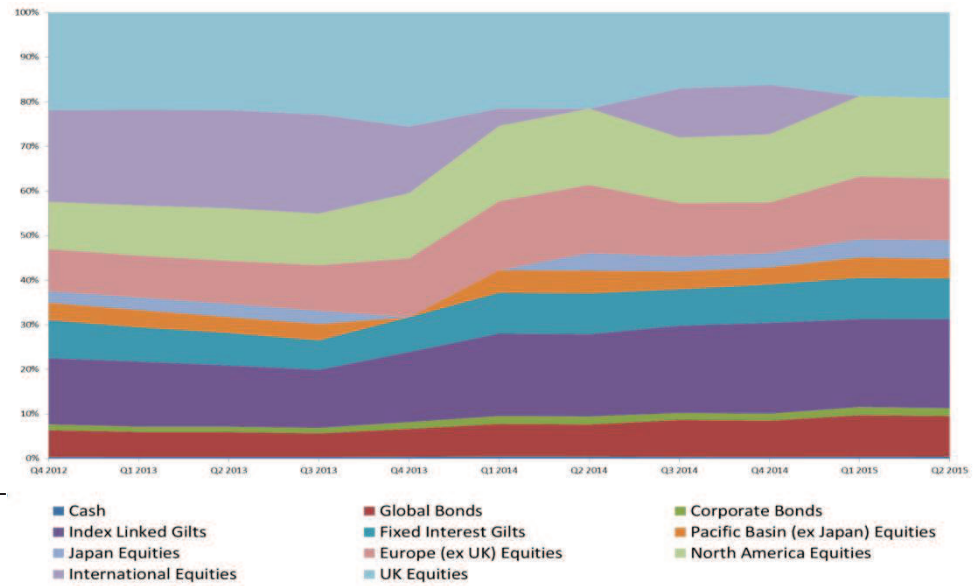
Performance



Manager Research and Developments

- Returns have been in line with benchmark over the quarter, as expected for a passive mandate with a benchmark based on monthly mean fund weights.
- The exposure to the international equity fund was sold down by mid 2014 in order to fund the emerging market equity allocation managed by Unigestion (see page 30), but then subsequently increased with the proceeds of the disinvestment from Barings (and since sold down again to fund the investment in Standard Life GARS – see page 36).
- Current holdings in UK and overseas government bonds are approximately £461m, or 12% of the total Fund – these assets could be used as part of any liability risk management framework.

Asset Allocation

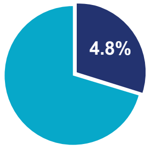


Reason for investment

To provide asset growth as part of diversified portfolio

Reason for manager

- To provide low cost market exposure across multi asset classes
- Provide efficient way for rebalancing between bonds and equities within a single portfolio



JUPITER ASSET MANAGEMENT – UK EQUITIES (SRI) (SEGREGATED)

£178.1M END VALUE *(£175.6M START VALUE)*

Item Monitored		Outcome
Mercer Rating	●	B (no change over period under review)
Performance Objective *Benchmark +2% p.a.*	●	Outperformed benchmark by 4.6% p.a. over three years
Tracking error was 3.5% p.a. (Q1: 3.6%) – *source: Jupiter*		Number of stocks: 58

Manager Research and Developments

- A significant contributor to the portfolio was Shell's approach to acquire BG as the Fund held a 2.6% in BG (relative to 1.3% in the benchmark), which performed strongly on the news, contributing +0.3% to total performance. The portfolio also benefited from having no holdings in Shell, which saw a fall in share price as a result of the news.
- Another major contributor to performance was the UK general election result, with positive returns coming from Cranswick (UK food producer), Microfocus (US IT firm) and WS Atkins (UK engineering firm).
- The fund's natural overweight to mid and smaller cap stocks was of an overall benefit to performance.
- Cash holdings remain relatively high at 5.6%.
- Tracking error remains reasonably high as a result of the fund's concentration and divergence from the index (in particular, its underweight position to large cap stocks and overweight holdings in mid cap).

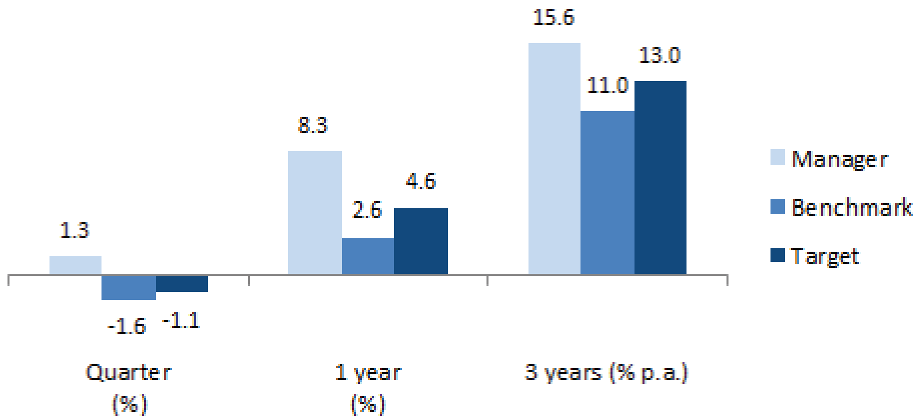
Reason for investment

To provide asset growth as part of diversified equity portfolio

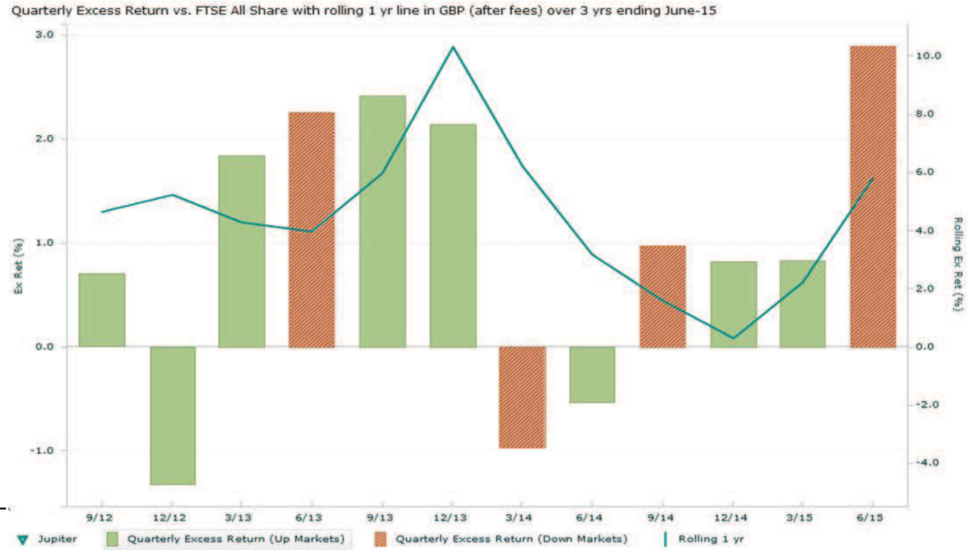
Reason for manager

- Clear and robust approach to evaluating SRI factors within the investment process
- Dedicated team of SRI analysts to research SRI issues and lead engagement and voting activities
- Corporate commitment to SRI investment approach within a more mainstream investment team

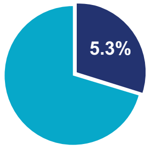
Performance



Rolling relative returns



Page 188



TT INTERNATIONAL – UK EQUITIES (UNCONSTRAINED) (SEGREGATED)
£198.5M END VALUE (£194.9M START VALUE)

Item Monitored		Outcome
Mercer Rating	● (orange)	B (no change over period under review)
Performance Objective *Benchmark +3-4% p.a.*	● (green)	Outperformed benchmark by 3.8% p.a. over three years
Historic tracking error was 3.8% p.a. (Source: Mercer)		Number of stocks: 53

Manager Research and Developments

- TT significantly outperformed their benchmark by 3.4% over the quarter, and 5.5% over the year to 30 June 2015.
- This outperformance over the quarter was largely due to strong stock selection in the Industrials, Health Care, Financials and Consumer Services sectors (adding 2.8% to returns in total)
- In terms of sector positioning, the fund gained from being underweight Basic Materials and overweight Telecoms. It also benefited from a higher than normal cash holding (at 5%) in a time of falling markets.
- Turnover decreased significantly from 44.7% in Q1 to 28.9% in Q2 2015 (although Q1 was higher than typical) while the three year tracking error (a proxy for risk relative to benchmark) rose from 3.5% to 3.8%.
- Three-year information ratios have increased over the quarter, as a result of the positive returns achieved.
- Assets under management in TT's UK equity strategies increased slightly over the quarter given the positive performance to c. £506m (compared to £496m in March 2015, £472m in June 2014 and £558m in June 2012). This is still a significant decrease over the three year period and should be kept under review.

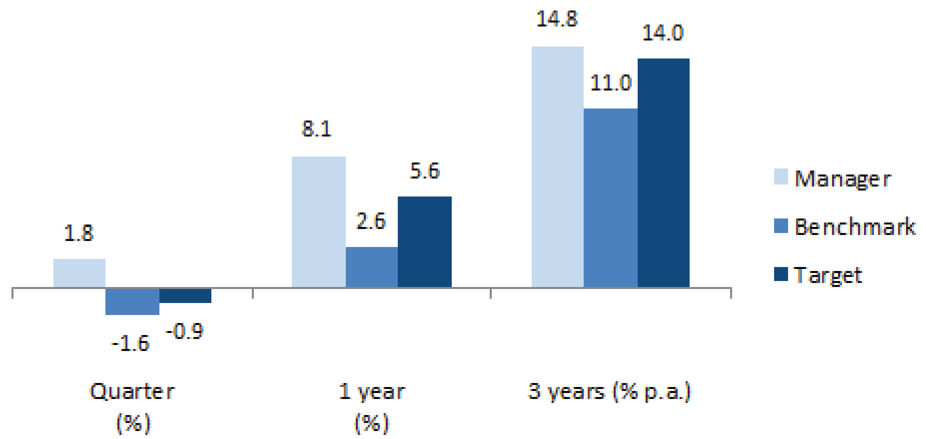
Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

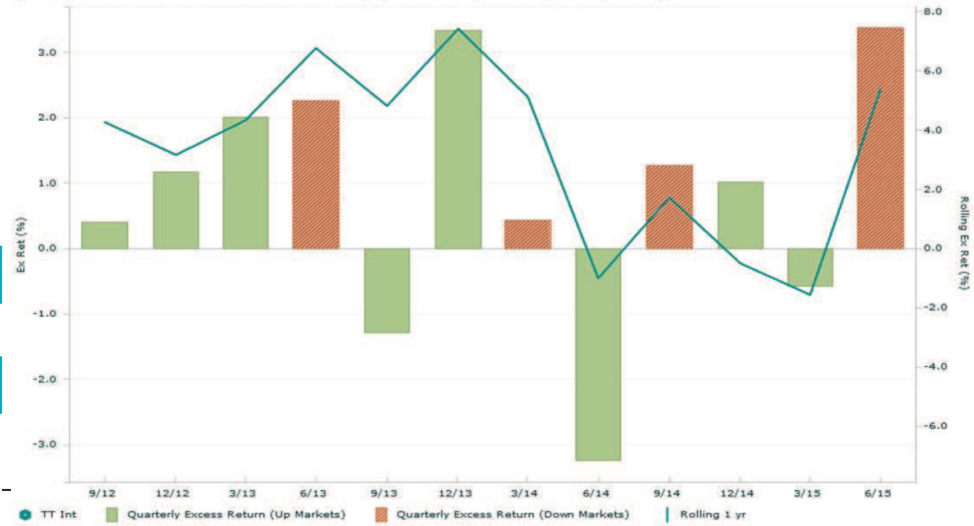
- Favoured the partnership structure that aligns manager's and Fund's interests
- Focussed investment activity and manages its capacity
- Clear, robust stock selection and portfolio construction

Performance

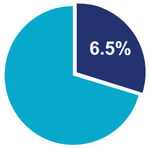


Rolling relative returns

Quarterly Excess Return vs. FTSE All Share with rolling 1 yr line in GBP (after fees) over 3 yrs ending June-15



Page 189



SCHRODER – GLOBAL EQUITY PORTFOLIO (SEGREGATED)
£242.7M END VALUE *(£256.3M START VALUE)*

Item Monitored	Outcome	
Mercer Rating	●	B+ (no change over period under review)
Performance Objective *Benchmark +4% p.a.*	●	Outperformed benchmark by 0.3% p.a. over three years, but lagged target

Historic tracking error was 1.9% p.a. (Source: Mercer)

Manager Research and Developments

- The fund underperformed the benchmark over the quarter, largely through stock selection in healthcare and consumer discretionary, although there were gains from stock selection in financials and consumer staples.
- Looking on a region by region basis, stock selection in Europe detracted from performance whilst holdings in North America and Pacific (ex Japan) also hurt relative returns. The fund gained from stock selection in the emerging markets and the UK.
- The largest detractor over the quarter was Japanese pharmaceutical company Astellas, as shares fell on the release of worse than expected Q1 earnings. This position has since been liquidated.
- Schroder's active share (the percentage of stock holdings in a manager's portfolio that differ from the benchmark index) remains high at around 89%.

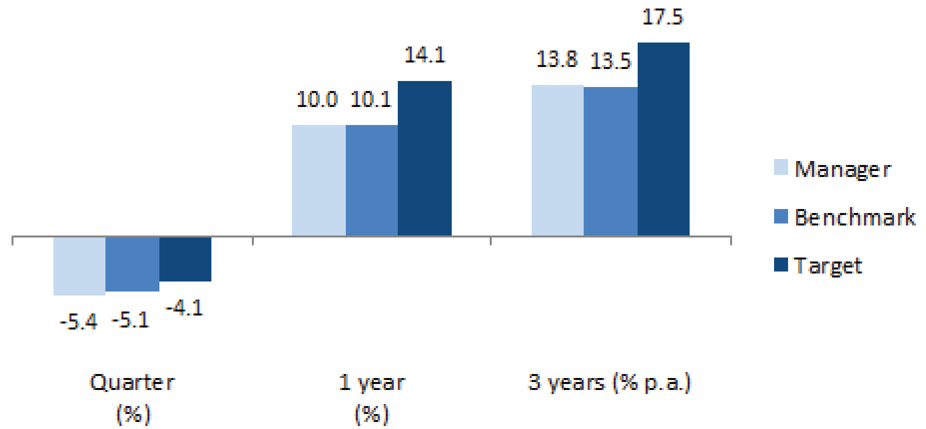
Reason for investment

To provide asset growth as part of diversified equity portfolio

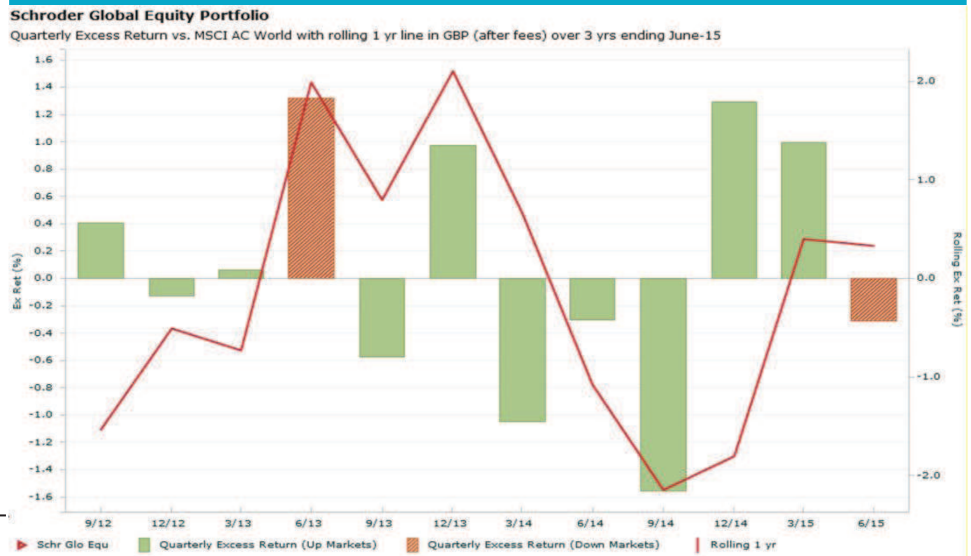
Reason for manager

- Clear philosophy and approach
- Long term philosophy aligned with Fund's goals, commitment to incorporating ESG principles throughout the investment process
- Evidence of ability to achieve the Fund's performance target

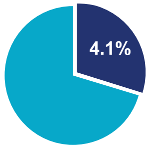
Performance



Rolling relative returns



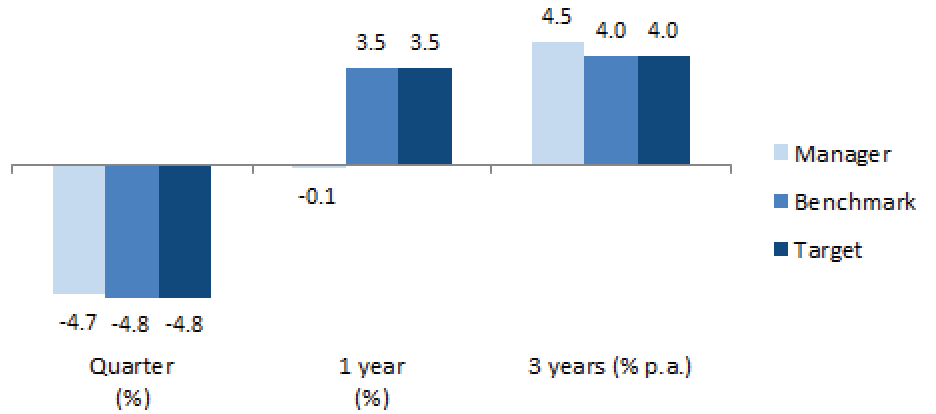
Page 190



GENESIS ASSET MANAGERS – EMERGING MARKET EQUITIES (POOLED)
£152.1M END VALUE (£160.2M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	A (no change over period under review)
Performance Objective *Benchmark*	●	Outperformed benchmark by 0.6% p.a. over three years
Three year tracking error was 3.5% p.a. (Q1: 3.3%) – *source: Genesis*		Number of stocks: 158

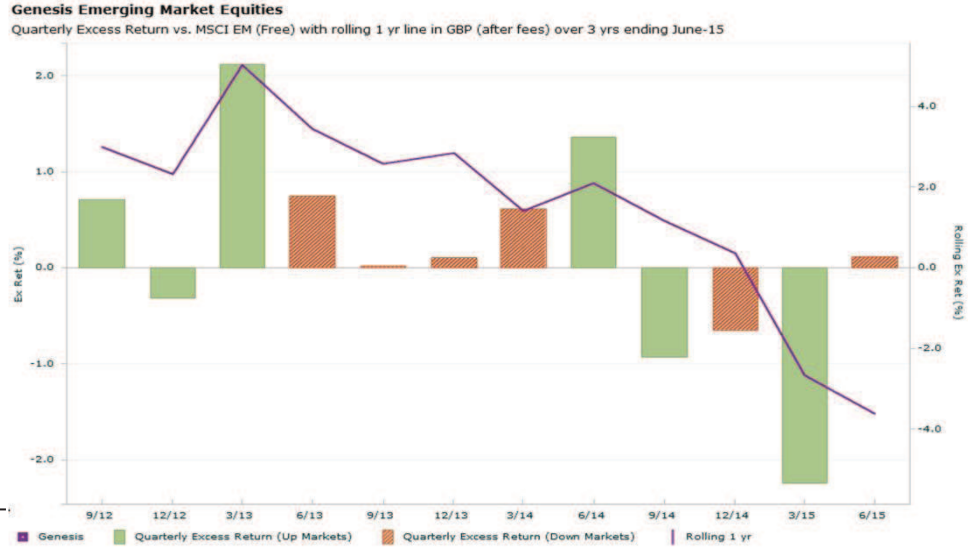
Performance



Manager Research and Developments

- The fund slightly outperformed its benchmark by 0.1% over the quarter. Relative to the index, the portfolio benefited from underweight positions in the weak Indonesian and South Korean markets. On the other hand, losses were incurred from India, Thailand and Brazil. Value was also added from stock selection in China, but the underweighting in this country held back the portfolio.
- The biggest contributor was Novatek (Russia) whilst the biggest detractor was Sun Pharmaceutical (India). Turnover over the quarter was 25%, approximately half of which related to trading in Chinese equities given volatility in that market.
- The portfolio one-year returns are 3.6% below benchmark, although three year returns are still ahead of target. Some short-term volatility relative to benchmark is to be expected given their long-term approach of identifying under-priced companies and investing with a five year time horizon.
- After meeting with Genesis in May 2015, we decided to maintain the A rating for this strategy, as we retain our confidence in the team's ability to continue to generate value adding ideas that they can hold for the long term.

Rolling relative returns



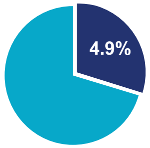
Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

- Long term investment approach which takes advantage of evolving growth opportunities
- Niche and focussed expertise in emerging markets
- Partnership structure aligned to delivering performance rather than growing assets under management

Page 191



UNIGESTION – EMERGING MARKET EQUITIES
(POOLED – SUB-FUND)
£181.4M END VALUE *(£191.7M START VALUE)*

Item Monitored		Outcome
Mercer Rating	●	R (no change over period under review)
Performance Objective *Benchmark +2-4% p.a.*	●	Outperformed benchmark by 0.5% over the year but lagged target
Historic tracking error since inception was 4.3% p.a. (Source: Unigestion)		Number of stocks: 87

Manager Research and Developments

- The Fund underperformed by 0.7% over the quarter, but performance over the year to 30 June 2015 is 0.5% p.a. ahead of benchmark (albeit lagging target).
- This underperformance largely occurred in April, where the fund returned 2.2% against a benchmark return of 4.0%, as a result of the underperformance of defensive stocks in “risk on” markets; some of this underperformance was recovered in May as markets fell but Unigestion’s defensive positioning provided some protection.
- Volatility since inception is 11.4%, lower than the index (at 13.2%) and consistent with their objectives (and the strategy’s bias towards quality and large- or mega-cap stocks).

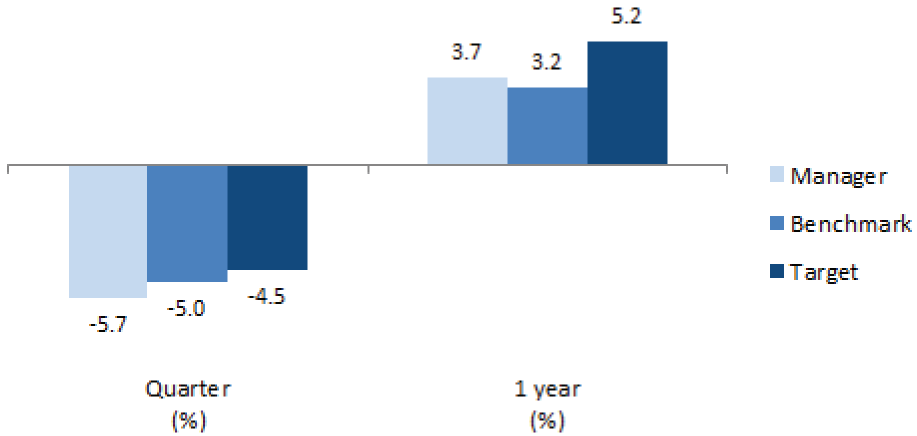
Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

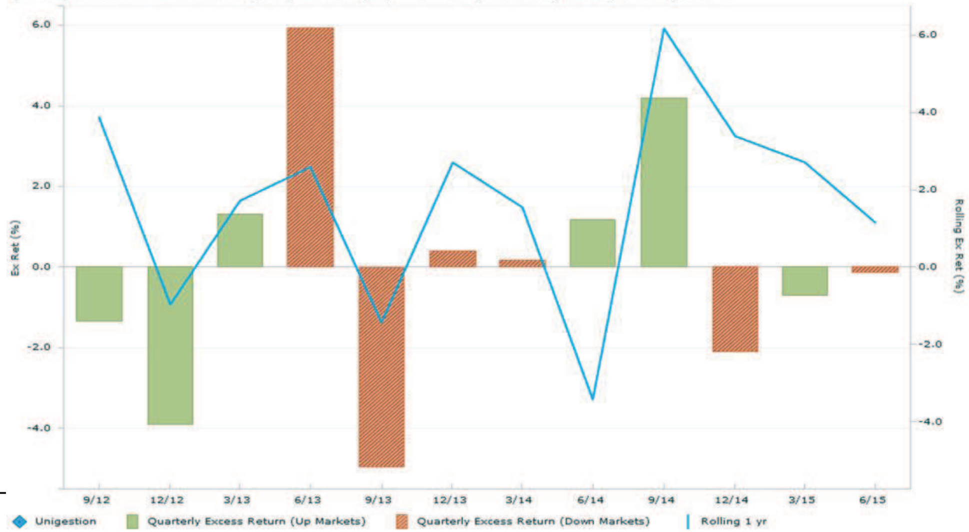
- Risk-based active management approach
- Aim for lower volatility than the MSCI Emerging Markets Index
- Combine fundamental and quantitative analysis

Performance

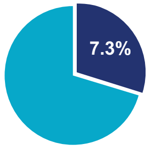


Rolling relative returns

Quarterly Excess Return vs. MSCI EM (Free) with rolling 1 yr line in GBP (before fees) over 3 yrs ending June-15



Note: Chart is pooled fund performance, gross of fees

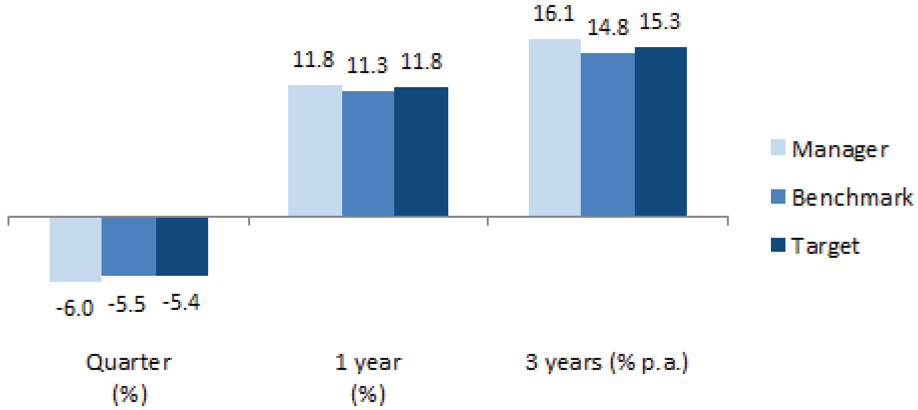


INVESCO – GLOBAL EX-UK EQUITIES (ENHANCED INDEXATION) (POOLED)

£273.9M END VALUE (£291.4M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	B+ (no change over period under review)
Performance Objective *Benchmark +0.5% p.a.*	●	Outperformed benchmark by 1.3% p.a. over three years
Tracking error since inception was 1.4% p.a. – *source: Invesco*		Number of stocks: 407 (up from 392)

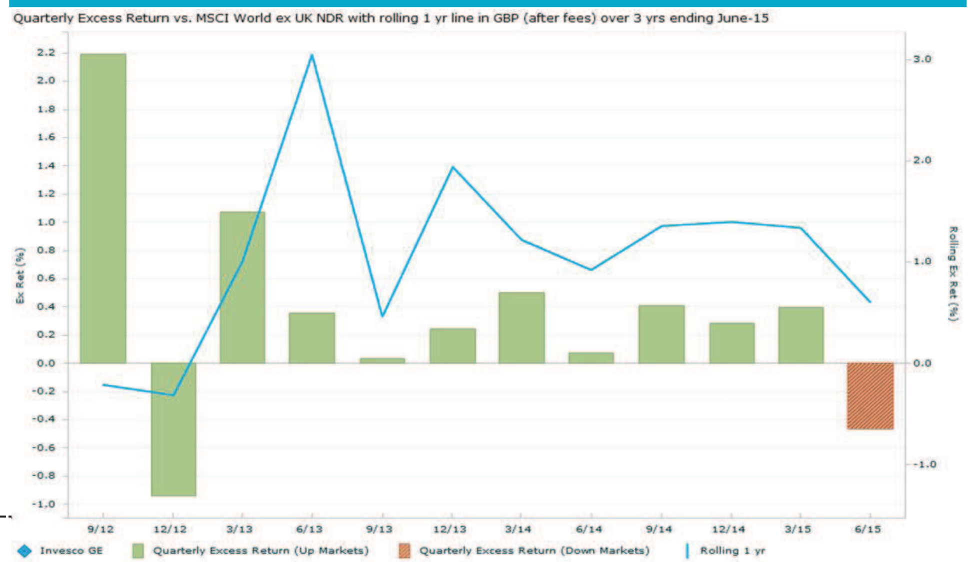
Performance



Manager Research and Developments

- The fund underperformed its benchmark by 0.5% over the last quarter (source: WM), and is ahead of its outperformance target over 3 years. Beta remains near to one, as expected.
- The outperformance over the quarter was generated through stock selection, helped by their overweight position in financials but offset slightly by underweight holdings in energy.
- The sector and country allocations were broadly in line with the benchmark. All industry and country allocations were within +/- 1.1% of benchmark weightings, in line with general expectations for an enhanced indexation product.

Rolling relative returns



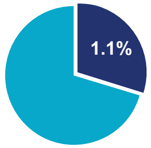
Note: MSCI World NDR ex UK index not currently available.

Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

- Robust investment process supported by historical performance record, providing a high level of assurance that the process could generate the outperformance target on a consistent basis
- One of few to offer a Global ex UK pooled fund



SSGA – EUROPE EX-UK EQUITIES (ENHANCED INDEXATION) (POOLED)
£41.5M END VALUE (£44.3M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	R (no change over period under review)
Performance Objective *Benchmark +0.5% p.a.*	●	Outperformed benchmark by 0.6% p.a. over three years
Historic tracking error was 0.8% p.a. (Source: Mercer)		Number of stocks: 210

Manager Research and Developments

- The Fund's return has met its performance target over 3 years.
- The total pooled fund size on 30 June 2015 was £41.6m. This means that the Fund is practically the only investor, although the Panel has previously concluded that the Fund could be sustained even if the Avon Pension Fund was the only investor.
- The fund holds 210 out of 383 stocks in the index, around 54%, within the expected range of 35-65%. Beta over three years is as expected at around 1.01%.

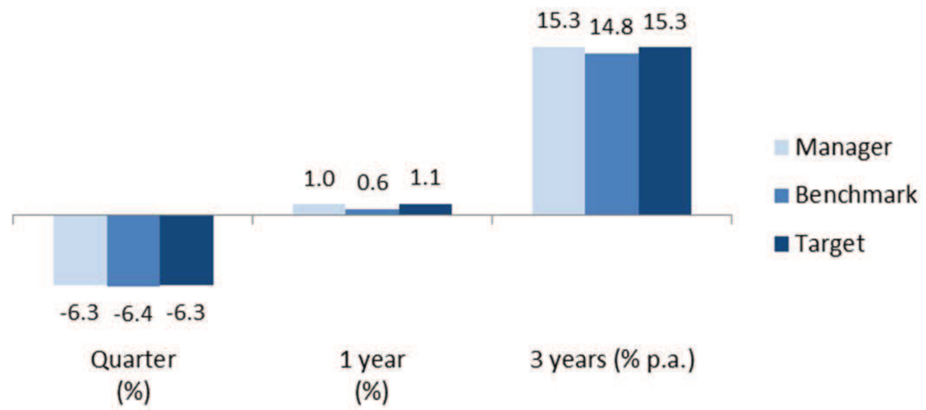
Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

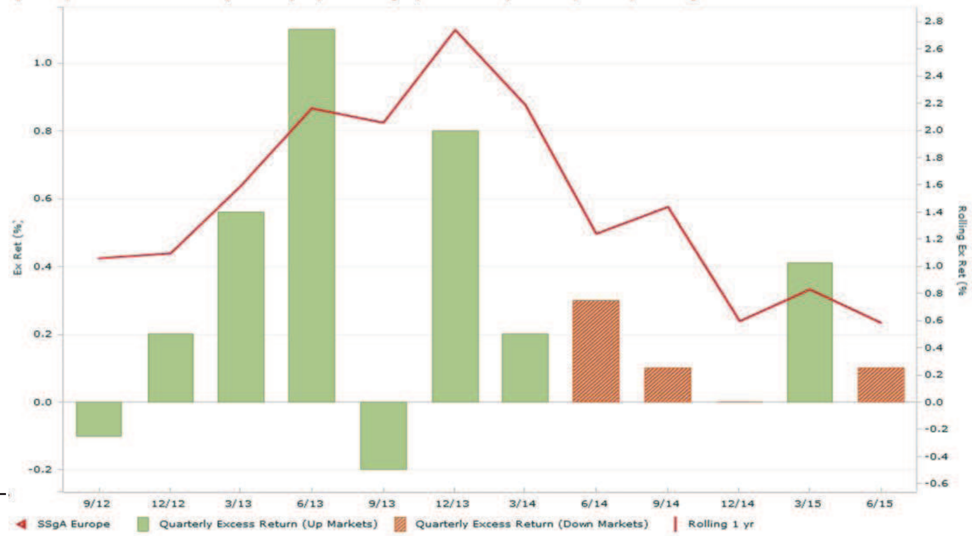
- Strength of their quantitative model and process, and ongoing research to develop the model
- Historic performance met the risk return parameters the Fund was seeking
- Two Funds (European and Pacific) to achieve the Fund's customised asset allocation within overseas equities

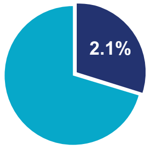
Performance



Rolling relative returns

Quarterly Excess Return vs. Europe ex UK (WM) with rolling 1 yr line in GBP (after fees) over 3 yrs ending June-15





SSGA – PACIFIC INCL. JAPAN EQUITIES (ENHANCED INDEXATION) (POOLED)
£76.5M END VALUE (£80.3M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	N (no change over period under review)
Performance Objective *Benchmark +0.5% p.a.*	●	Outperformed benchmark by 1.4% p.a. over three years
Historic tracking error was 0.8% p.a. (Source: Mercer)		Number of stocks: 410

Manager Research and Developments

- The Fund's return has met its performance target over 3 years.
- The total pooled fund size on 30 June 2015 was £76.6m. As with the European fund, the conclusion has been that the Fund could be sustained even with the Avon Pension Fund as the only investor.
- As with the European fund, Beta is around 1.0 (i.e. broadly in line with a market cap approach).

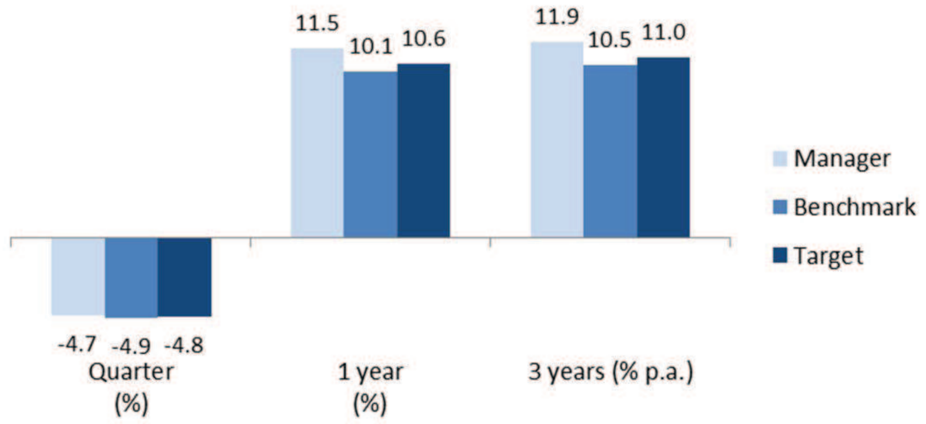
Reason for investment

To provide asset growth as part of diversified equity portfolio

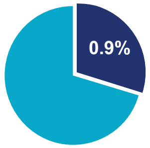
Reason for manager

- Strength of their quantitative model and process, and ongoing research to develop the model
- Historic performance met the risk return parameters the Fund was seeking
- Two Funds (European and Pacific) to achieve the Fund's customised asset allocation within overseas equities

Performance



Rolling relative returns



RECORD – ACTIVE CURRENCY HEDGING (SEGREGATED) £34.1M END VALUE (£20.6M START VALUE)

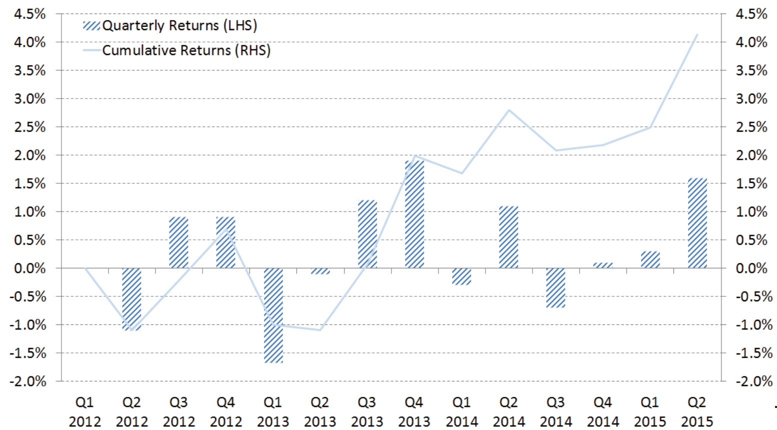
Item Monitored		Outcome
Mercer Rating	●	N (no change over period under review)
Performance Objective *N/A*	●	Outperformed a 50% passive hedge by 0.1% p.a. over three years

Manager Research and Developments

Over the quarter, the US dollar, the euro and the yen all weakened relative to sterling.

A 50% hedge on each currency would have had an overall positive return as some of the depreciation of the three currencies would have been protected against. Record maintained a higher hedge ratio against the euro and yen, which helped relative performance. However their low dollar hedge ratio (which started the quarter at 0%) more than counteracted this and so they underperformed the 50% hedge in aggregate (as the dollar exposure makes up the majority of the portfolio – see right).

Hedging Return



Performance (Total Hedging Portfolio)

	3 months (%)	1 year (%)	3 years (% p.a.)
Record Hedge	1.57	1.28	1.73
50% Illustrative Hedge	2.66	-0.44	1.60
Relative	**-1.09**	**+1.72**	**+0.13**

Currency Hedging 3 Month Performance (£ terms)

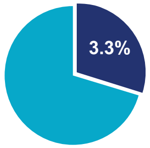
Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Hedge Return (%)	Record Hedge Return (%)	Net Return (%)
USD	559,047,385	512,547,836	(5.61%)	2.88%	0.54%	(5.03%)
EUR	207,358,854	200,472,608	(2.07%)	1.13%	1.52%	(0.55%)
JPY	147,838,770	144,091,744	(7.49%)	3.98%	5.45%	(2.31%)
Total	**914,245,009**	**857,112,188**	**(5.10%)**	**2.66%**	**1.57%**	**(3.57%)**

Reason for investment

To manage the volatility arising from overseas currency exposure, whilst attempting to minimise negative cashflows that can arise from currency hedging

Reason for manager

- Straightforward technical (i.e. based on price information) process
- Does not reply on human intervention
- Strong IT infrastructure and currency specialists



PYRFORD – DGF (POOLED)
£121.5M END VALUE (£124.7M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	R (no change over period under review)
Performance Objective *RPI +5% p.a.*	●	Underperformed benchmark by 2.9% p.a. over one year

Manager Research and Developments

- The fund has underperformed the benchmark over the quarter and year by 4.4% and 2.9% respectively.
- The asset allocation of the fund remained nearly unchanged over the quarter at 29% equities, 67% bonds and 4% cash.
- Performance in Q2 was disappointing, with a return of -2.5% as both equities and bonds produced negative returns.
- Pyrford continues to adopt a defensive stance by owning short duration securities in order to protect the capital value of the portfolio from expected rises in yields. At the end of the quarter the modified duration of the fixed income portfolio was c2 years.
- Bruce Campbell, the founder and Investment Chairman of Pyrford, has decided to retire after 28 years with the firm. His responsibilities as Chairman of Investment Strategy Committee (ISC) will be assumed by Tony Cousins, CIO and CEO of Pyrford International. Campbell will remain closely involved with Pyrford as Strategic Investment Advisor and a member of Investment Strategy Committee. Campbell's influence on decisions had undoubtedly reduced and we believe he will remain involved in the new role. This change does not, in our view, significantly negatively impact the Pyrford strategies.

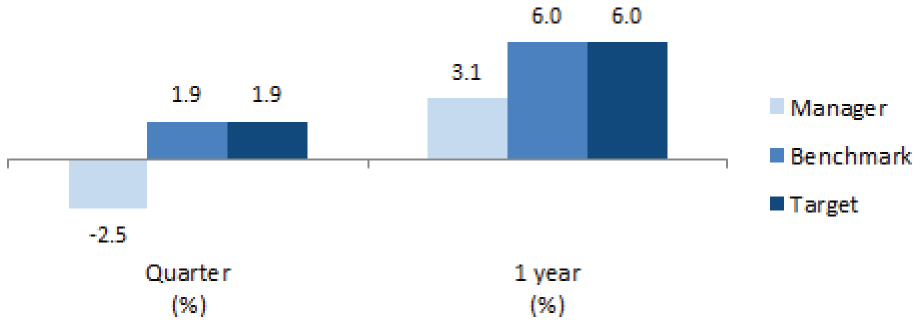
Reason for investment

To provide equity like return over the long term but with a lower level of volatility

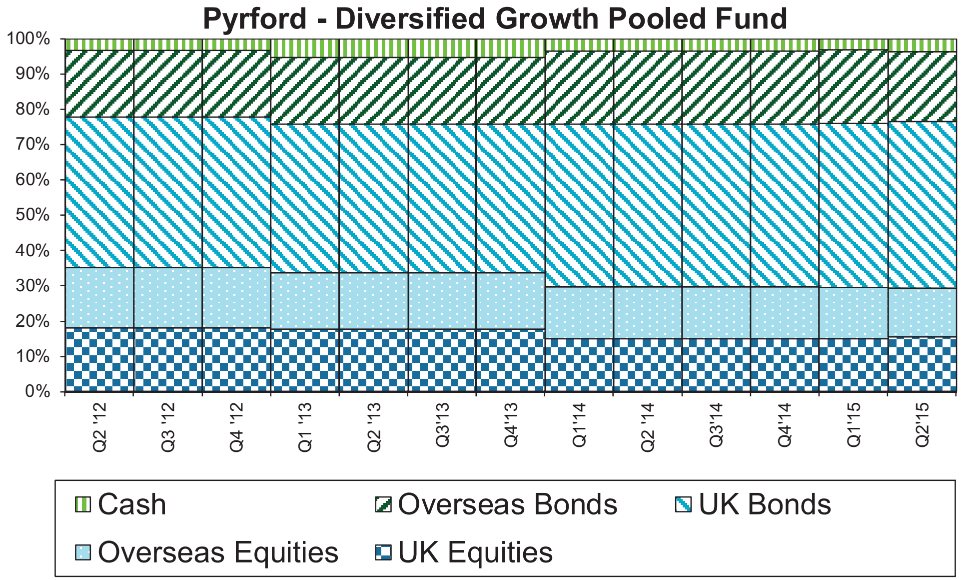
Reason for manager

- Asset allocation skill between equities, bonds and cash
- Fundamental approach to stock selection

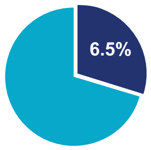
Performance



Asset Allocation



Annual data prior to Q1 2015.



STANDARD LIFE – DGF (POOLED)
£241.0M END VALUE (£243.5M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	B+ (no change over period under review)
Performance Objective *Cash +5% p.a.*	●	Underperformed benchmark by 2.3% p.a. over the quarter
	●	Outperformed benchmark since inception by 0.6% (0.9% vs 0.3%)

Manager Research and Developments

- Over the quarter the Fund returned -1.0% against a benchmark of 1.3%, benefiting from a short exposure to US duration (offset by other directional and relative value trades).
- The charts to the right (and overleaf) provide analysis of the performance of the pooled fund (net of fees) over the three years to 30 June 2015, illustrating that while returns have slightly lagged the median DGF manager, the risk taken to produce these returns has been significantly lower and as a result risk adjusted returns are attractive.
- David Nish will be stepping down from the role of Chief Executive of Standard Life Group. Keith Skeoch, currently Chief Executive of SLI will succeed Nish. Given that Skeoch is retaining his role as Chief Executive of SLI for the time being, we are not proposing any rating changes as a result of this news. However, we do intend to discuss this development at future research meetings with SLI.
- SLI has announced that Gerry Fowler has joined their Multi-Asset investing team as Investment Director for Idea Generation. Fowler, who has 14 years' experience, was previously Global Head of Equity and Derivatives strategy with BNP Paribas

Reason for investment

To provide equity like return over the long term but with a lower level of volatility

Reason for manager

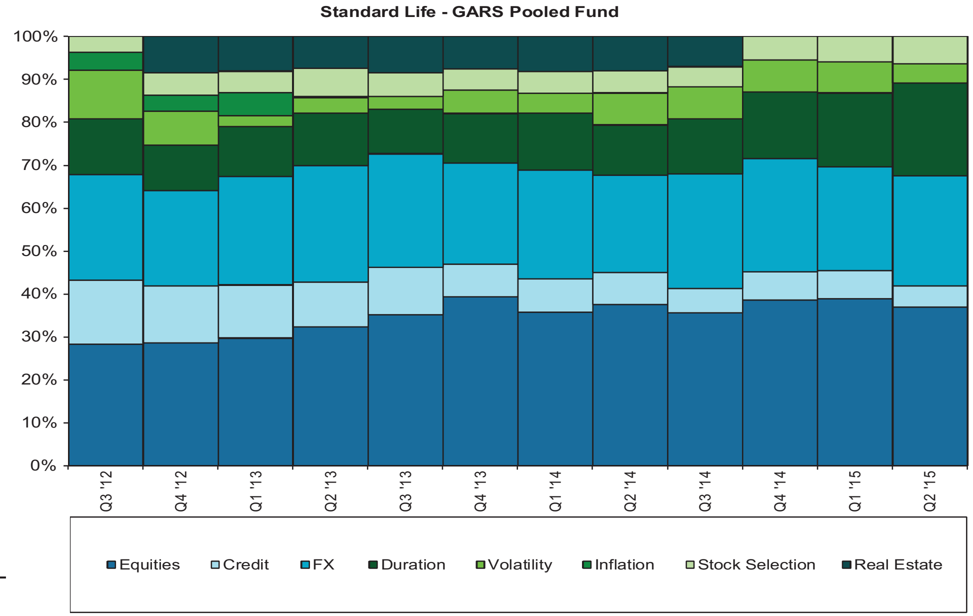
- Diversification from equities
- Exposure to market-neutral trades, and different approach to Pyford's asset allocation approach.

Performance

Performance characteristics vs. 3 Month Sterling LIBOR (after fees) over 3 years ending
Comparison with the International Multi-Asset GBP (Net) universe (Actual Ranking)

Name	Ret (% p	Std Dev (%	Sharp	TE (% p	IR
Standard Life	6.7 (15)	3.6 (23)	1.8 (8)	3.6 (23)	1.7 (7)
95th Percentile	10.1	6.8	2.1	6.8	2.1
Upper Quartile	8.5	5.7	1.8	5.7	1.7
Median	7.2	4.7	1.4	4.7	1.4
Lower Quartile	6.0	4.1	1.1	4.1	1.1
5th Percentile	3.4	1.9	0.7	1.9	0.7
Number of Funds	24	24	24	24	24

Asset Allocation/Risk Exposure



Page 198

DGF MANDATES

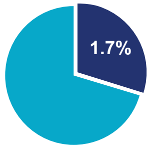
Performance characteristics vs. BofAML LIBOR 3 month average UK in GBP (after fees) over 1 yr ending June-15

Comparison with the International Multi-Asset GBP (Net) universe (Actual Ranking) (quarterly calculations)

	Ret (%)	Std Dev (%)	IR
▲ Pyrford DGF	2.9 *(32)*	4.9 *(27)*	0.5 *(33)*
▼ SLI GARS	7.2 *(10)*	5.0 *(23)*	1.3 *(8)*
95th Percentile	10.5	9.6	1.8
Upper Quartile	7.0	6.5	1.3
Median	5.7	5.4	0.9
Lower Quartile	3.2	4.4	0.6
5th Percentile	0.9	2.9	0.1
Number	40	40	40

Commentary

- Over the year to 30 June 2015, the Standard Life GARS pooled fund outperformed Pyrford by 4.3% (however the Fund has only been invested since January 2015).
- This placed Standard Life in the upper quartile of the DGF universe for performance, whilst Pyrford were in the bottom quartile. It should be noted that this universe is very diverse in styles.
- This however was achieved whilst taking very similar levels of risk, with Standard Life's volatility standing at 5.0% against Pyrford's 4.9%.
- Both managers were below the median manager for risk, meaning they took less risk than most managers in the universe.
- As a result, Pyrford's information ratio (a measure of risk adjusted returns) was in the bottom quartile while Standard Life's was in the top quartile of the universe.
- Note that this is a short time-frame over which to measure risk, and reflects the limited period the Fund has been invested for. More telling analysis will emerge as the track record grows.



SIGNET – FUND OF HEDGE FUNDS
£63.2M END VALUE *(£63.4M START VALUE)*

Item Monitored		Outcome
Mercer Rating	●	N (no change over period under review)
Performance Objective *Cash +3% p.a.*	●	Underperformed benchmark by 3.8% p.a. over three years

Item	
Number of funds	30

Strategy	Approximate Contribution over to Performance over Q1 2015 (%)
Long-Biased Credit	+0.60
Long-Short Credit	+0.37
Long Only Credit	+0.39
Recovery Plays	+0.36
Global Rates and FX	-0.11
Mortgaged Backed Securities	+0.07
Event Driven and Special Situations Fund	-0.73

Source: Signet, Mercer. Approximate calculations based on largest holdings.

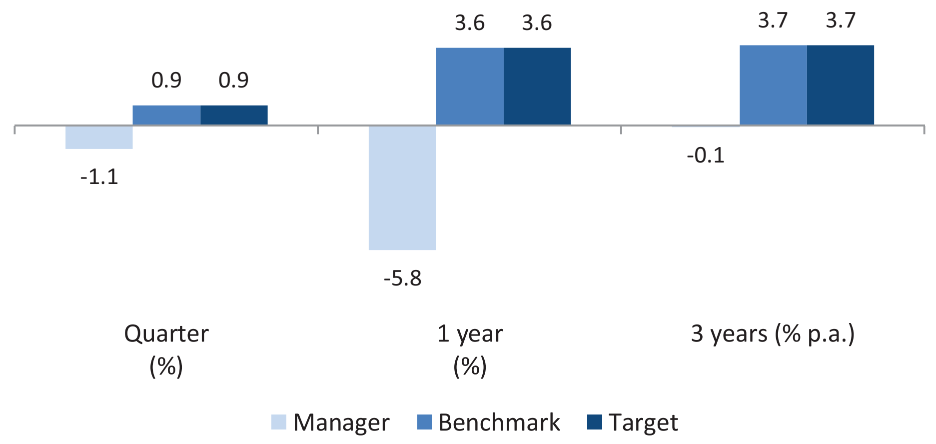
Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

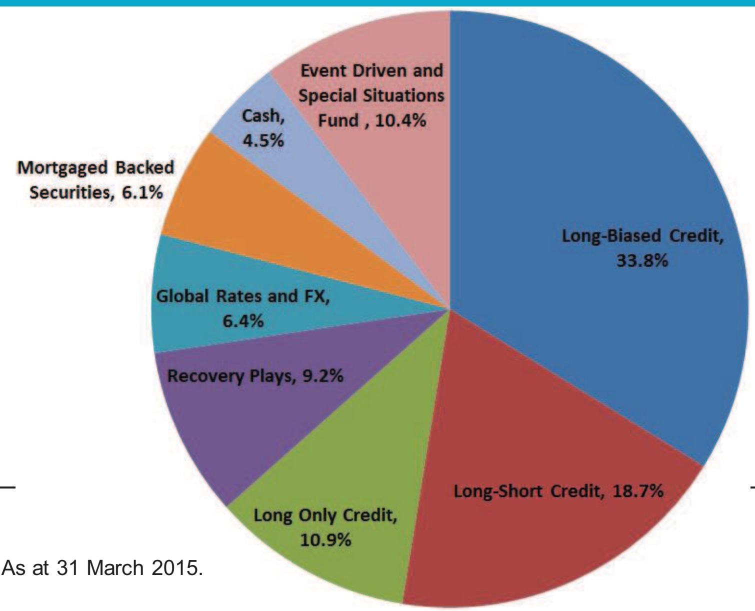
Reason for manager

- Niche fixed income strategy focus
- Established team with strong track record
- Complemented other funds in the portfolio

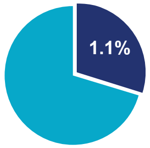
Performance



Allocation



As at 31 March 2015.



STENHAM – FUND OF HEDGE FUNDS
£39.7M END VALUE *(£39.7M START VALUE)*

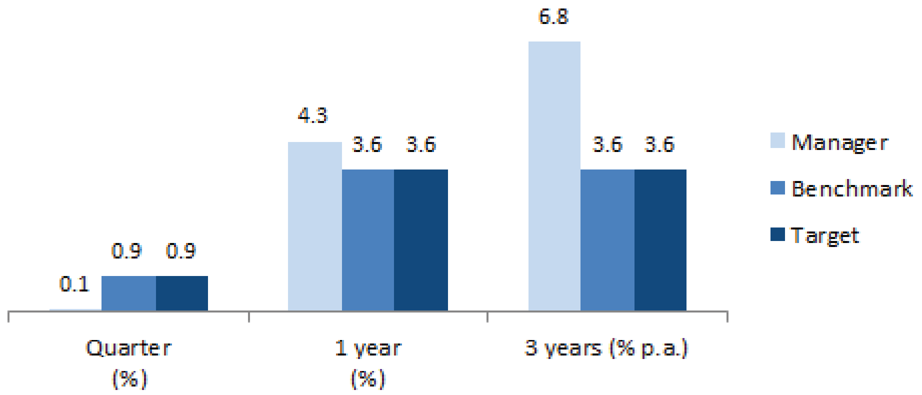
Page 201

Item Monitored	Outcome	
Mercer Rating	●	N (no change over period under review)
Performance Objective *Cash +3% p.a.*	●	Outperformed benchmark by 3.2% p.a. over three years

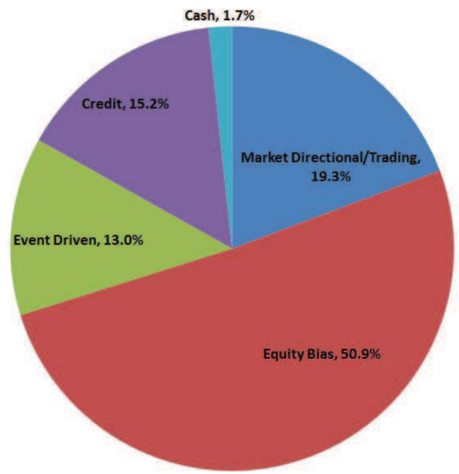
Item	
Number of funds	18

Strategy	Gross Contribution over to Performance over the Quarter (%)
Market Directional/Trading	-0.8
Equity Bias	+1.2
Event Driven	0.0
Credit	-0.2

Performance



Allocation



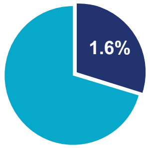
As at 30 June 2015

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Focussed multi-strategy approach, concentrating on long / short equity, global macro and event driven strategies
- Established team, strong track record at selecting managers
- Complemented other funds in the portfolio



GOTTEX – FUND OF HEDGE FUNDS
£59.5M END VALUE *(£59.1M START VALUE)*

Page 202

Item Monitored	Outcome
Mercer Rating	R (no change over period under review)
Performance Objective *Cash +3% p.a.*	Outperformed benchmark by 0.6% p.a. over three years

Item	
Number of funds	Not Available

Top 5 most significant contributing strategies	Gross Contribution over to Performance over the Quarter (%)
Fundamental MN Equity	+0.43
Distressed Securities	+0.36
Asset-Backed Securities	+0.23
Long/Short Equity	+0.20
Long/Short Credit	+0.19

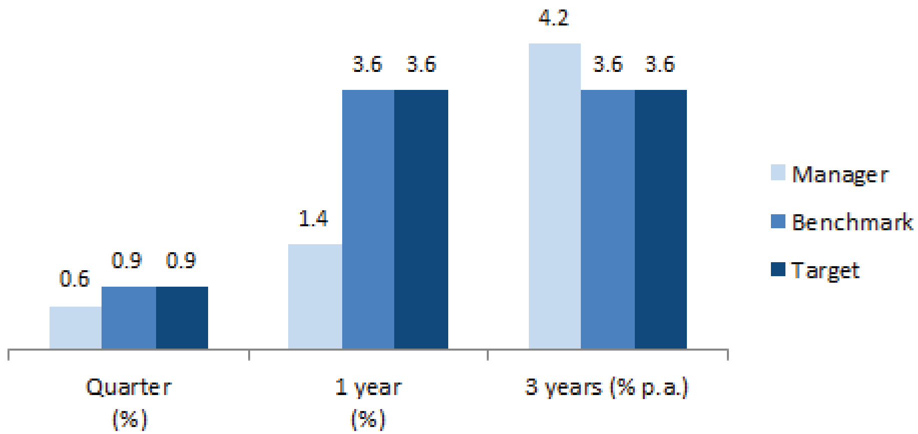
Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

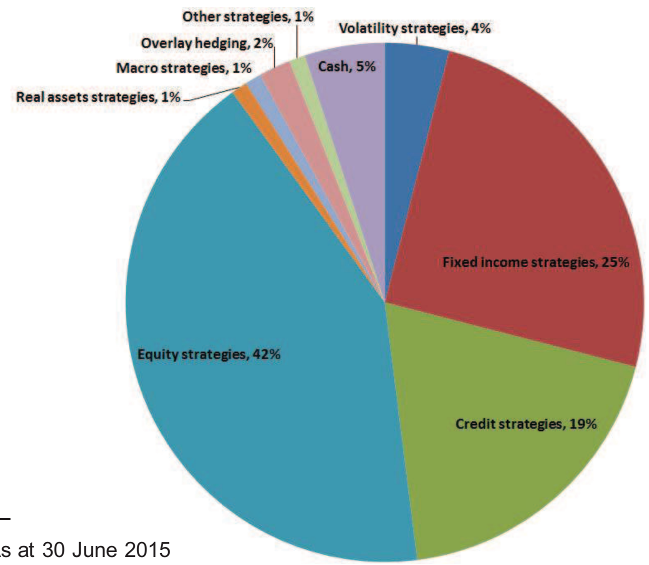
Reason for manager

- Niche market neutral investment strategy
- Established team with strong track record
- Complemented other funds in the portfolio

Performance



Allocation

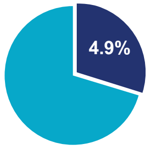


As at 30 June 2015

FUND OF HEDGE FUND MANDATES

The Fund is in the process of divesting from all three managers listed below, with the allocation to be managed by JPMorgan in a bespoke fund of funds vehicle.

Manager	30 June 2015 holding	Comments
Signet	£63.2m	Signet saw significant underperformance over the year, which led to a negative overall contribution to relative performance. This stemmed from the underperformance of their illiquid holdings in the Event Driven & Special Situations Fund (with the main holdings in the Global Fixed Income strategy returning +03% over the twelve month period to 31 May 2015).
Stenham	£39.7m	Stenham's long/short equity and global macro approach outperformed its benchmark by 0.7% over the year to 30 June 2015, although last quarter's performance lagged the benchmark by 0.8% as a result of weak returns from market directional holdings (which constitute 19% of the allocation).
Gottex	£59.5m	Gottex's market neutral approach underperformed over the year (with poor returns in Q4 2014 in particular, and relatively weak returns in Q2 2015), but generated positive performance over the three-years to 30 June 2015.



SCHRODER – UK PROPERTY FUND OF FUNDS £183.8M END VALUE *(£177.7M START VALUE)*

Item Monitored		Outcome
Mercer Rating	●	B (no change over quarter)
Performance Objective *Benchmark +1% p.a.*	●	Outperformed benchmark by 1.5% p.a. over three years

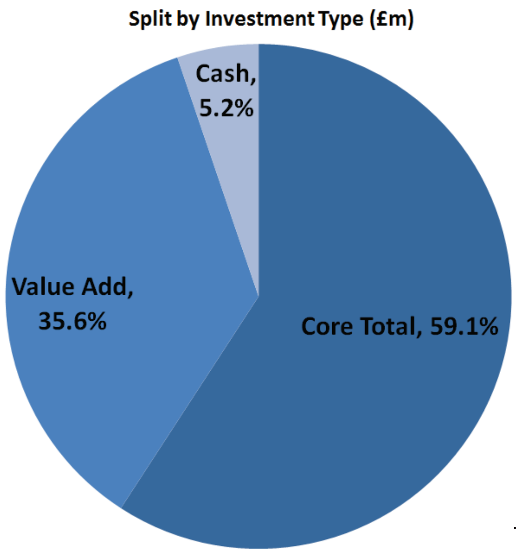
Manager Research and Developments

- The fund slightly outperformed the benchmark over the quarter by 0.1%.
- Over the three year period, the fund has outperformed its target by 0.4% p.a., largely due to strong performance from Value Add strategies (i.e. alternative or less mainstream assets with low industrial and central London exposure), offset by the performance lag introduced in rising markets by the cash allocation.
- The fund purchased c. £0.4m of units over the quarter; all in the Multi-Let Industrial Property Unit Trust.

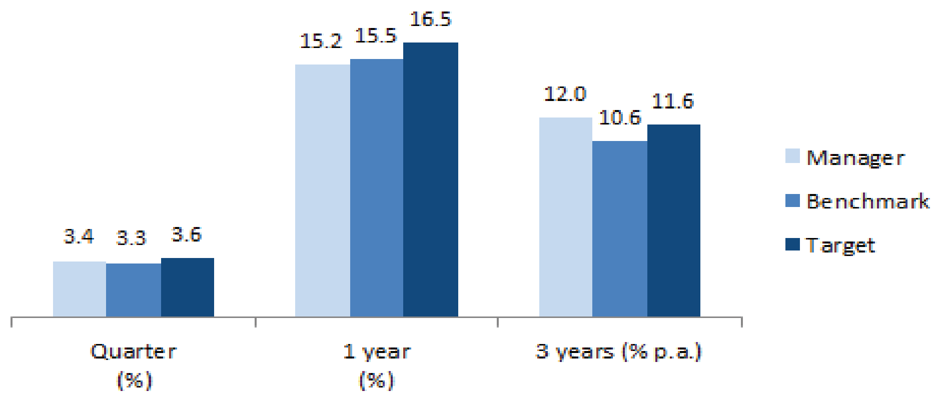
Page 204

Manager and Investment type splits

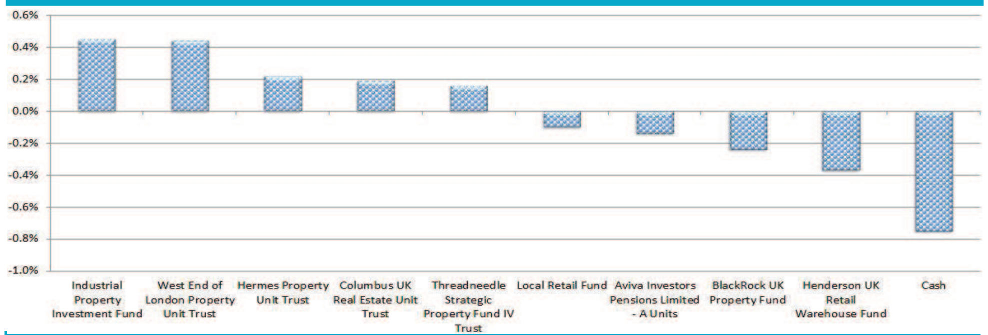
Top 5 Holdings	Proportion of Total Fund (%)
BlackRock UK Property Fund	13.1
L&G Managed Property Fund	13.0
Standard Life Pooled Pension Property Fund	10.0
Industrial Property Investment Fund	9.4
Aviva Investors Pensions	9.4



Performance



Top 5 Contributing and Detracting Funds over 12 Months

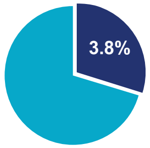


Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Demonstrable track record of delivering consistent above average performance
- Team though small is exclusively dedicated to UK multi-manager property management but can draw on extensive resources of Schroder's direct property team
- Well structured and research orientated investment process



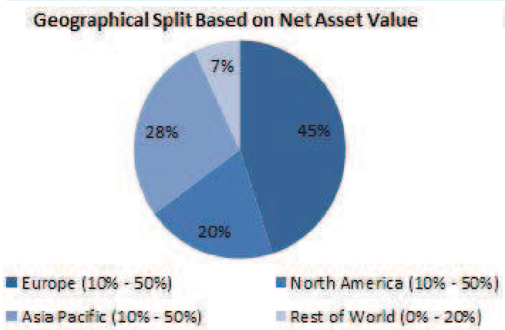
PARTNERS – OVERSEAS PROPERTY £140.4M END VALUE *(£137.0M START VALUE)*

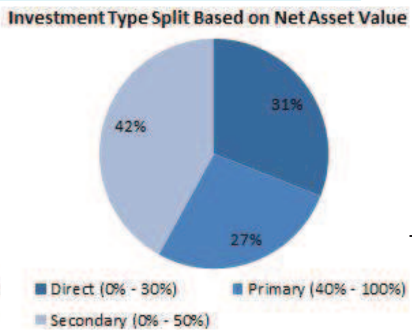
Item Monitored		Outcome
Mercer Rating	●	B+ (no change over period under review)
Performance Objective *Benchmark +2% p.a.*	●	Underperformed benchmark by 3.5% p.a. over three years to 30 June 2015

Manager Research and Developments

- Over Q2 2015, the fund has underperformed the benchmark by 1.8% , and 3.5% p.a. over the three year period.
- **Partners' drawdowns are made gradually over time, and the Fund is not yet fully invested. As a result of the volatile timing of cash flows for such investments, for example the initial costs of purchasing and developing properties, focus should be on longer term performance. Their IRR from inception to 31 March 2015 at 10.1% p.a. is in line with their target of 10% p.a.**
- Over Q1, the allocation to Europe increased (from 41% to 45%) while Asia Pacific and North America both fell slightly (from 30% to 28%, and 22% to 20% respectively. These remain within the guidelines.
- Exposure to Secondary opportunities fell during the first quarter (from 46% to 42%), with Direct increasing by 4% and Primary unchanged at 27%. Primary exposure continues to be below the guidelines. Short-term deviation from the guidelines are expected whilst the amount drawn-down is below target.
- Note that Partners are rated B+ for global real estate, but A for secondary global real estate (as a result of their private equity skill set).

Geographical and Investment type splits





As at 31 March 2015

Portfolio update as at 31 March 2015

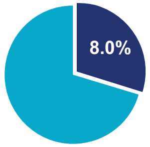
Partners Fund	Total Drawn Down (£m)	Total Distributions (£m)	Net Asset Value (31 Mar 2015) (£m)	Since Inception Net IRR
Global Real Estate 2008	31.66	14.04	24.85	9.2
Real Estate Secondary 2009	19.01	3.42	20.03	14.6
Asia Pacific and Emerging Market Real Estate 2009	14.48	4.66	14.18	6.8
Distressed US Real Estate 2009	14.75	11.16	10.00	9.8
Global Real Estate 2011	24.70	4.01	24.49	13.0
Direct Real Estate 2011	10.80	1.07	13.25	9.4
Real Estate Secondary 2013	3.90	0.00	4.71	27.7
Global Real Estate 2013	29.29	0.00	27.44	5.1
Real Estate Income 2014	7.85	0.00	7.24	1.6
Total	**156.46**	**38.35**	**146.82**	**10.1**

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Depth of experience in global property investment and the resources they committed globally to the asset class
- The preferred structure for the portfolio was via a bespoke fund of funds (or private account) so the investment could be more tailored to the Fund's requirements



ROYAL LONDON ASSET MANAGEMENT – FIXED INTEREST (POOLED)

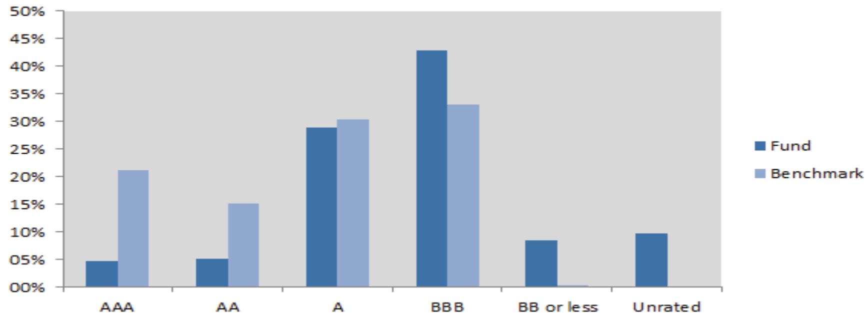
£298.7M END VALUE (£308.9M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	A (no change over period under review)
Performance Objective *Benchmark +0.8% p.a.*	●	Outperformed benchmark by 2.6% p.a. over three years

Manager Research and Developments

- Royal London remain underweight AAA-A bonds, and overweight BBB-unrated, a strategy which has performed strongly over the three year period.

Credit Rating Allocation



Weighted Duration	Start of Quarter	End of Quarter
Fund	7.6	7.5
Benchmark	8.2	7.8

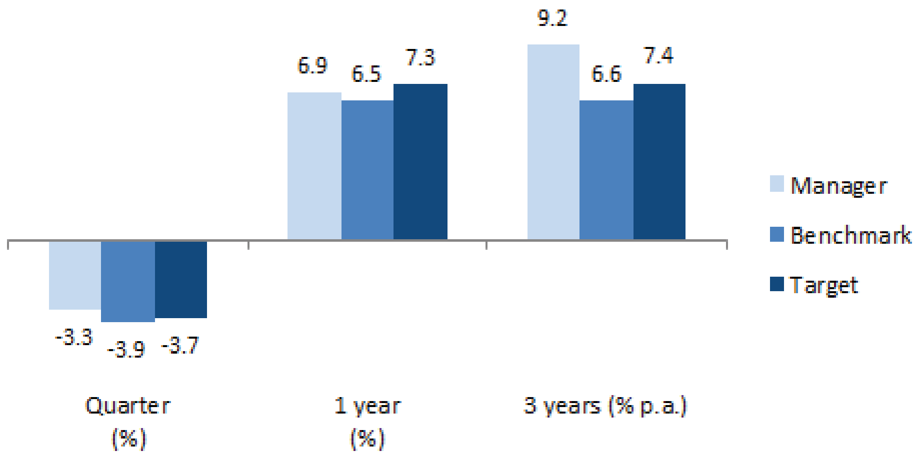
Reason for investment

To maintain stability in the Fund as part of a diversified fixed income portfolio

Reason for manager

- Focussed research strategy to generate added value
- Focus on unrated bonds provided a "niche" where price inefficiencies are more prevalent. Product size means can be flexible within market

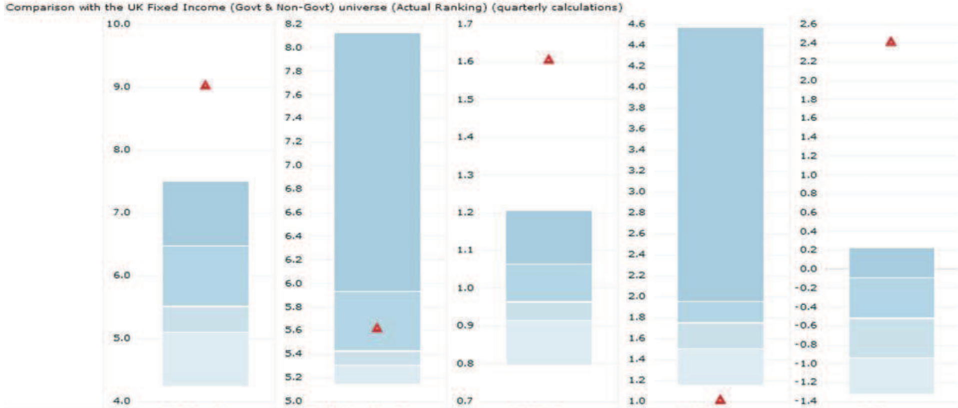
Performance



Risk and Return relative to benchmark

Performance characteristics vs. Markit iBoxx Non Gilts Overall in GBP over 3 yrs ending June-15

Comparison with the UK Fixed Income (Govt & Non-Govt) universe (Actual Ranking) (quarterly calculations)



	Ret (%pa)	Std Dev (%pa)	Ret/SD	TE (%pa)	IR
▲ RLAM FI	9.0 (1)	5.6 (12)	1.6 (1)	1.0 (25)	2.4 (1)
95th Percentile	7.5	8.1	1.2	4.6	0.2
Upper Quartile	6.5	5.9	1.1	2.0	-0.1
Median	5.5	5.4	1.0	1.7	-0.5
Lower Quartile	5.1	5.3	0.9	1.5	-0.9
5th Percentile	4.2	5.1	0.8	1.2	-1.3
Number	25	25	25	25	25

APPENDIX 1
SUMMARY OF MANDATES

SUMMARY OF MANDATES

Manager	Mandate	Benchmark	Outperformance target (p.a.)
Jupiter Asset Management	UK Equities (Socially Responsible Investing)	FTSE All Share	+2%
TT International	UK Equities (Unconstrained)	FTSE All Share	+3-4%
Schroder	Global Equities (Unconstrained)	MSCI AC World Index Free	+4%
Genesis	Emerging Market Equities	MSCI EM IMI TR	-
Unigestion	Emerging Market Equities	MSCI EM NET TR	+2-4%
Invesco	Global ex-UK Equities (Enhanced Indexation)	MSCI World ex UK NDR	+0.5%
SSgA	Europe ex-UK Equities (Enhanced Indexation)	FTSE AW Europe ex UK	+0.5%
SSgA	Pacific inc. Japan Equities (Enhanced Indexation)	FTSE AW Dev Asia Pacific	+0.5%
Record	Active Currency Hedging	N/A	-
Pyrford	Diversified Growth Fund	RPI +5% p.a.	-
Standard Life	Diversified Growth Fund	3 Month LIBOR +5% p.a.	-
Signet	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Stenham	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Gottex	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Schroder	UK Property	IPD UK Pooled	+1%
Partners	Overseas Property	IPD Global Pooled	+2%
Royal London Asset Management	UK Corporate Bonds	iBoxx £ Non-Gilts All Maturities	+0.8%
BlackRock	Passive Multi-Asset	In line with customised benchmarks using monthly mean fund weights	-
Cash	Internally Managed	7 Day LIBID	-

Page 209

APPENDIX 2
MARKET STATISTICS INDICES

MARKET STATISTICS INDICES

Asset Class	Index
UK Equities	FTSE All-Share
Global Equity	FTSE All-World
Overseas Equities	FTSE World ex UK
US Equities	FTSE USA
Europe (ex-UK) Equities	FTSE W Europe ex UK
Japanese Equities	FTSE Japan
Asia Pacific (ex-Japan) Equities	FTSE W Asia Pacific ex Japan
Emerging Markets Equities	FTSE AW Emerging
Global Small Cap Equities	FTSE World Small Cap
Hedge Funds	HFRX Global Hedge Fund
High Yield Bonds	BofA Merrill Lynch Global High Yield
Emerging Market Debt	JP Morgan GBI EM Diversified Composite
Property	IPD UK Monthly Total Return: All Property
Commodities	S&P GSCI
Over 15 Year Gilts	FTA UK Gilts 15+ year
Sterling Non Gilts	BofA Merrill Lynch Sterling Non Gilts All Stocks
Over 5 Year Index-Linked Gilts	FTA UK Index Linked Gilts 5+ year
Global Bonds	BofA Merrill Lynch Global Broad Market
Global Credit	Barclays Capital Global Credit
Eurozone Government Bonds	BofA Merrill Lynch EMU Direct Government
Cash	BofA Merrill Lynch United Kingdom Sterling LIBOR 3 month constant maturity

These are the indices used in this report for market commentary; individual strategy returns are shown against their specific benchmarks.

APPENDIX 3
CHANGES IN YIELDS

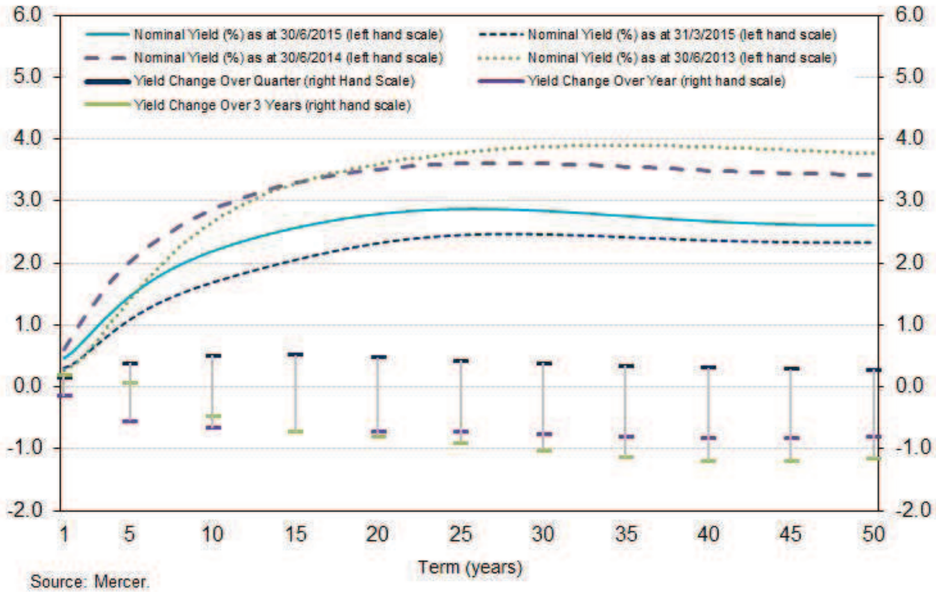
CHANGES IN YIELDS

Page 212

Asset Class Yields (% p.a.)	30 June 2015	31 March 2015	30 June 2014	30 June 2013
UK Equities	3.46	3.33	3.27	3.53
Over 15 Year Gilts	2.63	2.23	3.34	3.43
Over 5 Year Index-Linked Gilts	-0.75	-0.91	-0.10	-0.02
Sterling Non Gilts	3.15	2.65	3.59	3.73

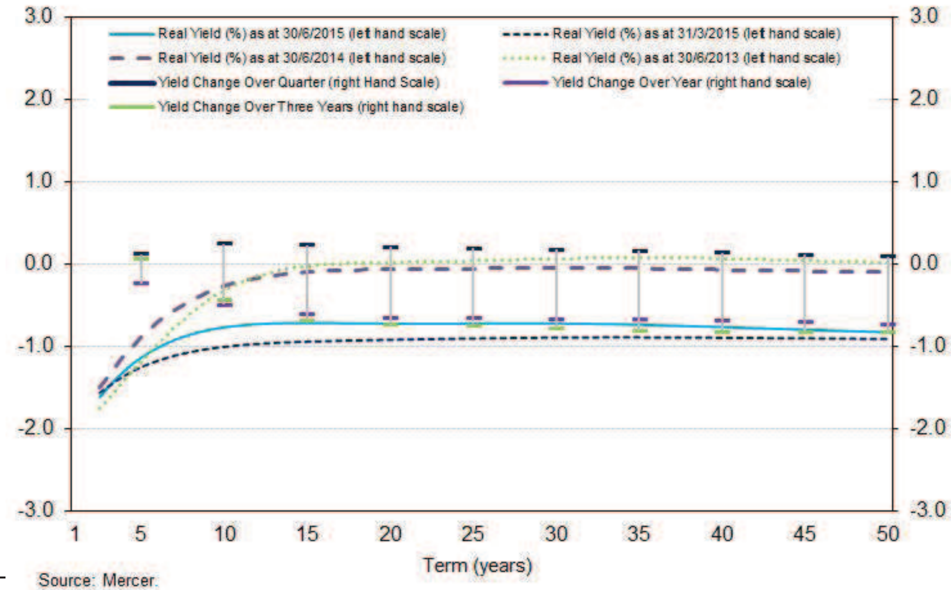
- After reaching extremely low levels earlier this year, bond yields rose sharply across all maturities over the quarter, resulting in negative returns for investors.
- UK government bonds did not escape the global sell-off in the fixed income market. Nominal gilt yields jumped across all maturities during the second quarter, resulting in a return of -6.3% for Over 15 Year Gilts Index.
- The real yield curve also shifted up, although by less than nominal yields, resulting in a degree of normalization of previously depressed breakeven inflation rates. Index-linked gilts posted a quarterly loss of 3.3%, as measured by the Over 5 year Index-Linked Gilts index.
- The total returns from global credit fell by 6.4% in the second quarter in Sterling terms, with a moderate loss of 0.9% in local currency terms. Credit spreads rose slightly in the UK, resulting in a -3.9% total return on All Stocks UK corporate bonds.

Nominal yield curves.



Source: Mercer.

Real yield curves.



Source: Mercer.

Page 213

APPENDIX 4
GUIDE TO MERCER RATINGS

GUIDE TO MERCER RATINGS

INTRODUCTION

This is a guide to the investment strategy research ratings (herein referred to as rating[s]) produced by Mercer's Investments business (herein referred to as Mercer). It describes what the ratings are intended to mean and how they should and should not be interpreted.

If you have any questions or would like more information about specific topics after reading this guide, please contact your Mercer consultant or click "Contact us" on our website www.mercer.com.

WHAT DO MERCER'S RATINGS SIGNIFY?

Mercer's ratings signify Mercer's opinion of an investment strategy's prospects for outperforming a suitable benchmark over a time frame appropriate for that particular strategy (herein referred to as outperformance). The rating is recorded in the strategy's entry on Mercer's Global Investment Manager Database (GIMD™) at www.mercergimd.com.

Mercer's ratings are assigned to investment strategies rather than to specific funds or vehicles. In this context, the term "strategy" refers to the process that leads to the construction of a portfolio of investments, regardless of whether the strategy is offered in separate account format or through one or more investment vehicles.

WHAT DO MERCER'S RATINGS NOT SIGNIFY?

This section contains important exclusions and warnings; please read it carefully.

Past Performance

The rating assigned to a strategy may or may not be consistent with its past performance. While the rating reflects Mercer's expectations on future performance relative to a suitable benchmark over a time frame appropriate for the particular strategy, Mercer does not guarantee that these expectations will be fulfilled.

Creditworthiness

Unlike those of credit rating agencies, Mercer's ratings are not intended to imply any opinions about the creditworthiness of the manager providing the strategy.

Vehicle-Specific Considerations

As Mercer's ratings are normally assigned to strategies rather than to specific investment vehicles, potential investors in specific investment vehicles should consider not only the Mercer ratings for the strategies being offered through those investment vehicles but also any investment vehicle-specific considerations. These may include, for example, frequency of dealing dates and any legal, tax, or regulatory issues relating to the type of investment vehicle and where it is domiciled. Mercer's ratings do not constitute individualized investment advice.

Management Fees

To determine ratings, Mercer does not generally take investment management fees into account. The rationale for this is that, due to differing account sizes, differing inception dates, or other factors, the fees charged for a specific strategy will vary among clients. Potential investors in a specific strategy should therefore consider not only ~~the Mercer rating for that strategy but also the competitiveness of the fee schedule that they have been quoted. The area of Alternative Investments is an exception —~~ Mercer follows market practice for "Alternatives" and rates strategies on a net of fees basis.

Operational Assessment

Mercer's research process and ratings do not include an evaluation of a manager's custodian, prime brokerage, or other vendor relationships, or an assessment of the manager's back office operations, including any compliance, legal, accounting, or tax analyses of the manager or the manager's investment vehicles. Research is generally limited to the overall investment decision-making process used by managers. In forming a rating, Mercer's investment researchers do not generally perform corporate-level operational infrastructure due diligence on a manager and do not perform financial or criminal background checks on investment management staff. Unless Mercer's investment researchers are aware of material information to the contrary (such as a view expressed by a manager's auditors or Mercer Sentinel®; see section 7), they assume that the manager's operational infrastructure is reasonable. Operational weaknesses that Mercer's investment researchers discover during their analysis of the four factors outlined in section 4 will be noted and, where appropriate, taken into account in determining ratings.

FACTORS CONSIDERED IN FORMING A RATING

In order to determine the rating for a particular strategy, Mercer's investment researchers review the strategy on the basis of four specific factors — idea generation, portfolio construction, implementation, and business management — each of which is assigned one of four scores: negative (-), neutral (=), positive (+), or very positive (++).

Mercer believes that idea generation, portfolio construction, and implementation are the main components of every investment process. These factors are defined as:

Idea generation encompasses everything that the investment manager (herein referred to as manager) does to determine the relative attractiveness of different investments.

Portfolio construction refers to the manner in which the manager translates investment ideas into decisions on which investments to include in a portfolio and what weightings to give to each of these investments.

Implementation refers to the capabilities surrounding activities that are required to achieve the desired portfolio structure.

Mercer believes that managers that do these activities well should have above-average prospects of outperformance. However, Mercer also believes that to remain competitive over longer periods, managers must be able to maintain and enhance their capabilities in these three areas. To do this, managers need to have significantly strong business management, which is the fourth factor Mercer assesses.

Business management refers to the overall stability of the firm, firm resources, and overall operations.

A strategy's overall rating is not determined as a weighted average of the four factor scores, and no prescribed calculations are made to arrive at the four-factor score or the overall rating. Instead, for each strategy, Mercer's investment researchers identify which factors Mercer believes are most relevant to a manager's investment process and place weight on the factors accordingly. Example considerations include:

- Mercer's confidence in the manager's ability to generate value-adding ideas.
- Mercer's view on any specified outperformance target.
- The opportunities available in the relevant market(s) to achieve outperformance.
- An assessment of the risks taken to try to achieve outperformance.
- An assessment of the strategy relative to peer strategies.
- An assessment of the manager's business management and its impact on particular strategies.

GUIDE TO MERCER RATINGS

MERCER RATING SCALE

Ratings	Rationale
A	Strategies assessed as having "above average" prospects of outperformance
B+	Strategies assessed as having "above average" prospects of outperformance, but which are qualified by at least one of the following: There are other strategies that Mercer believes are more likely to achieve outperformance. Mercer requires more evidence to support its assessment.
B	Strategies assessed as having "average" prospects of outperformance
C	Strategies assessed as having "below average" prospects of outperformance
N/no rating	Strategies not currently rated by Mercer
R	The R rating is applied in three situations: ▪ Where Mercer has carried out some research, but has not completed its full investment strategy research process ▪ In product categories where Mercer does not maintain formal ratings but where there are other strategies in which we have a higher degree of confidence ▪ Mercer has in the past carried out its full investment-strategy research process on the strategy, but we are no longer maintaining full research coverage.

Strategies rated A are those which Mercer has the highest degree of conviction that outperformance may be achieved.

SUPPLEMENTAL INDICATORS

Provisional (P)

If the Mercer strategy rating is followed by a (P) - for example, A (P) or B+ (P) - the rating is "provisional" - that is, there is temporary uncertainty about the rating, but it is expected that this will soon be resolved. For example, should two managers announce a merger, but without further details, this uncertainty may be highlighted by modifying the rating strategies for one or both of those firms - for instance, from A to A (P). (P) indicators are intended to be temporary and should normally last for no more than two weeks. As soon as the temporary uncertainty has been resolved, or if it becomes apparent that this uncertainty is unlikely to be resolved quickly, the (P) indicator will be removed and the rating confirmed or changed, or the strategy will be assigned the indicator "watch" (W).

Watch (W)

If the Mercer strategy rating is followed by a (W) – for example, A (W) or B+ (W) - the rating is "watch" - there is some uncertainty about the rating and resolution is not expected soon, but Mercer believes there is a low probability that the resolution of this uncertainty will lead to a change in the strategy's rating. (W) indicators are typically issued when there is an expectation of long-term uncertainty surrounding the rating - for example, a change, or potential change, in a manager's ownership.

Specifically Assigning (P) and (W) Supplemental Indicators

(P) and (W) indicators are assigned - and removed - by the regular ratings review process described earlier; however, there are circumstances where organizational or reputational issues that affect a manager warrant the specific assignment of a (P) or (W) indicator to an existing rating. In such circumstances, the decision to apply - or remove - a (P) or (W) indicator is taken by two senior members of the leadership group of the Manager Research team. These occasions are rare, and the relevant investment researchers will contribute to any discussions before a (P) or (W) indicator is assigned or removed.

All other ratings decisions, including the awarding of a "Preferred Provider" designation, follow the process described in section "Ratings Review Committees".

High Tracking Error (T)

If the Mercer strategy rating is followed by a (T) — for example, A (T) or B+ (T) — the strategy is considered to have the potential to generate a tracking error substantially higher than the average for the relevant product category. In this context, "tracking error" refers to the variability of performance relative to the nominated benchmark for the strategy. A strategy may be assigned the (T) indicator because the potential for high tracking error has been demonstrated by the strategy's past performance and/or because the nature of the investment process is such that a significantly higher than average tracking error could be expected. The absence of a (T) following a rating does not guarantee that the strategy's tracking error will not be higher than the average for the relevant product category.

Preferred Provider Status

"Preferred Provider" status is assigned to strategies within product categories for which Mercer does not maintain formal ratings. This indicator normally applies to strategies for which the primary goal is not outperformance of a benchmark — for example, cash, passive, and liability-driven investment (LDI) strategies. Strategies assigned a Preferred Provider status may not have undergone a Rating Review Committee (RRC) review; however, they will have been reviewed by at least two suitably qualified investment researchers or consultants other than the researcher who recommended the status.

ENVIRONMENTAL, SOCIAL, AND CORPORATE GOVERNANCE RATINGS

Environmental, Social and Corporate Governance (“ESG”) ratings reflect Mercer’s view on the extent to which ESG and active ownership practices (voting and engagement) are integrated into the fund manager’s strategy. The ratings scale ranges from ESG1 to ESG4. ESG1 is the highest rating and is assigned to managers that are assessed as being ‘leaders’ in integrating ESG and active ownership into their core processes, with clear evidence that it is core to idea generation and portfolio construction. ESG2 indicates that ESG factors are part of decision making with a strong level of commitment made at the firm wide level and some indication that data and research is being taken into account by the fund managers in their valuations. An ESG3 rating is given to strategies where the manager has made some progress with respect to ESG integration and active ownership, but there is little evidence that ESG factors actually factor into valuations and investment processes. Strategies rated ESG4 have done very little with respect to ESG integration or active ownership.

ESG ratings are assigned by Mercer’s manager research teams during their due diligence meetings with investment managers. ESG (RI) ratings are assigned by Mercer’s specialist Responsible Investment (“RI”) team, which typically occurs when the RI team undertake more focussed meeting with an investment manager on ESG issues, where we discuss in detail how ESG issues are integrated into the idea generation and portfolio construction process , and what voting and engagement activities have taken place. This detailed ESG research meeting will typically be accompanied by detailed ESG research notes.

Where an equity strategy is passively managed, Mercer applies an ESG-Passive “ESGp” rating scale. The ESGp ratings scale is designed to assess passive equity managers’ commitment to voting, engagement, and industry collaboration on ESG issues. Mirroring our standard ESG ratings for actively managed strategies, the ESGp rating scale ranges from ESGp1 to ESGp4. ESGp1 is the highest rating and signifies our belief that a manger is a leader in its active ownership activities, for example undertaking voting and engagement activities at a global level rather than at just a regional level. ESGp2 typically indicates that the manager has made clear efforts to develop a process for its voting and engagement activities, but lags the best practices in some respect. ESGp3 indicates that the manager will have some dedicated resources in place but the primary focus is likely to be only on governance aspects of voting and engagement. ESGp4 signifies our belief that a manager has few dedicated ESG resources in place and will not have the same level of disclosure as a more highly rated manager.

OPERATIONAL RISK ASSESSMENTS

Mercer Sentinel, a division within Mercer, undertakes operational risk assessments (ORAs) on managers, most often on behalf of clients. These ORAs assess managers' operations and implementation risk profiles and cover some of the areas mentioned in section 3, as well as other areas related to operational risk. ORAs are undertaken separately from the Manager Research process; however, the results are shared with the Lead Researcher for the manager. A Mercer Sentinel ORA that concludes with an unsatisfactory rating (namely, a "Review" rating) for a manager will result in an immediate (P) rating for all that manager's relevant rated strategies. Discussions will follow and any subsequent change in investment rating will be ratified by the standard Manager Research process. Contact your Mercer consultant for more information.

RATINGS REVIEW COMMITTEES

Mercer has a process for reviewing and ratifying the ratings proposed by individual investment researchers. For most product categories, strategy ratings are reviewed regularly by one of several RRCs that operate within Mercer. These committees are composed of professionals from Mercer's investment research and consulting groups who draw on research carried out by Mercer investment researchers and consultants. The role of the RRCs is to review this research from a quality control perspective and ensure consistency of treatment across strategies within a product category.

For certain asset classes, ratings will not have been reviewed by an RRC; however, the rating will have been reviewed by at least two suitably qualified investment researchers or consultants other than the recommending researcher. An R rating will not necessarily have been reviewed by an RRC but will have been subject to Mercer's standard peer review process.

CONFIDENTIALITY OF MERCER'S RATINGS

Mercer's ratings, along with all other information relating to Mercer's opinions on managers and the investment strategies they offer, represent Mercer's confidential and proprietary intellectual property and are subject to change without notice. The information is intended for the exclusive use of the parties to whom it was provided by Mercer and may not be modified, sold, or otherwise provided, in whole or in part, to any other person or entity (including managers) without Mercer's prior written permission.

MAKE TOMORROW, TODAY

Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-1192/15

Meeting / Decision: AVON PENSION FUND INVESTMENT PANEL
Date: 11 September 2015

Author: Matthew Clapton
Report Title: Review Of Investment Performance For Periods Ending 30 June 2015 Appendix 1 – Fund Valuation Appendix 2 – Mercer performance monitoring report (shortened version) Exempt Appendix 3 – RAG Monitoring Summary Report Appendix 4 - Partners Overseas Property Mandate – Performance Reporting’

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

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

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

PUBLIC INTEREST TEST

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

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

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

Weighed against this is the fact that the exempt appendices contains the opinions of Council officers and Panel members. It would not be in the public interest if advisors and officers could not express in confidence opinions which are held in good faith and on the basis of the best information available.

The exempt appendices also contain details of the investment processes/strategies of the investment managers. The information to be discussed is commercially sensitive and if disclosed could prejudice the commercial interests of the investment managers.

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

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the Investment Panel Activity has been made available – by way of the main report. Therefore it is recommended that exemption 3 of Schedule 12A stands, that the report be discussed in exempt session and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

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

Document is Restricted

This page is intentionally left blank

Partners Overseas Property Mandate – Performance Reporting

1. Introduction

Panel members have previously expressed concern that the performance information they were receiving on the Partners overseas property portfolio did not clearly show whether the portfolio was performing in line with expectations. Officers have reconciled the various performance measures and reviewed the choice of benchmarks used to monitor the portfolio. They have also asked for more detailed data to provide greater assurance of the monetary value being created by Partners

2. Issue

The benchmark returns and returns calculated by WM (external performance measurement provider) are not reported in measures that are directly comparable with the performance data provided by Partners. This arises because the specific nature of the investments (i.e. they are closed-ended funds) means that returns are best measured by an Internal Rate of Return (IRR) measure, but the available benchmarks and WM's calculations are time weighted return measures. As a result there are significant differences between the two investment returns, with WM's time weighted return being below the returns reported by Partners in IRRs.

The benchmark used for global property in the strategic benchmark and the benchmark used for monitoring Partners performance also have other shortcomings explained below (see 4.).

3. Why are IRRs the best performance measure for Closed-ended funds?

The investments with Partners Group are held in closed-ended funds. In such vehicles the manager invests for a defined period; investors commit a level of money to be invested; it is drawndown over time and when assets are realised capital is returned to investors. The nature of the way such funds are invested results in significant cash flows to and from investors and the closed-end fund.

Ultimately the return of these funds will be known once all underlying assets have been sold and value is realised. To monitor performance in the meantime, it is necessary to evaluate the estimated value of the assets held and also the cashflows they have generated. The impact on performance of such cashflows is not captured efficiently by the traditional time weighted return calculation used for the majority of the Fund's assets which do not experience such significant cashflows. IRRs do calculate the impact of such cashflows and therefore provide a more accurate view of added value and performance for closed-end funds. IRRs are routinely used throughout the industry to measure the return of closed ended funds , whether they invest in property, private equity or private debt.

WM use time weighted return calculations because it is the industry norm for the majority of asset classes and it is not possible to combine different measurement approaches for individual mandates when calculating the aggregate fund return.

4. Benchmark Considerations

i) Current Benchmarks

Strategic Benchmark – The Fund uses the strategic benchmark to measure the Fund's return against the return generated by the asset allocation. Thus is uses the strategic asset allocation and applies a "benchmark" for each part. To generate the strategic benchmark, index returns for an asset class (as proxy for long term return expectations if invest passively) are preferred where available. **Therefore the best benchmark in this instance would be one that represents the generic market returns from investing in global property.**

Partners Mandate Benchmark – This benchmark aims to evaluate how Partners are performing compared to the expectations the Fund has of the particular mandate. **Therefore the best benchmark in this instance would be one that reflects the expected returns for a portfolio of closed-end global property funds.**

Both the strategic benchmark and the mandate benchmark currently use the IPD UK Property benchmark which reflects the performance of funds investing in core UK property.

ii) Shortcomings of current Benchmarks

At the time the Partners mandate was put in place the IPD UK Property index was the only established property benchmark available, but it was recognised at the time that it was not ideal for the following reasons:

Strategic benchmark (represents generic global property returns):

- Strategy allocates to global property, the benchmark reflects only UK property returns

Mandate benchmark (represents performance measure for Partners):

- Partners invest in a global opportunity set, the benchmark reflects only UK
- Partners invest in core, value-added and opportunistic investments, the benchmark reflects only core property investments

- Partners investments are via closed-end funds which inherently experience significant cash flows, the benchmark does not reflect closed-end type cashflows.

The difficulty in finding an appropriate benchmark for such mandates is one faced by many investors. Other LGPS funds adopt a range of approaches from using the IPD, to using cash plus benchmarks or absolute return benchmarks. No one approach has gained acceptance as a 'best practice' approach for benchmarking a closed end fund mandate.

iii) Proposed changes to benchmarks

After consultation with Mercer the following changes are proposed:

Strategic Benchmark – It is proposed that the IPD Global benchmark is used which better aligns the benchmark to the generic market returns from investing in global property rather than just UK property.

Partners Mandate Benchmark – It is proposed that a cash plus 4% benchmark is used which is a more appropriate proxy (and therefore performance measure) for the expected returns for a portfolio of closed-end global property funds similar to Partners portfolio. It should be noted that when using cash plus benchmarks performance should be considered over the long term and not over shorter time periods.

5. Partners Performance

At the 31 March 2015 the IRR of the portfolio was 10.1% per annum since inception. This is in line with their target of 10% IRR p.a..

WM calculate the time weighted return of the portfolio since inception at 6.3% p.a. (as explained, it is expected that difference between IRR measures and time weighted return measures will continue). Compared to the IPD UK benchmark return of 9.7% p.a. this is an underperformance of 3.3% p.a. (which has been reported to Panel and Committee). From 1st October the time weighted return from WM will be reported versus a cash plus 4% benchmark.

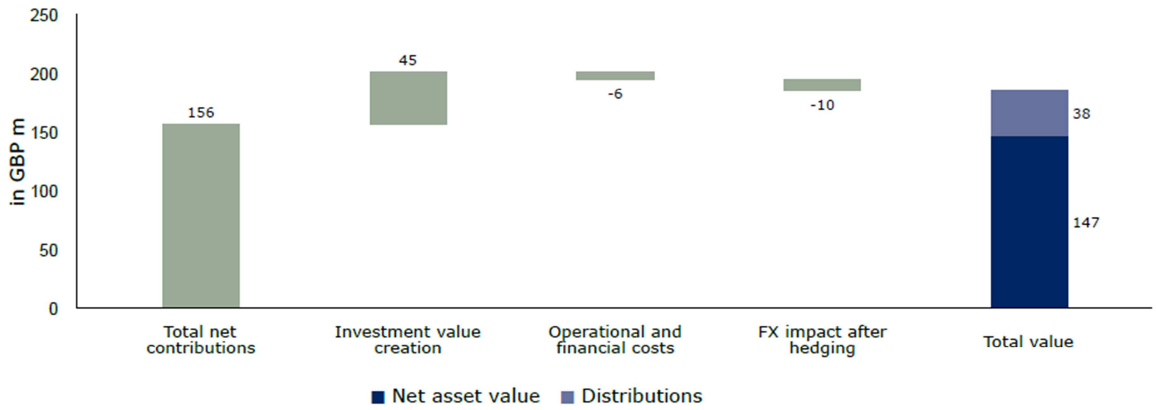
Partners are now providing quarterly IRRs and officers have reconciled these quarterly IRRs with the time weighted returns calculated by WM, providing confidence in the IRR measures provided by Partners and WM. Analysis in Table 1 shows the comparison between the 2 measures over the last 3 quarters. It shows a level of difference between the 2 calculation results that could be reasonably expected given the different methods of calculation. Because cash flows occur on a regular basis the 2 measures will always differ.

Table 1: Comparison of Partners quarterly returns calculated as IRRs and Time Weighted Returns

	Partners Quarterly IRR in GBP	WM Partners Return in GBP
Q2 2015	0.48%	1.00%
Q1 2015	4.85%	4.30%
Q4 2014	0.15%	0.10%

In addition, officers are receiving reporting from Partners which allows for analysis of value generated, an example of which is shown in Chart 1 below. This shows the total value of the portfolio (comprising current net asset value and distributions made to APF to date) and the corresponding contributions and value generated to attain the current value. The data in Chart 1 is as at 31 March 2015 and reflects an IRR of 10.1% since inception as reported above.

Chart 1: Partners Portfolio Summary of Value Added as at 31 March 2015



6. Future Reporting of Performance

i) Partners Mandate

Future reporting to Panel will show:

- the IRR of the portfolio (as the more preferred measure) compared to the target IRR return.
- WM's measure of Partners time weighted return versus the cash plus 4% benchmark.

Both measures will be used to evaluate how Partners are performing against expectations, with the focus on longer term measures of 3 years and beyond. The RAG reporting and Mercer performance reporting will be amended to reflect these changes.

Partners will also be providing the value generated (as per Chart 1) for each fund over the coming quarters and it will be monitored by Officers who will report any significant departure from long term expectations to the Panel as part of the routine performance reporting.

ii) Strategic level

WM will continue to calculate the time weighted return of the Partners portfolio in order to calculate the overall APF return versus the strategic benchmark. Overseas property will be represented in the strategic benchmark by the IPD Global Index which recognises the strategic decision to allocate to global property but not the investment approach taken. This means differences will continue to appear especially where significant cashflows occur within the Partners portfolio during the quarter. Such differences will be explained in the attribution analysis of the strategic benchmark provided in the Committee performance report.

7. SUMMARY

- Partners performance

Mercer and Officers are satisfied that the performance of the Partners portfolio is in line with long term expectations.

- Changes to Performance Reporting

The following changes to performance reporting should allow for a more meaningful measure of performance:

1. Partners performance (measured by WM as time weighted returns) to be evaluated against a cash plus 4% benchmark (currently use IPD UK property benchmark as the benchmark). In addition, IRRs generated by the portfolio (as calculated by Partners) will be compared to the target IRR return of 10%.

2. Overseas property allocation is to be represented in the strategic benchmark by the IPD global property benchmark (currently IPD UK property benchmark), and continues to be measured as time weighted return to fit in with the aggregate fund return analysis.

3. These changes will be reflected in performance reporting from next quarter.

This page is intentionally left blank

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**	
MEETING DATE:	**11 SEPTEMBER 2015**	**AGENDA ITEM NUMBER 9**
TITLE:	**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 March 2016. The workplan is provisional as the Panel will respond to issues as they arise and as work is delegated from the Committee. The workplan over this period includes projects arising from the revised Investment Strategy.

1.2 The workplan will be updated for each Panel meeting and reported to the Committee.

2 RECOMMENDATION

That the Panel:

2.1 **Note the workplan to be included in Committee papers.**

2.2 **Notes the proposed manager meeting schedule for the Panel.**

3 FINANCIAL IMPLICATIONS

3.1 There are no financial implications arising from this report. Costs for meeting managers are provided for in the budget.

4 PROVISIONAL WORKPLAN

4.1 The provisional workplan is as follows:

Panel meeting / workshop	Proposed agenda
Panel Meeting 8 September 2015	• Review managers performance to June 2015 • Managing liabilities – preliminary report • Review of decision to hedge FX exposure
Panel Meeting 18 November 2015	• Review managers performance to September 2015 • Framework for allocating to “Other Bonds” and “Other Growth” assets • Use of tactical ranges within strategic asset allocation (flexibility to protect portfolio, take advantage of opportunities) • LDI – follow up
Meet the managers workshop (TBA)	• Meet the managers workshop o Genesis o Pyrford o RLAM o Unigestion
Panel Meeting 1Q16 (TBA)	• Review managers performance to December 2015 • AVC Review • Managing liabilities – recommendation to Committee Workshop: Meet the managers

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 alter the planned work of the Panel.

5 PROPOSED MANAGER MEETING SCHEDULE

5.1 Following the agreement that each Manager should present to the Investment Panel once every 24 months the below proposed meeting schedule has been formulated.

5.2 The schedule has been designed to bring managers to the Panel that have not attended in more recent times. Where issues arise with particular managers, meeting will be incorporated into the schedule where necessary. In the case of the newly appointed Pyrford and Unigestion the first attendance at Panel is planned to occur within the 2 year period after investment. The proposed new

Infrastructure manager will also be included in the meeting schedule going forward.

5.3 The proposed meeting schedule is as follows:

September 2015 – Genesis & Pyrford
November 2015 – BlackRock & Unigestion

6 RISK MANAGEMENT

6.1 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.

7 EQUALITIES

7.1 An equalities impact assessment is not necessary as the report contains only recommendations to note.

8 CONSULTATION

8.1 N/a

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 This report is for information only.

10 ADVICE SOUGHT

10.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director – Business Support) 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	

This page is intentionally left blank